GOLD - 1986

JAN — AUG →

Petrol rise may be averted as rand climbs

ARGUS 9/1/86 79

Financial Staff

THE possibility of staving off another petrol price rise grew today as the rand improved to a four-month high of 40,65 US cents.

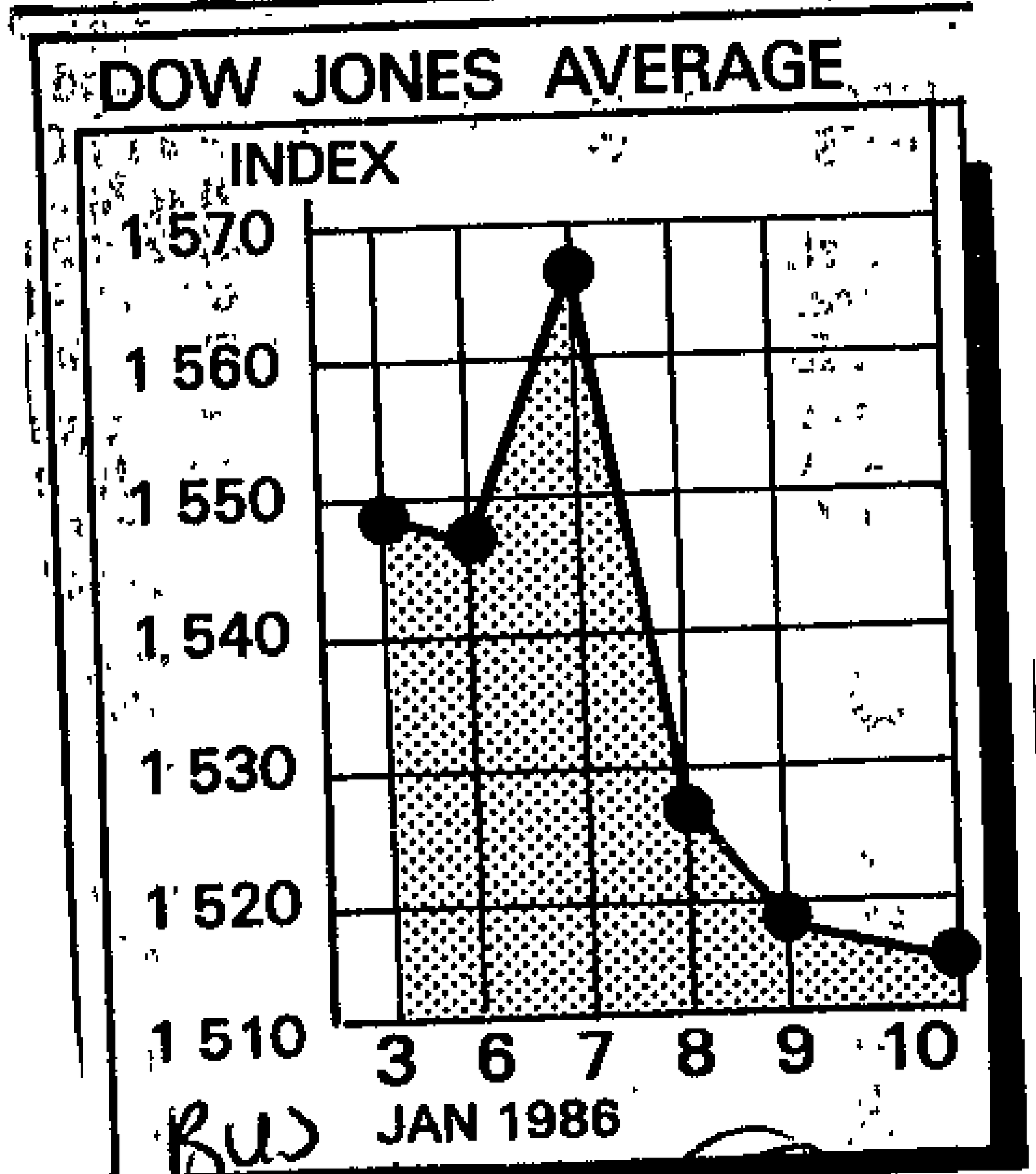
The petrol price is based on a dollar exchange rate of 42 cents.

Today the rand moved up from yesterday's 40,50 cents, boosted by a rise in the gold price to $333,90 at the London fixing after closing at $332,65 last night.

After the fixing gold moved up to $334.

The financial rand was quoted at 29,75 US cents, up from yesterday's 28,60 cents.

Gold has recovered from its $314 level on December 11.



Good for golds

MERVYN HARRIS and BRIAN ZLOTNICK

WALL STREET's sharp slide could have important implications for investors on the Johannesburg Stock Exchange.

Stockbrokers believe that gold and gold shares are set to benefit from any move by investors out of Wall Street.

A bank economist said Wall Street's plunge — which has spilled over into European stock markets — would have the reverse impact on SA by lifting precious metal prices.

"A stronger gold price will boost the value of the rand and enhance the outlook for the economy. The manufacturing sector will be a particular beneficiary of a higher rand, as it will help contain cost factors and inflationary pressures," he said.

Stockbrokers say impact so far has been selective, with De Beers a casualty. The share price dipped from an all-time high of 1 890c to 1 745c.

However, gold share prices have so far failed to race ahead despite last week's surge in bullion to $340. The sharp rise in the financial rand has blunted golds' advance and helped pushed De Beers lower.

Wealth of new coins may yet be to SA's benefit

US Eagle could push up dollar price of gold

STAR 10/1/86

(79)

By Roger Gidlow

For many years the range of legal tender gold coins available on the market remained limited despite the success of South Africa with its Kruggerands, but this situation is now changing.

The most important development relates to the legislation which has been signed by President Reagan authorising the minting and marketing of America's gold bullion coins from October 1986.

The proposed coins will have nominal fictitious values of 50 dollars containing a troy ounce, 25 dollars with half an ounce, plus 10 dollars and 5 dollar coins containing proportionally less gold.

The proposed introduction of gold coins by the US will served the largest potential coin market in the world and could easily strengthen the status of gold as a monetary asset, even though these coins will not signal a more important function for gold in the international monetary system.

Indeed, the American gold coin proposals could serve to push up the dollar price of gold from late 1986 — other things remaining equal — for three reasons.

Firstly, the legislation stipulates that the gold to be used for the minting of the coins must come from domestic mining sources.

Excess demand

While any demand for the coins which is in excess of such supplies will be met from treasury sources this does not necessarily mean they will use their own gold stocks but instead could buy in the markets.

Annual American gold production is now about 2 million ounces.

The demand for the coins must be expected to fluctuate so any absorption which reached anything like 2 million ounces would represent very great demand by past American standards.

Yet, some commentators are predicting that in 1987 alone, the demand could be even higher.

This forecast is based partly on the belief that the demand for these coins will be boosted by heavy promotional campaigns by American financial firms who could emphasise patriotic reasons for buying the coins.

Second, it is likely that the new coins will serve to generate new interest in gold in general on the part of American investors.

This could partly manifest itself in larger demand for gold bullion itself among big investors.

In this regard, the potential is substantial in view of the enormous cash flows of American financial institutions and their extremely small gold bullion investments at present.

Third, the American coin legislation differs in one important respect from what was originally envisaged.

Bullish factor

The initial proposal that the supply of gold to mint the coins should come entirely from the official reserves of the Treasury has been dropped. This is a bullish factor for the gold market.

This decision may well have partly reflected the unwillingness of the Treasury to become heavily involved in gold sales once more.

In recent years there have been signs of an increasing recognition by American officials of the desirability of retaining the gold reserves of the Treasury as a "war chest" in the wake of the freezing of the official dollar reserves during the Iranian hostage crisis in 1978 and the freezing of Argentinian assets by Britain during the Falklands War in 1982.

Evidence of this attitude was revealed in the 1981 report of the Gold Commission in the US which specifically recommended that the Treasury should desist from resuming sales of its gold bullion and instead advocated that it retain its reserves for possible future uses which were not defined.

Also, in March 1985, the Isle of Man introduced a gold coin called the Angel. Later in the year it was revealed that the Federal Government of Australia had approved a plan by the mint in Western Australia to produce a gold coin to compete with the Krugerrand and increasingly popular Canadian Maple Leaf coin.

The mint is expected to launch the new coin early in 1986 and is aiming initially for about 10 percent of the world gold coin market which would be the equivalent of at least 200 000 ounces.

In addition, there have been rumours that the Dutch Government is planning to introduce a gold coin called the Ducat.

The various governmental moves to produce gold coins in competition with the Krugerand stem from three primary considerations.

Firstly, these countries are seeking to exploit the opportunities presented by the growing resistance to the Krugerrand in international markets in the wake of the unrest situation in South Africa.

Second, the new competition is viewed in certain Governmental quarters as one means whereby economic sanctions can be imposed on South Africa by damaging the earnings of the country from its gold exports.

In the latter respect, the instigators of the move may have miscalculated. Any new gold coins further segment the markets for such coinage.

third,each different coin serves a new market segment and the overall result could be increased demand for gold coins, especially since competition for market share could be fierce.

In short, any fall-off in the demand for Krugerrands could be more than counterbalanced by the demand for the new coins.

Rand stronger against dollar, pound

Argus 8/1/86

79

Financial Staff

THE rand rose to a three-month high of 40,35 US cents in Johannesburg today, securing a foothold above the psychologically-important 40c barrier.

This is the highest rand trading since September and represents an eight percent improvement in the past fortnight.

Against sterling the rand has recovered to R3,55 to the pound after reaching R4 to the pound

The stronger rand has been established as a result of active Reserve Bank support over the past few weeks, following a December change in the rules requiring exporters to cover proceeds forward within seven days of shipment

The gain has not been without cost, however. Latest figures show that gold and foreign holdings slipped more than seven percent to R4,45-billion

DOUBLE

Meanwhile, a huge leap in South African earnings from diamonds and gold can be expected as a result of the devalued rand

Sales of diamonds rocketed to R2 351-million in the second half of last year — more than double the figure for the second half of 1984 and 40 percent up on the first half of last year, reports the industry's Central Selling Organisation today.

In dollar terms, however, the increase is 48 percent above the year-ago level and 18 percent higher than in the first half of 1985.

This increase will be reflected in the profits of the giant diamond-mining group, De Beers, which are due to be announced soon

Sales of R4 027-million for the full year are 75 percent higher in rand terms

PROFITS

The country's gold mines will publish their quarterly reports in the next few days and these are expected to show increased profits, rising on average by between 10 and 15 percent, according to analysts.

This is because the rand price of gold reached a record in the December quarter, averaging about R26 000 a kilogram after R22 348 in the September quarter.

Platinum prices soared on world markets this week because of the labour dispute at the Impala mines. But most of the metal is sold by contract and Impala's price of about $475 an ounce is still far above the free-market price

From New York The Argus Foreign Service reports that the American business community has reacted with concern at the closure of the Impala mines, from which 20 000 striking miners have been dismissed

Impala, among the world's largest producers of platinum, is a major supplier of the metal to the United States

BDAY 14/1/86

79

Rand Mines continue to reap benefit of weak rand

ROY BENNETTS

Rand Mines	Tons milled 000	Yield	Cost R/Ton	Cost $/oz*	Rev $/oz*	Rev R/Kg	Cost R/Kg	Net profits 000	Net Profits after capex 000	EPS after capex cents
Blyvoor	508	6,36	87,28	162	299	25 337	13 719	18 229	12 794	53,3
Sept	530	6,17	84,18	190	310	22 231	13 635	15 077	9 818	40,9
Harmony	2 063	3,63	60,71	197	310	26 287	16 711	59 949	18 658	69,4
Sept	2 130	3,91	60,66	216	305	21 858	15 522	46 608	20 626	76,7
Durban Deep	601	3,12	66,44	252	304	25 729	21 329	9 367	5 756	247,6
Sept	638	3,12	62,32	279	319	22 911	19 989	6 471	3 510	150,9
ERPM	698	3,56	86,06	286	305	25 800	24 183	3 937	(-12 141)	(-218,9)
Sept	750	3,61	81,29	219	315	22 627	22 491	4 457	(-7 323)	(-132,0)

* Standard Bank average exchange rates Oct-Dec 85 $0,38
June-Sept 85 $0,45

RAND MINES' four gold producing mines continued to reap the benefits of the weak rand in the quarter to end-December, with the combined taxed profit increasing 26% on the previous quarter to R91,5m.

The December quarter is the shortest of the four, with normally a loss of three working days, but the resultant 1% drop in gold production was offset by a 17% rise in the rand gold revenue.

Average rand gold price obtained by the group rose from R22 189/kg in the September quarter to R25 934/kg.

This compares favourably with the price realised by GFSA which has become somewhat of a benchmark as it is not involved in forward selling.

Pre-tax profits increased by 19% to R140m (R117,4m), with the Receiver of Revenue increasing his share of the cake by a comparatively low 8% to R48,5m (R44,8m).

A soaring 44% rise in capital expenditure, from R46m to R66,4m, helped keep the tax payment to a minimum, as gold mines can reclaim capex against taxation.

Costs were well contained in the quarter, rising a marginal 4%, from R72,11 a ton to R75,12 a ton, mainly as a result of the lower tonnage milled.

DURBAN DEEP continued on its firm track, with a 45% increase in its bottom-line profit, from R6,5m in the September quarter to R9,4m.

Capex, covering the same period, rose from R3m to R3,6m, giving the mine a positive cash flow of R5,8m (R3,5m).

Earnings a share soared by a healthy 64% to 247,6c (150,9c) — a very positive result compared with the loss of 40,7c a share recorded in the June quarter of last year.

Ore milled fell by 6% in the December quarter to 601 000 tons, with recovery grades unchanged at 3,12g a ton.

This resulted in a drop in gold production from 1 989 kg to 1 872 kg.

Gold revenue increased from R45,6m to R48,2m, with total costs more or less unchanged at R39,9m, but the drop in tonnage milled pushed up unit costs from R62,32 to R66,44 a ton.

Durban Deep has hedged a total of 1 518 kg of gold for the first three-quarters of this year, at prices ranging from R24 109/kg to R26 336/kg.

ERPM unfortunately slipped further into the mire in the quarter, in spite of the gold price received of R25 800/kg (R22 627).

Tonnage milled dropped by 7% to 698 000 tons, combined with a fall in grade from 3,61 g/t to 3,56 g/t, resulting in a fall in gold production, from 2 710 kg in the September quarter, to 2 484 kg.

Because of the rise in the rand gold price the mine was able to increase its revenue from R61,3m to R64,1m. Sundry revenue remained constant at R374 000 and there was a reversal of State assistance claimed of R451 000 compared with R3,7m in the previous quarter.

This lowered bottom-line profits, from R4,5m to R3,9m, falling a long way short of the R4,3m increase in capex, from R11,8m in the September quarter, to a massive R16,1m.

The increase was due to the higher rate of expenditure on the mine's R300m Far East Vertical Shaft (FEV) project.

There are further capex commitments of R46,1m, virtually all FEV-related.

The loss a share rose from 132c a share in the previous quarter to 219c a share in December.

HARMONY suffered a 10% drop in gold production, from 8 324 kg to 7 496 kg, due to a fall in grade, from 3,91 g/t, to 3,63 g/t. Milling was more or less unchanged at 2,1-million tons for the quarter.

This mine gained the highest local gold price of the four, rising from R21 287/kg in the September quarter to R26 287, which boosted gold revenue by R15m, from R181,9m, to R197m.

Uranium profits fell from R13,1m to R7,5m, taking the total revenue for the quarter to R204,6m. A gain of 5% on the previous quarter's R195m.

Costs were well-contained, with total costs R4m down at R125,3m and unit costs only 5% higher at R60,71 a ton.

Working profits rose from R65,8m to R79,3m which, together with sundry revenue of R5,3m, left pre-tax profits R12,5m higher at R84,6m.

Capex increased from R26m to R41,3m during the quarter, which allowed for a lower tax payment of R24,7m (R25,5m) and provided for a 29% increase in taxed profits at just under R60m.

Earnings a share fell from 76,7c a share in September to 69,4c a share due to the increase in capex.

Harmony has capex commitments of a further R21,2m while the estimated total for the rest of the financial year is R63,3m.

Most of this is being earmarked for the new No 4 Shaft complex.

BLYVOOR was the only one of the group's mines to increase its grades during the quarter, from 6,17 g/t in September, to 6,36 g/t.

Like the other producers, milling was down in the quarter but the improved grades aided gold production which fell by only 40 kg to 3 232 kg.

With a gold price more than R3 000 higher at R25 337/kg the mine was able to increase its gold revenue from R72,7m to R81,9m.

Total costs were down slightly, from R44,6m ,to R44,3m, but because of lower tonnage, unit costs rose from R84,18 to R87,28 a ton.

Uranium profits remained almost unchanged at R4,4m, providing the mine with pre-taxed profits of R42,1m (R34,3m).

Capex was virtually unchanged at R5,4m, with the Receiver increasing his take from R19,3m to R23,9m.

This left Blyvoor with a 21% improved taxed profit at R18,2m, and earnings a share increased, from 40,9c a share in the September quarter, to 53,3c a share.

During the December quarter Blyvoor paid R1,9m to Driefontein Consolidated in terms of the tribute agreement.

Like the other mines in the group, Blyvoor has continued the hedge some of its gold production and now has a total of 2 649 kg sold forward for the first three quarters of 1986 at a price of R24 625 to R27 029/kg.

14/1/86 STAR (79)

Weak rand aids Rand Mines

By Duncan Collings

A very much higher rand gold price in the December quarter thanks to the weak rand, resulted in the gold producers in the Rand Mines stable showing a 26 percent rise in taxed earnings for the three month period.

Combined after-tax income of Harmony, Blyvoor, ERPM and Durban Deep for the quarter rose to R91,5 million from R72,6 million in the September quarter, while pre-taxed income was 19 percent ahead at R140 million.

The average gold price for the quarter in rand terms was R25 934 a kg against R22 189 a kg in the quarter ended September.

The Receiver of Revenue benefits with tax payable of R48,5 million, but the increase over the previous quarter was only eight percent thanks to a 44 percent rise in group capex to R66,4 million.

Tonnage milled by the four mines was four percent down at 3,9 million tons because of the shorter quarter and gold production declined one percent to 15 084 kg.

On the costs front, these rose four percent to an average of R75,12 a ton milled from R72,11, reflecting the lower tonnage milled.

The group's coal producer, Witbank Colliery, showed a 26 percent rise in working profit during the quarter to R43,2 million, the rise being due almost entirely to the inclusion of Welgedacht Exploration which became a subsidiary on October 1, 1985.

There was some improvement in exports.

Tonnage sold rose slightly to 4,9 million tons but the increase was tempered by a decrease in inland sales and a reduced off-take by Duvha power station.

After tax of R11,7 million net earnings for the quarter were R30,7 million.

This was significantly down on the September quarter's R57,5 million when a tax reversal of R19,3 million as a result of capital expenditure allowances helped the bottom line.

COMPANIES

Bus DAY 15/1/86

79

Rand/dollar rate boosts Anglovaal

ANGLOVAAL GROUP

ANGLOVAAL'S gold mines flourished in the December quarter, benefiting as did other mines from the low rand/dollar exchange rate.

However, financial transactions added a new dimension to the figures and introduced prospects of financial earnings, provided the commercial rand remains relatively firm.

Harties has sold forward a total of $44,22m for delivery in equal monthly amounts during the 12 months to December at an average exchange rate of $0,3611.

As the current exchange rate is $0,4245, Harties timed the deal well and should the value of the rand begin falling towards $0,3611 it would have the option of closing the deals out.

ET Cons has sold $4m and Loraine $26,4m on the same terms as Harties, so the total of the four mines — including Village Main — is $75,24m.

Should the rand continue to firm, the mines — especially Harties — will make a significant profit from the deals.

Apart from these financial transactions, Anglovaal's mines have gold sales hedging transactions on their books.

Harties has sold part of its future gold production on a fully-hedged basis at R23 276/kg for the

ADAM PAYNE

present quarter compared with yesterday's price of R25 750/kg, so the deal will result in lower earnings unless the rand firms or the dollar gold price weakens sufficiently to bring down the rand price to about RR23 726.

Other hedging sales by Harties for the June and September quarters are at R24 490 and R26 365.

Similar hedging sales have been made by Loraine and ET Cons.

December quarter reports are:

Hartebeestfontein: Unit costs rose to R89,50 (R85,95) but this rise was more than compensated for by a slightly higher grade and higher average gold price received.

Profit from uranium sales rose to R12,3m (R7,3m).

Tax was 32% higher in spite of higher capex.

Expenditure on the mine's new low-grade gold recovery plant was brought forward and will start during this quarter.

Capex for the year to June is thus expected to be R45m, against previous expectations of about R30m.

A loan levy refund of R6,8m helped the financial picture, so that although earnings-a-share from working operations rose to 34c (26c), earnings-a-share including the refund rose to 40c.

Loraine: The mine became liable for tax for the first time with the result that its net profit was marginally lower, but profit after capex scarcely changed.

Loraine is not paying State's share of profits as it still has an assessed loss for this purpose.

Grade was unchanged, but tonnage lower. Lower tonnage was mainly responsible for the rise in unit costs to R96,54 (R92,83), but this was more than offset by the higher gold price.

After paying tax of R7m, profit was R12,1m (R13m).

The current financial year's capex programme to June 30 is expected to total R18m, including previously deferred high-priority projects.

ET Cons: Yield was lower at 9,5 g/t (9,9 g/t) resulting in lower gold recovery. Unit costs were well controlled. Prospecting costs were higher.

With low tax because of higher capex, net profit rose strongly to R8m (R5m), but the heavier capex cut earnings a share which were unchanged from the September quarter.

Village Main: Pre-tax profit rose to R1,54m (R1,12m). Although capex was slightly higher, the bigger pre-tax profit led to an increase of 58% in tax to R802 000 (R508 000), leaving the after-tax profit at R742 000 (R612 000).

AVAAL Gold Mines	Tons milled '000	Yield g/t	Cost R/ton	Cost $/oz*	Rev $/oz*	Rev R/kg	Cost R/kg	Net profit '000	Net profits after capex '000	EPS after capex cents
Harties	783	9,2	89,50	115	313	26 491	9 728	45 643	38 279	34
Sept	782	9,1	85,95	111	111	21 880	9 425	32 906	29 735	26
ET Cons	89	9,5	99,61	124	330	27 957	10 513	8 059	3 761	87
Sept	87	9,9	99,02	118	271	22 934	9 993	4 929	3 737	87
Loraine	386	5,4	96,54	210	305	25 830	17 737	12 115	11 039	67
Sept	402	5,4	92,83	202	257	21 758	17 072	12 980	10 990	67

Egoli pre-tax profit rises despite lower production

EGOLI suffered a 34% drop in gold production in the three months to December, from 157,8kg in the previous quarter to 104,2kg. However, pre-tax profits were at a record R863 679.

This was as a result of a 33% fall in milling to 122 033 tons (183 110) and a marginal drop in grades to 0,85g/t (0,86).

Production was adversely affected by the flooding of the area supplying surface material, which is processed on contract by East Rand Gold & Uranium (Ergo).

Average gold price received was at the higher end of the scale at R26 618 (R23 303), but failed to offset lower gold production.

Revenue from gold and acid sales was 27% down, compared with the previous quarter, at R2,8m, but with costs taking a drop of 44% at just over R2m to leave the company with a working profit of R755 176 (R230 942).

Other income received dropped from R556 125 to R108 513 as a result of the ending of interest received from the loan to West Wits. The loan has since been capitalised.

This produced a pre-tax profit of R863 679 (R682 335). However, Egoli had a tax credit of R12 184 in the December quarter, compared with a payment of R104 732 in the previous quarter.

ROY BENNETTS

This favourable tax situation was a result of an over-estimation in September. Net income amounted to R8751863, compared with R682 335 for the September quarter.

There was also a recoupment of capital expenditure at R247 557, against outgoings of R544 269 in the previous quarter.

WEST WITS continued to show improved results in the quarter, with a splendid 137% improvement in taxed income to R1,6m (R657 351).

Treated underground ore increased from 42 047 tons to 54 838 tons, with a proportional decrease in the treatment of surface material. This had the effect of lifting the average recovery grade at the mine to 1,09 (0,96)g/t, with gold production showing a 14% improvement at 240,93kg (210,46).

Boosted by an excellent gold price of R27 748kg (R24 721), West Wits gained R6,7m (R5,2m) from its sales.

Working costs — at a lower proportional increase — were R4,6m (R4,3m), providing for a working profit that more than doubled at just over R2m.

Capital expenditure more than doubled to R2m, compared with R919 355 in the September quarter.

This helped to lower tax from R16 524 to R11 155, with taxed income of just under R2m (R820 795) reduced by minority shareholders' share at R389 541 (R163 444).

WAVERLEY gained better overall recovery grades at 0,51g/t (0,47) but dropped its dump treatment rate by nearly 6% to 156 975 tons.

Dumps treated under contract by SA Lands showed a marginally improved grade at 0,66g/t (0,65). However gold production fell to 60,77kg (63) because of a 5% drop in tons treated.

Treatment at the heap leach plant followed much the same pattern, with improved grades of 0,28g/t (0,22), partly offset by a drop in tonnage at 65 226 tons (69 896).

Gold production at the plant showed a 19% improvement at 18,61kg.

Waverley sold its gold — one of the highest prices received by a gold mine in the December quarter — at R28 017kg to earn revenue of R2,2m (1,9m).

Working costs of R1,7m (R1,6m) left the company with a working profit of R484 765 (R329 452) and a taxed profit of R512 310 (R331 540) after the inclusion of other net income.

14/1/86 STAR

KR ban not such bad news

By Stan Kennedy

A ban on Krugerrand sales will not have the adverse effect on South Africa that is commonly believed, say Mr Iraj Abedian and Mr Brian Kahn, lecturers in the School of Economics, University of Cape Town.

Writing in *Businessman's Law*, they show how a closer examination of the issues reveal that the effect of the ban on the gold-mining industry and on South Africa's balance of payments will be of an extremely limited nature.

"The ban is a symbolic gesture that will have no effect on net gold output in South Africa, and will merely redistribute the modest profits made on Krugerrand sales from South Africa to the new major coin producers," they say.

The writers consider the effect on SA foreign exchange revenue if there are no more sales of Krugerrands.

Last year, sales were worth $657 million but they point out that it is not sufficient to merely look at the value of sales and infer that this would be the cost of the ban as the gold will be sold in the form of bullion instead.

Therefore the relevant cost is the premium or value added that South Africa gains by selling the coin instead of bullion.

In general, the premium received has been three percent above the gold bullion price.

In 1980, the value added was $56 million, dropping to $19 million in 1984, and representing only two percent of South Africa's total gold revenue.

This value added is a gross figure and does not include the cost of minting and marketing coins. In addition, they say, increased competition would have inevitably whittled away South Africa's domination of the gold-coin market, thus further reducing the prospects of sales.

Proof Krugerrands have been minted since 1967 in limited quantities. Later it was decided to introducing the standard ounce coin. This step, it was hoped, would make the market accessible to small investors, since gold was previously sold in bullion bars of 400 ounces.

The market was slow to develop because, until 1975, US citizens were forbidden by law to hold gold. The lifting of the ban resulted in a market increase from 400 000 ounces in 1971 to 4,7 million ounces in 1975.

With the declining price of gold in 1976/1977 sales were reduced to 2,9 million and 3,2 million ounces in these years respectively. In 1978, 5,74 million ounces were sold but since then the quantities have been declining steadily, except in 1983, and in 1984, the figure had fallen to 1,77 million ounces.

The rationale for the Krugerrand was to withdraw gold supplies from the bullion market by creating a parallel market for small investors.

Huge boost in the profits of gold mines

ARGUS 8/1/86

By TOM HOOD, Financial Staff

79

THE low rand-dollar exchange rate has given a huge boost to the profits of South African gold mines.

One of the biggest, Randfontein, reported today a record R115-million for the December quarter.

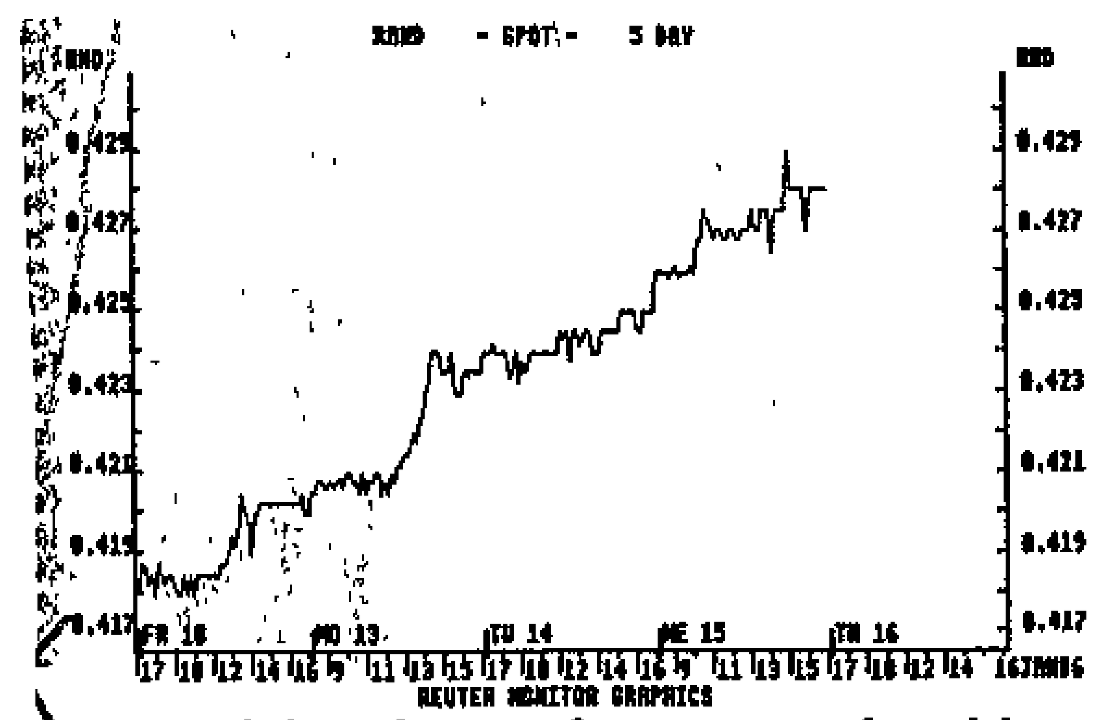
This was based on an average price of R20 814 a kilogram for its gold and the mine's profit would have been even higher had it not been locked into forward contracts.

Other mines received as much as R25 830 a kilogram and many are now negotiating forward contracts at up to R26 365 a kilogram.

The taxman also increased his haul and another giant mine, Hartebeestfontein, paid R90-million to the State for the quarter.

This followed a 33 percent rise in profit to R141-million, up by R35-million. However, net profit was still about 40 percent higher than in the September quarter.

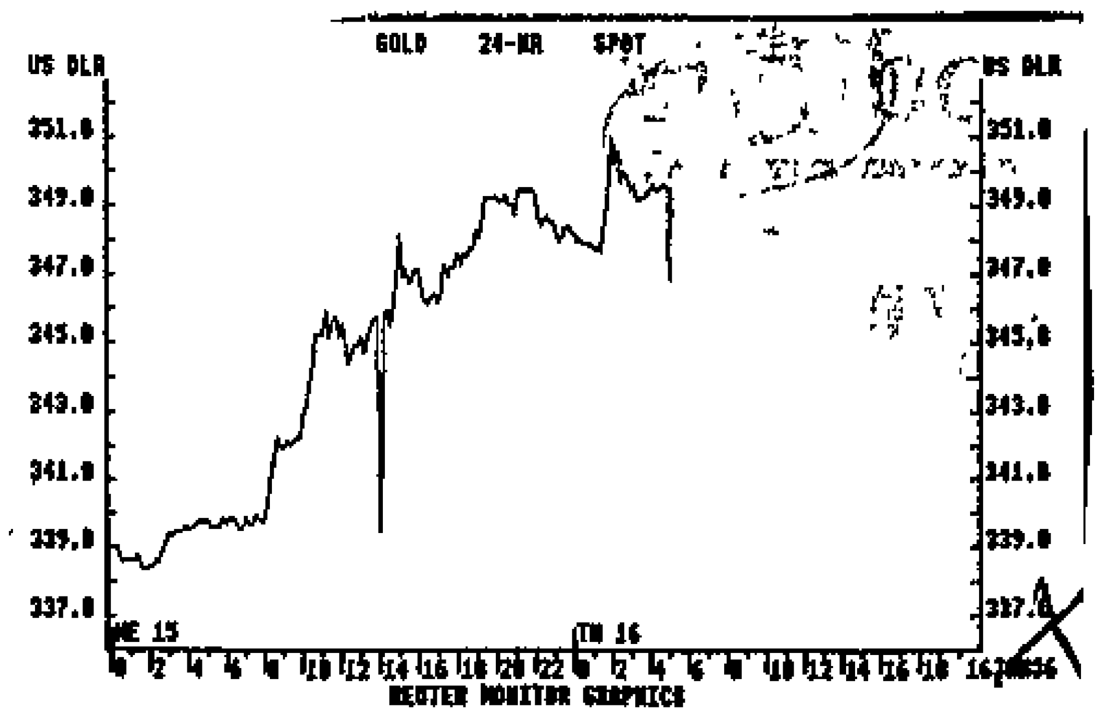
Several mines avoided paying more tax by stepping up their capital expenditure.



Buoyed by the performance of gold on bullion markets and helped by Reserve Bank smoothing operations, the rand has continued to gain ground.

The local unit closed yesterday at 42,75 US cents after having touched 43c at one stage.

Dealers feel there is a new tone of confidence surrounding the rand as beliefs that the debt rescheduling negotiations will be satisfactorily concluded gain strength.



After dipping initially yesterday heavy buying of gold throughout the day in Europe and overnight in the US sent the metal soaring on world bullion markets.

At one time the metal traded over the $350 mark but is currently quoted at around $346,43 as some profit-taking pared yesterday's strong gains.

Fears over the US/Libya confrontation combined with a weaker dollar pushed the metal ahead.

16/1/86 STAR

Gold price surges $9,80

NEW YORK — Gold prices surged in busy US and European trading yesteray, reaching the highest levels in about 14 months, amid anxieties over the tension between the United States and Libya.

The dollar declined as currency traders awaited the outcome of the upcoming G-5 meeting.

Renewed speculation that the officials from the five countries may favour concerted action to force interest rates down helped push the dollar lower, currency dealers said.

In New York, gold jumped $9,80, closing at $349,50.

Mr Jeffrey Nichols, president of American Precious Metals Advisors Inc, said gold buying has been heavy partly because of the US-Libya confrontation over the December airport attacks in Vienna and Rome.

Mr Nichols said Middle Eastern citizens, among others, have been purchasing gold in recent days, which has helped send the precious metal's price higher.

Mr Bernard Savaiko, a senior precious metals analyst with Paine Webber Inc, said some of the resurgence in investors' appetite for gold stems from last week's sharp sell-off in the stock and bond market.

After opening lower in London and Zurich, heavy buying lifted gold to its highest price since November 1984 and it then remained high throughout the day.

Meanwhile, the dollar finished lower against most major currencies, except the Canadian dollar.

Dealers linked some of the dollar selling to a report quoting West Germanan Economics Minister Martin Bangemann which suggested that the finance authorities will discuss strategies to bring interest rates lower worldwide when they meet in London on Saturday.

"Speculation is heating up about the chances for lower rates," said William Orsini, senior commercial trader at the Bank of Montreal in New York.

The economic leaders are scheduled to meet in London, but they are not expected to reach any dramatic agreements like the September 22 accord to reduce the dollar's value in a bid to cool protectionist fervor.

In US trading, the dollar fell to 2,4545 West German marks from 2,47275 on Tuesday.

Other late dollar rates in New York as of 16h00 EST (21h00 GMT), compared with levels late Tuesday included:

- 202,42 Japanese yen, down from 202,85;
- 2,07775 Swiss francs, down from 2,0935;
- 1,4089 Canadian dollars, up from 1,4055;
- 7,5475 French francs, down from 7,5750.

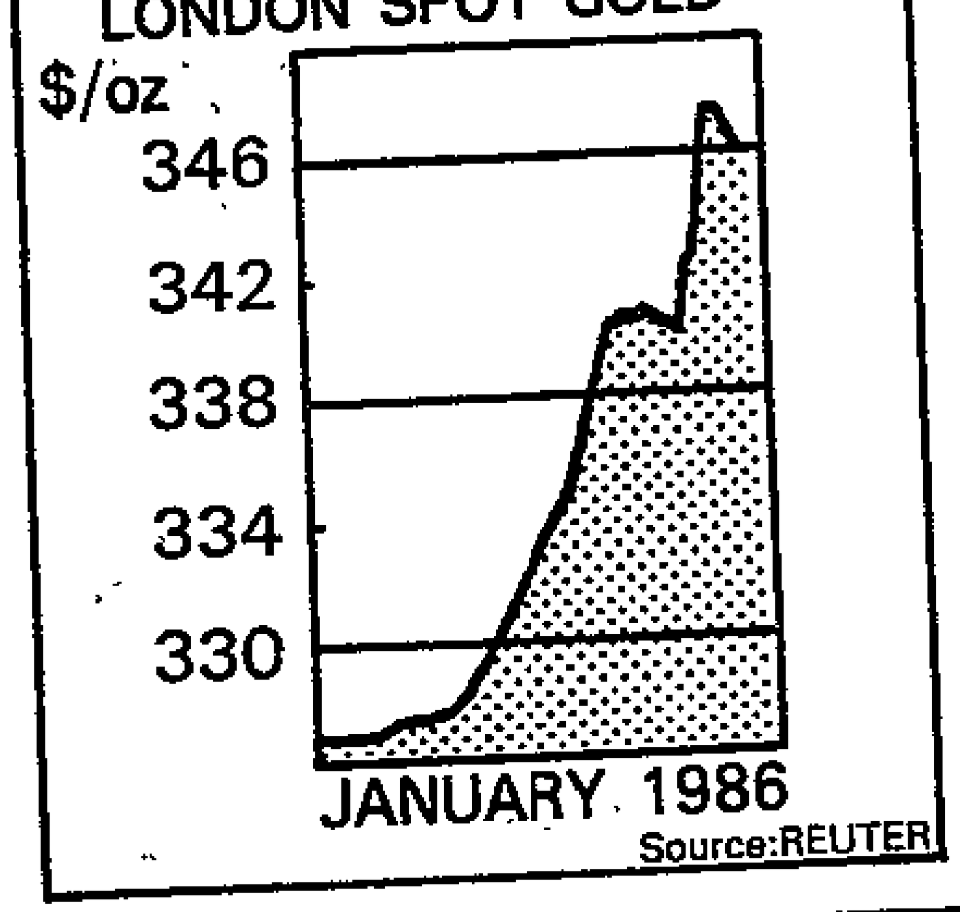
The British pound stood at $1,4460 late in New York compared with $1,43765 on Tuesday. — AP.

THE NATIONAL NEWSPAPER FOR DECISION MAKERS

16/1/86 BUS DAY (79)

Rush for shares as gold surges

GOLD'S NEW YEAR SPARKLE



GOLD surged to a 14-month high on world markets yesterday, triggering a scramble for gold shares on the JSE.

It reached $348 before profit-taking halted the charge.

It gained $7 during the day, boosting confidence in local markets already buoyed by optimism over SA's debt-rescheduling prospects and improved economic indicators.

Liz Rouse reports the JSE's gold board staged one of its best recoveries in many months. The JSE actuaries all-gold index jumped 61,2 points to 1 245,4, a gain of 5,2%. It is set to surpass the high of 1 277,1 recorded on November 25 last year.

Financial Staff

Sharp gains were recorded across the gold board as both local and foreign buyers scrambled for scarce scrip. Heavyweights were as much as 7,7% firmer on low trading volumes. Medium-priced stocks were up to 10,4% firmer. Marginals finished mostly 7% higher on the day.

The rand strengthened again to touch $0,4300 before settling back to close at $0,4280. It appears to be carefully managed by the Reserve Bank. The bank's ability to move the market will be enhanced by the greater flow of dollars it receives from a higher gold price.

Sapa reports that in line with its weaker tone in New York, gold opened lower in London at $339,70, down from $340,50 late on Tuesday.

But buyers entered the market in force during the first three hours of trading and at the mid-morning fixing it was $345,30, the highest level since November 1984.

It was quoted at $345,30 in Zurich. Earlier, in Hong Kong, gold rose $3,01 to close at $340,63. It was fixed in London at $346,75 in the afternoon.

Neil Behrmann reports from London

● To Page 2

P.T.O.

Boom on JSE adds R4-billion to value of shares

ARGUS 16/1/86

Gold over $350

79 88

By TOM HOOD
Financial Staff

THE gold and shares boom gained momentum today when the price of gold jumped the $350 barrier in London for the first time in more than 14 months.

Gold traded at $359 in London, up more than $12 from last night's closing price of $346,20.

The shares boom added about R4-billion yesterday to the value of shares listed on the Johannesburg Stock Exchange.

More than R56-million worth of shares changed hands yesterday, the second highest figure on record (R69-million on August 19 last year).

Diamonds

The JSE's overall index soared by 2,4 percent. So far, this year the value of shares is estimated to have jumped by more than R40-billion to almost R200-billion.

Gold shares led the stampede again today, although shares of coal, diamonds and platinum also rose sharply.

The giant Randfontein mine gained R3 after rising R14 yesterday to reach a new high of R270 a share.

Tickey shares also benefited, with Leslie up 45c to 6740c and Elsburg up 38c to 775c.

The speculators' favourite, Loraine, rose 35c after 65c yesterday to 1535c.

Other increases today were Buffelsfontein (150c), President Steyn (100c), Welkom (100c), De Beers (45c), Rustenburg (455c) and Anglo American (50c).

Disclosure of huge profit increases by gold mines this week added to the shares rush.

The rise in the price of gold was maintained by concern over the dispute between the United States and Libya.

Demand for bullion increased this week on news of Japanese plans to mint 10 million gold coins to commemorate the 60th anniversary of Emperor Hirohito's accession to the throne.

Dollars

This could use about 200 tons of gold — more than Japan's gold imports for two years and about a third of the yearly output from South African mines.

Other reports from London and Zurich suggest some Arab countries are buying gold and selling dollars in retaliation for American threats against Libya.

The rand was quoted today at 43,25 US cents, up from 42,80 cents yesterday, as the dollar continued to decline on world currency markets.

The financial rand improved to 33,60 cents from yesterday's 32,75 cents.

Anglovaal, JCI gold mines benefit from weaker rand

Jan-1986

(79)

By Duncan Collings

Quarterly reports from both Anglovaal and JCI today show the same trend as other mining houses which have already reported for the quarter, with a significantly higher rand gold price received boosting bottom line earnings.

The four mines in the Anglovaal stable — Harties, Village, ET Cons and Loraine — report net earnings 29 percent ahead of the September quarter at R66,6 million versus R51,4 million.

JCI's two mines — Randfontein and Western Areas — show an even more impressive 40 percent rise in earnings to R109,0 million from R77,7 million.

All mines within the two groups showed higher net earnings with the exception of Anglovaal's Loraine, where a R7,2 million tax bill versus no tax paid in the September quarter left net earnings lower at R12,1 million (R13,0 million).

In the main, milling rates, grades and working costs of the mines in the two groups were not remarkably changed from the previous quarter. The higher rand gold price received from the weaker rand was the prime reason for the improved quarterly results.

The two base mineral producers in the Anglovaal group, Prieska and Cons Murch, both also enjoyed very good quarters.

Copper producer Prieska had net earnings of R11,0 million versus R7,0 million while antimony company Cons Murch's taxed earnings rose to R4,1 million from R1,1 million.

Small investors dominate scramble

BUS DAY

79

'Chaos' as gold soars to new peaks

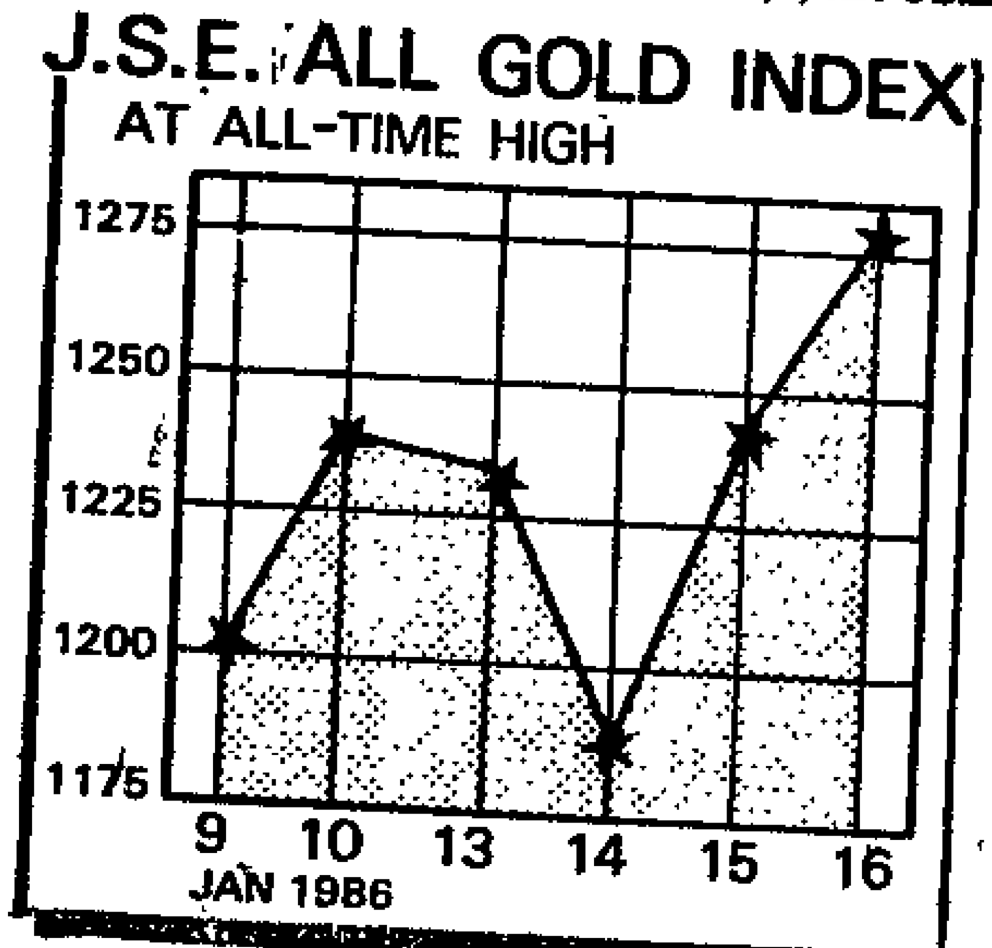
17/1/86

MERVYN HARRIS

GOLD shares soared to fresh peaks on the Johannesburg Stock Exchange yesterday as bullion surged $30 to $376 in London before falling back to $364 in the London afternoon fix — its highest level in 21 months.

In frenetic activity which saw the value of shares traded at record levels, the JSE all gold index surged 32 points to hit an all-time high of 1 277,3, marginally higher than the previous peak of 1 277,1 set on November 25 last year.

With the mining finance index jumping almost 4% to a new high of 1 852,1, the JSE actuaries overall index surpassed the previous November peak by 15 points to close at 1 416,5.



Dealers described the scene on the JSE yesterday as "absolute chaos" as the small investor, with volumes exceptionally heavy in low priced stocks, dominated the scramble for shares.

The large institutions tended to keep to the sidelines, but some dealers noted four-way trade with buying and selling by both local and overseas investors.

However, the big jump in the bullion price was viewed as vulnerable and disturbing by analysts as there seems no fundamental reason for the sharp price rise.

In the past week bullion has smashed through chart resistance levels — the last was $342 — with the next barrier $375. Some dealers say that a retreat back to the $345 level would be a sound base for a renewed upward move.

The next few days could be critical, with attention focused on developments on Wall Street.

The rand continued to firm in smooth and gradual moves to close at $0,4345 on the back of the rising bullion price. Dealers

● To Page 2

BUSDAY 17/1/86.

Rush for gold shares

79

feel the rand could well have strengthened further to $0,44, as the dollar weakened. But the Reserve Bank appears to be holding a tight rein to prevent the currency from screaming upwards too swiftly.

The financial rand jumped 5% to $0,3410 to bring its gain over the past 10 trading days to more than 23% on the back of overseas buying interest.

Platinum moved up to an 18-month high of almost $380 in the wake of bullion's rise and increased interest was also seen for the more thinly-traded palladium, which approached a four month high of $110.

Yesterday's heavy trading on the JSE saw more than half of the top 20 shares exceeding a volume of more than 1-million shares.

However, industrial shares were neglected in the gold rush.

From page 1

NEIL BEHRMANN reports from London that the surge was because professional dealers and speculators who had sold gold options and had sold gold futures short were forced to cover positions to protect themselves from mounting losses.

Bullion dealers in Switzerland and London, however, warn that the surge is overdone.

"The market is chaotic, very volatile; the price can rise further, but then there could be a steep correction," said a bullion manager of a large Swiss Bank.

The Bank of Japan is believed to be buying gold to mint coins to commemorate the Emperor's 60th anniversary as ruler.

Editorial comment — Page 6

New gold price may bring relief to SA debt

STAR 16/1/86

By Trevor Walker

Gold soared to $350 an ounce in the United States yesterday, fuelled by strong speculative demand because of the Libyan-US sanctions crisis and, even more interestingly, due to strong physical demand from Japan.

Chamber of Mines president Mr Clive Knobbs, talking to *The Star*, said the market was particularly firm and if this were to be coupled with some sage statesman-like pronouncements when Parliament opens at the end of the month, prospects for the industry this year were exceptionally good.

The strong recovery in the price of gold and the rand means the Reserve Bank will be able to step up the repayment of foreign debts.

Certainly the more that gold continues to surge, the better are prospects for meaningful tax cuts in the budget in March.

Industry sources said gold was giving every indication of moving into the position of being able to bail the country out of a severe economic slump.

Mr Knobbs said the rand had risen nearly 10 percent in recent weeks the rand price of gold had also risen by some five percent and even a mine like ERPM, one of the poorest in the industry, had produced profits in the last quarter.

He said physical demand, that is demand from the jewellery and coin industries, accounted for as much as 80 percent of the total market.

It was understood the Japanese were in the market for 200 tons of gold for the production of a 20 gram coin in 1986/87.

The gold index on the Johannesburg Stock Exchange shot up 61,2 to 1245,3 yesterday. The record stands at 1277,1.

The gold and metals and minerals sectors of the stock market were particularly firm yesterday reflecting booming conditions in export markets.

The rand was also firm trading close to 43 US cents and with every indication that it was set to hold above 40 cents in the weeks ahead. It opended at 43,05 cents this morning.

* STANDARD BANK AVERAGE EXCHANGE RATE: OCT — DEC 1985 $0,38, JULY — SEPT 1985 $0,45

17/1/86 BUS DAY (79)

Anglo mines up profit by 44%

ROY BENNETTS

ANGLO AMERICAN'S Transvaal gold mines increased their combined taxed profit by 44% to R376,7m in the December quarter. This was largely as a result of higher rand gold price.

Prices received for the metal in local currency averaged R27 500/kg compared with R23 000 in the previous quarter.

Provisions for tax increased by 12%, from R209m in the previous quarter, to R235m.

VAAL REEFS produced less gold in the quarter at 21 567kg (21 691).

Average gold price received by the mine increased by 17,4% to R27 378kg (R23 312), pushing gold revenue up by R103,9m to R580,8m.

Costs were virtually unchanged at R202,8m, with gold profits increasing significantly from R274,7m to R378m.

Dividend income of R27,3m was received from Southvaal whereas there was no dividend from this source in the previous quarter.

Provision for royalties increased by 23% to R112,5m as a result of the improved gold price and gold production from the South lease area.

Capital expenditure was also up at R61,3m (R35,3m), with the provision for tax jumping to R183,2m (R142,1m).

This left the mine with a taxed profit of R188,3m — a 68% improvement compared with the previous quarter.

An increase in working costs in the Afrikander Lease area is attributable to a re-allocation of certain operating expenditure incurred over the year but only charged in the current quarter.

WESTERN DEEP LEVELS' gold production increased by 350kg to 9 508kg at an improved selling price of R27 587/kg (R22 931), giving the mine a gold revenue of R265,6m (R210,4m).

Because of the relatively high rand gold price the company has accelerated its capital expenditure, with R111,6m being spent in the quarter compared with R64,5m in the previous quarter.

This had the effect of dropping tax to R40,3m (R41,4m), leaving a sharply higher profit of R145,3m (R95m).

ELANDSRAND suffered a decrease in gold production of 197kg for a total of 2 823kg.

This was more than offset by the higher gold price, ~~which rose~~ from R22 929/kg in the September quarter to R27 556/kg, to give the mine a gold revenue of R78,5m (R68,5m).

Working cost were slightly lower at R29,7m, with sundry income remaining at the same level.

Profits were therefore 25% higher at R53,3m (R42,7m), with capex increased from R18,9m to R22,5m.

SA LANDS' 7,1% drop in milling rate to 587 000 tons was offset by an improved grade of 0,72g/t (0,64g/t), resulting in an increased gold production at 424kg (406).

Pre-tax profits were R600 000 higher at R2,9m and taxed profits amounted to R1,2m.

ERGO's slime treatment dropped 5,2m tons mainly as a result of rainstorms in the quarter.

Total revenue increased 14,7% to R65,7m which, after the deduction of cost and the addition of sundry income, provided for a pre-tax profit of R29,4m (R22,5m).

Provision for taxation was R11,9m higher at R9,9m (there was a rebate in the previous quarter) leaving the company with a taxed profit of R19,5m (R24,5m).

Gold outperforms conventional investments

(19) STAR 20/1/86.

By Stan Kennedy

Gold as a financial instrument outperformed conventional financial market investments in six currencies during the period 1973 to 1983, according to a study by the International Gold Corporation (Intergold).

The study, carried in the Chamber of Mines' newsletter, suggests that financial markets are not as efficient as frequently presumed and shows that gold was more profitable as an investment during the 1973/83 complete business cycle.

During the economic expansion phase of the economies concerned, it dropped fairly largely below that of the British pound and only slightly below that of the Canadian dollar.

The six industrial countries involved in the study were the — at the time — high inflation economies of Britain, Canada and the United States and low inflation economies of Japan, West Germany and Switzerland.

Intergold maintains that gold enhances risk-adjusted returns when held in modest proportions of five to 10 percent in well-balanced portfolios over significant periods of time. It argues that the business cycle is the conventional benchmark used by portfolio managers in investment decisions.

An innovation of the study was the use of a business cycle reference in calculating rates of returns. Comparisons of rates of return among alternative financial instruments were crucially dependent on the selection of initial and terminal data end points for the specific time periods used for calculation.

The new analysis supports earlier findings and reinforces the notion that perhaps the capital markets in the six currencies are not fully efficient in the value assigned to gold.

If the markets were fully efficient, gold would not perform better than conventional instruments in virtually all cyclical phases in all currencies.

While this does not prove the case on inefficiency, the evidence is mounting, Intergold says.

"One can only conjecture that, to the extent there is inefficiency, it arises out of traditional attitudes that regard gold as a commodity for speculation rather than as investment and a financial asset appropriate for prudently managed portfolios.

"It is important for the investment manager to recognise that, since thr advent of floating currencies, gold has taken on the role of a 'stateless currency' and floats along with other currency units.

"As such it warrants attention and inclusion in well-balanced portfolios, particularly those which diversify internationally."

The results did no vary much even wher one and two-month leads and lags were incorporated into the analysis.

There were some situations when the timing of one or two months would have made a difference in comparison to another form of investment. But, in fact, there was surprisingly little overall effect on rates of return adjusted for variations in leads and lags.

Most importantly, gold provided the best performance when both rate of return and stability over lead and lag periods were taken into account in both nominal and real terms.

In most cases, it was the least sensitive and in all cases provided the best returns.

Cheaper loans as gold price surges 30 dollars

Cape Times 17/1/86

79

By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates were cut by one percent last night as the gold price surged 30 dollars to 377 dollars — a 19-month high.

The one percent fall in the official bank rate was followed by a similar cut in overdraft rates by three of the major banks — Trust, Barclays and Standard — to 15,5 percent.

Most interest rates, including hire-purchase and building society bond rates, are likely to move down.

The lower interest rates will accelerate the economic recovery and lead to lower unemployment.

Last night the Governor of the Reserve Bank, Dr Gerhard de Kock, said the decision to pare the bank rate was taken before yesterday's dramatic rise in the gold price.

There was near-panic buying of gold in major bullion markets yesterday with the price surge reflecting the freezing of Libyan dollar investments in the US. Adding to the Middle East tensions was the attempted coup in South Yemen.

International investors have also been unsettled by speculation that the finance summit of five major Western nations — the United States, Japan, West Germany, France and Britain — this weekend — may result in a joint interest rate cut. This would push the dollar lower.

Gold came off its peaks to $363 at the late London fixing last night but this was still well ahead of the previous day's $346,75.

Platinum soared with gold yesterday touching a 19-month high of $379,25 an ounce and the nervous buying spread to palladium and other precious metals.

Gold shares boomed in Johannesburg and London with the Johannesburg Stock Exchange index reaching a new high of 1 289,6, a 44-point rise on the day.

Recognition

Leading shares were marked up R8 and the Krugerrand gained R25 to R860.

Yesterday's lowering of interest rates by the Reserve Bank reflected official recognition that the economy has begun its long-awaited upturn.

Dr De Kock said the surplus on South Africa's import/export account for 1985 will be more than R6 billion and a large surplus which will underpin the recovery is likely again this year.

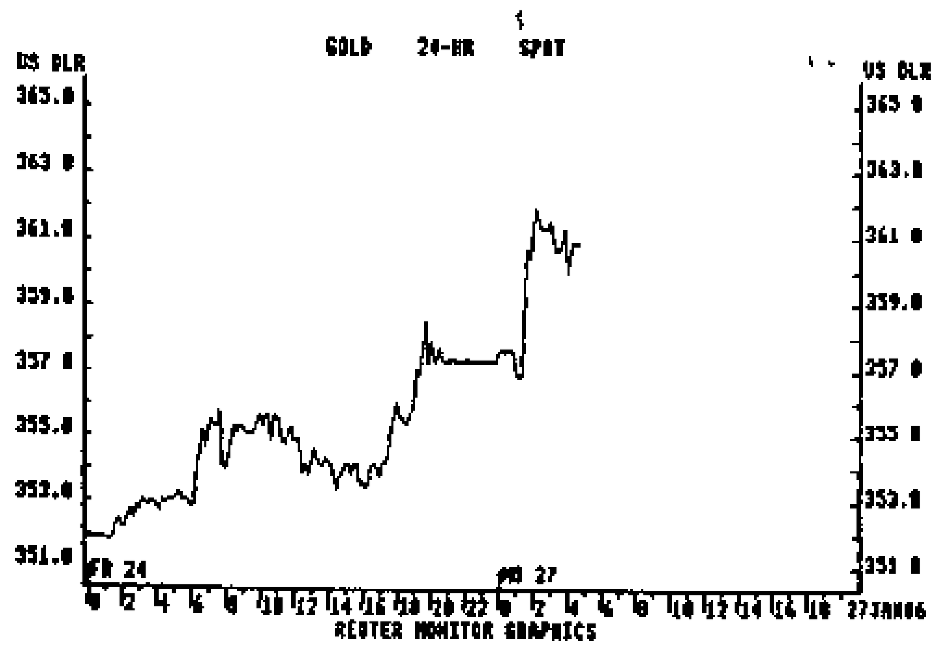
● **De Kock: Rand will rise further, page 8**

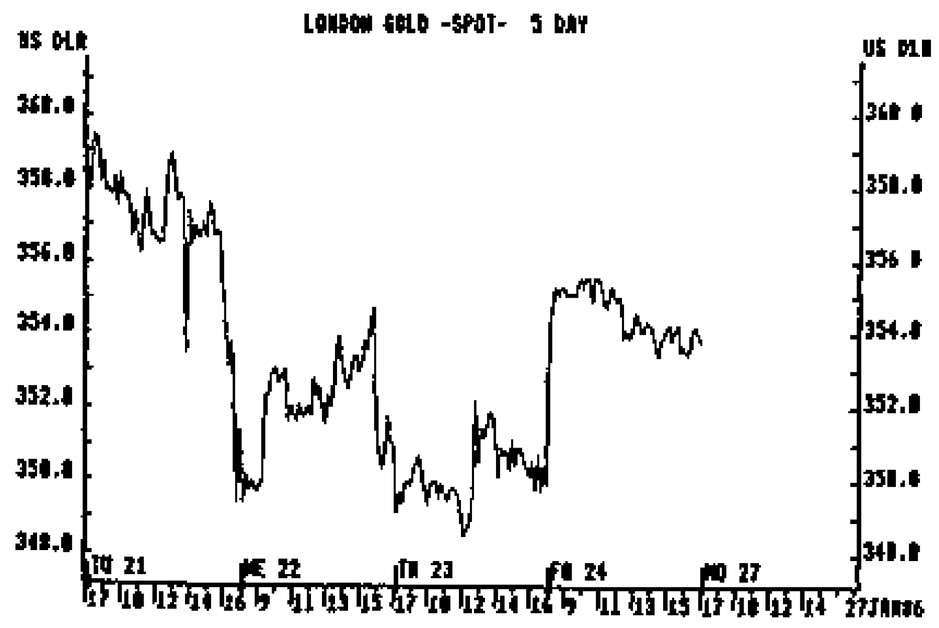
● **Yemen fighting goes on, page 4**

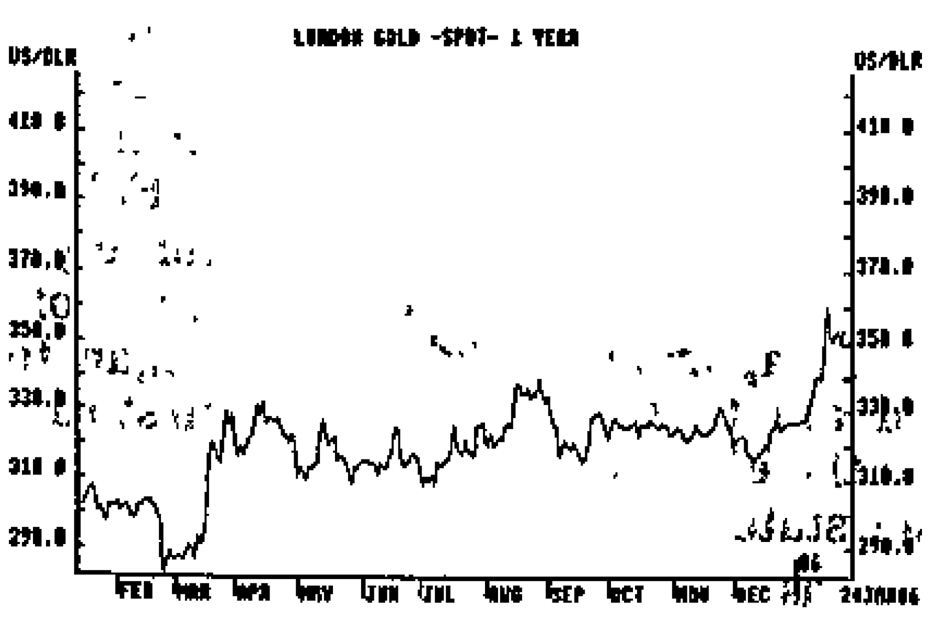
SA debt standstill may prompt others to take unilateral actio

79

SPAN 27/1/86







Are Third World debt fears behind rise in gold price?

By Dr Roger Gidlow

The anticipatory powers of the gold market can never be ignored, and in time it may become apparent that a factor behind the sudden rise in the dollar price of gold has been disquiet in the international debt area.

In recent months, Third World debtor nations have increasingly come to feel they can service their foreign debts only if they have sufficient foreign exchange income.

In line with this, various countries have resorted to unilateral reschedulings. They have in effect set a limit on the amount of export incomes allocated to the servicing of their foreign debts.

In 1984 Bolivia declared a moratorium on foreign debt payments, and in early 1985 Ecuador set a limit of 30 percent of its export income which would be used to service its foreign liabilities.

In July 1985 Peru fixed a limit of 10 percent, and at the beginning of this year Nigeria adopted a ceiling of 30 percent.

The actions of these nations have been complemented by an increasing reluctance to seek financial assistance from the IMF. Debtor nations are starting to seize the initiative from the IMF and the creditor banks.

UNILATERAL RESCHEDULING

In other words, the balance of power in the foreign debt struggle is beginning to tilt in favour of the debtors.

Until recently, foreign debt negotiations were based on the principle that existing loan agreements were inviolable except when creditirs decided to grant reschedulings or concessions to the debtors.

Debtor nations were obliged to adjust their economies to ensure that their foreign debts were serviced. This principle has clearly been impaired by the recent unilateral reschedulings of countries such as Peru and Nigeria.

Several factors have contributed to an increasingly recalcitrant posture on the part of debtors. Apart from increasing disillusionment with policies the IMF prescribes, there are signs that South Africa's foreign debt standstill last year may have exerted a demonstrable effect.

South Africa has traditionally enjoyed a high international credit status, has adhered to the policy prescriptions of the IMF in recent years, and is recording substantial surpluses on its current account.

If South Africa can resort to a standstill, some other debtor nations may well feel inclined to opt for forms of unilateral action.

Such an attitude may be further strengthened by the apparent refusal of Western governments (West Germany, Holland and France) to accept any responsibilities for the debts contracted on their behalf by the International Tin Council.

This has highlighted difficulties faced by banks in forcing soverign debtors to abide by loan agreements. Obstacles in the way of suing debtor nations are becoming more visible.

UNFOUNDED OPTIMISM

There are now strong demands for arguing that other countries will follow the lead set by Peru and Nigeria. The implications of any such moves will depend partly on the level of the ceilings adopted for debt servicing. Assuming no capital is repaid, ceilings which are in line with existing debt service ratios would serve little purpose since they would provide no relief for debtor countries.

It is only realistic to assume that the limits would be lower. The lower the ceilings the larger the reductions in the burdens of debt servicing.

Some commenators say such developments need not necessarily precipitate an international banking crisis. They argue that interest payments not met by debtor countries can be rolled over into new foreign loans. Although the total foreign debt of such countries would therefore increase, there may still be an improvement over time in the debt to export ratio as export proceeds rise at a faster rate than debt obligations.

One can, however, view such optimism as unfounded. Such a favourable outcome would not be possible if the debt ceilings on export proceeds, which are employed to service interest payments, are pitched below certain levels.

What is more, unilateral reschedulings entail particular difficulties for US banks. Such reschedulings mean that interest arrears to US banks on certain foreign loans would go beyond the 180-day limit which bank regulators use in that country as a guideline in declaring a nation's loans value impaired.

Any downgrading of foreign loans by the US regulators would mean that banks would have to write off part of their loan portfolios. If this practice develops, confidence in the stability of the US banking system could be progressively undermined.

On top of this, any limits on debt servicing payments which are unilaterally imposed on banks may be interpreted in some quarters as a prelude to an abandonment of any pretence to service foreign debts. In this context, it is important to appreciate that in one respect debtor countries could well be tempted to repudiate their foreign debts.

Virtually all commentators agree that in the next few years at least debtor nations will tend to be forced to make debt servicing payments are far in excess of any new foreign capital they receive.

CONCERTED ACTION

In these circumstances, the danger arises that some debtors will conclude that their overall balance of payments positions will improve if they cancel their foreign debts.

Recent speculation about the possibility of the major Western nations taking concerted action to bring down interest rates should be judged in the light of the dangers posed by Third World debt.

Any fall in such rates would help reduce the servicing costs of this debt and stimulate economic growth in the world at large, thereby aiding exports of developing countries.

Failure to bring interest rates down will not necessarily be negative for gold since the strains on the international banking system may yet become even more visible.

Better times ahead for gold

STAR 2/1/86

79

LONDON — A slight change in any of the sensitive elements in the financial-political climate surrounding gold could be enough to prove that last week was not a flash in the plan.

So says Michael Prest of *The Times*, in a considered look at recent developments.

There is no particular reason why gold, or precious metal generally, should rise this year, he says. Indeed, there is weighty evidence to the contrary, "but a still, quiet voice tells me that the average for 1986 could be respectably higher than for 1985."

That would be easy from a statistical point of view, he goes on.

Gold averaged $318 an ounce last year, its lowest average since 1978, and much less than the $360 of 1984.

Trading volume in both bullion and futures was slack. The collapse of Krugerrand sales and Intergold's eventual suspension of its sales programmes indicated an exceptionally depressed consumer interest in gold.

Investors had good reason to be disenchanted. Since 1980 mine production in the West has risen by 25 percent. Output last year was 1 169 tons, the highest since 1972.

The latest edition of *Metals Analysis and Outlook*, estimates that mined gold will be 1 200 tons in 1986, rivalling the peak years of the mid-1960s.

Nevertheless, says Prest, gold bugs are a resilient lot.

"The importance of last week's events was that they had clearly not surrendered and opened a Post Office account, despite the discouraging supply and demand forecasts for 1986 and cheerless assessments of the much more elusive interest and current exchange rates.

"The extraordinary sight of tumbling oil prices alone should frighten even the most stout-hearted."

JSE all-gold index closes at record 1 307,9

BUS DAY 28/1/86. (79)

Buoyant gold spurs shares to new peak

BRIAN ZLOTNICK and MERVYN HARRIS

A NEW mood of optimism swept the Johannesburg Stock Exchange yesterday with gold shares powering their way to fresh peaks.

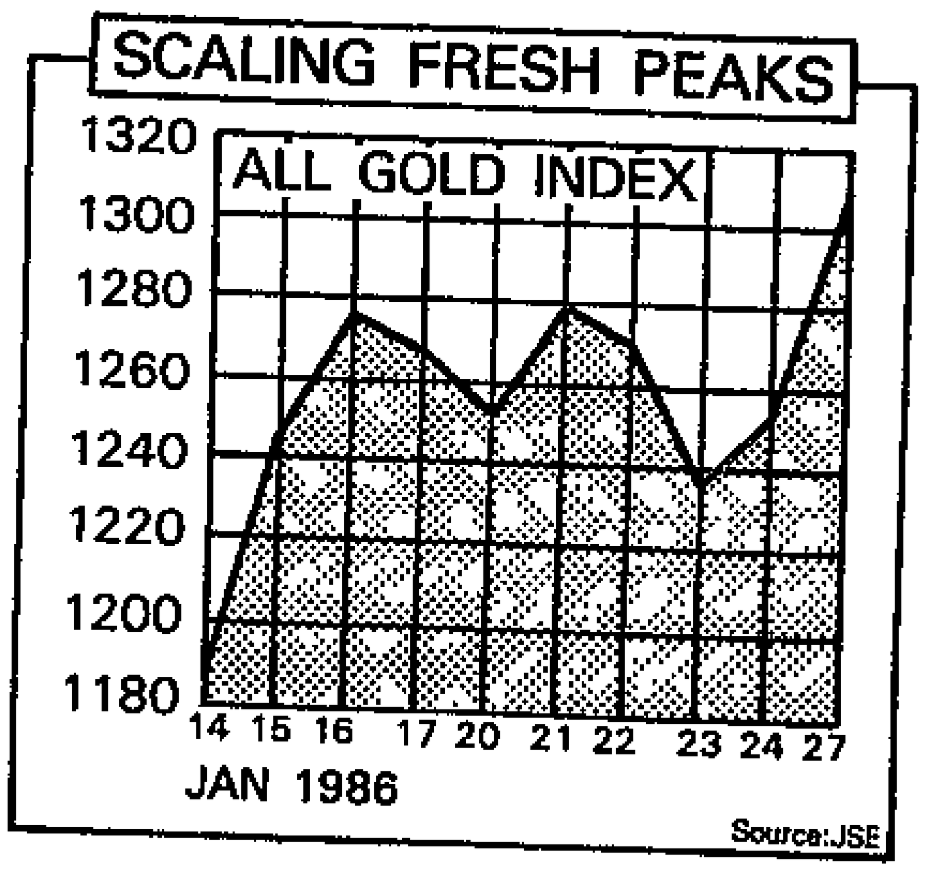
The JSE all-gold index smashed through last Tuesday's record of 1 279, with quality gold stocks leading the field, to close 5% higher on the day at a record 1 307,9.

The index touched a high of 1 312 before profit-taking trimmed some of the gains.

Bullion held its own in the face of a crack in the oil price and the commercial rand closed a shade below $0,45 — its highest level since the re-imposition of the two-tier rand in September.

However, the financial rand at $0,331 is well below its peak of $0,38 on September 16.

Its failure to keep pace with the commercial rand's sharp advance has helped support gold share prices.



The gilt market is also picking up in the wake of the stronger rand, with some analysts now expecting the inflation rate to peak sooner than expected.

Investor confidence is gaining renewed strength, as gold at long last seems to have broken out of the narrow trading range of below $345 it was locked into for over a year.

Gold has firmed on the weaker dollar and fears that sliding oil prices pose a significant threat to the US banking system — because of loans to Texan oil producers and the Third World oil producers.

Some analysts believe that if the gold price holds above $345, and the rand gold price remains at about R800/ounce, gold stocks still have further upside potential in the short-term.

Merrill Lynch gold analyst Warren Myers notes that "US institutional buyers have returned to the market and gold share trading activity has rebounded".

He adds that institutions are buying quality gold stocks as a hedge against US banking problems flowing from poor-quality loans to oil producers, and fears of higher US inflation.

One view is that the SA authorities are happy to let the rand rise, provided the

● To Page 2

COMPANIES

Buoyant GFSA raises interim 37,5% to 55c

BUSDAY 6/2/86

79

GOLD FIELDS of South Africa (GFSA) has produced scintillating results for the half-year to December.

Buoyed by higher interims from its gold producers, which enjoyed record profits in the last two quarters of 1985, GFSA has raised its interim dividend by 37,5% to 55c (40c), in line with market expectations.

Earnings a share increased by over 44% to 137c from 95c in the first half of the previous financial year.

Attributable taxed profits were up at R111,8m from R77,5m.

GFSA directors say in the interim report that, given no undue decline in the prevailing rand price of gold, year-end earnings should show a satisfactory increase, although not at the same rate as that achieved over the first six months of the financial year.

Analysts expect total payment could be 160c a share, up 40c on last year's 120c. But the increased interim does not necessarily indicate a similar rise in the final.

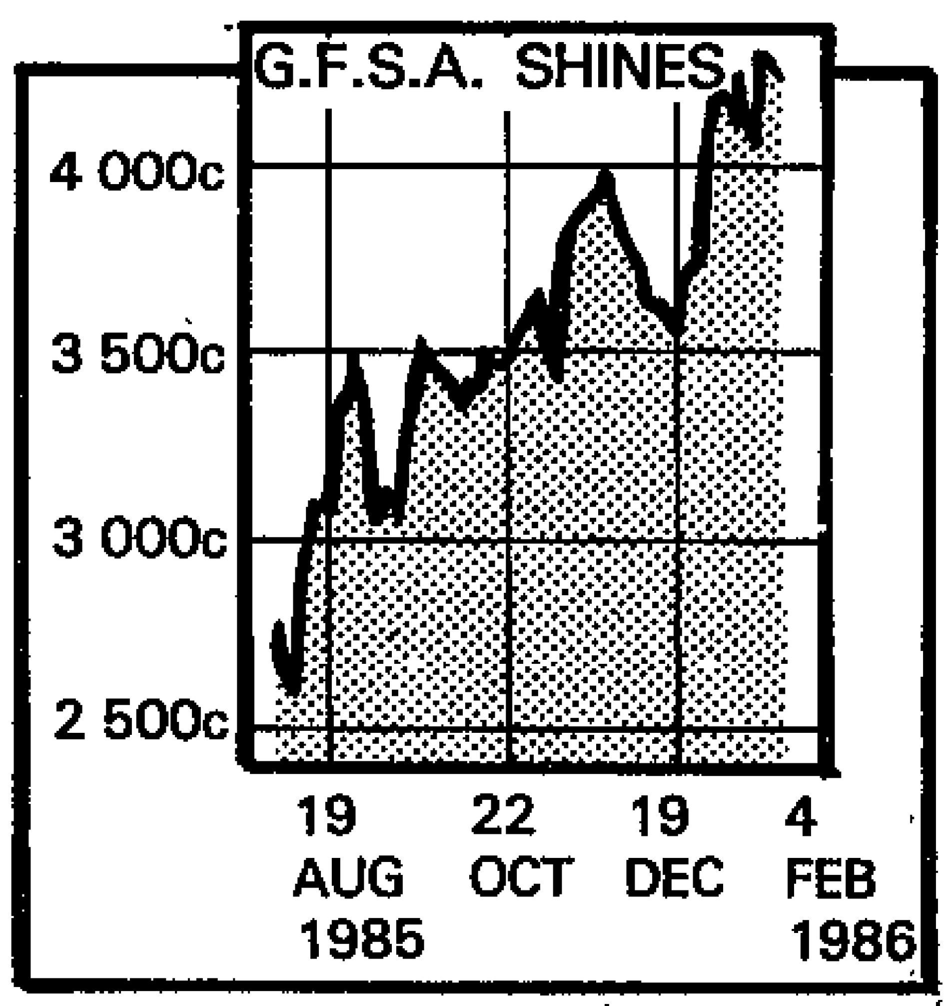
GFSA has a conservative record. The dividend total stuck at 100c a share for three years before the 20c lift last year.

It is too early in the year to venture any projection of gold's trend.

However, the recent fast rise followed by yesterday's sudden fall in the dollar gold price to below some chartists' resistance level of $345, plus the decline in the rand gold price to R746, point to a volatile year for gold and its producers.

GFSA shares have performed well over the past year, more than doubling from the February 1985 low of R25 to a high of R43 at the end of last month.

The stock is highly rated in the mining house sector, with dividend yield at a historic 2,8%, on a par with seldom-traded Anglovaal stocks.



LIZ ROUSE

It declined 100c to R41,50 yesterday, in line with the general retreat on the JSE's mining board.

GFSA shares are favoured by investors who like its high gold content. Gold investments accounted for 77% of income in the year to June 1985, the jewels in GFSA's crown being giant Driefontein and high-grade Kloof.

Income from investments rose by 37,6% to R113m (R82,1m) in the six months to December, thanks to higher interim payments from Dries, Kloof, Libanon, Venterspost, Doornfontein and Deelkraal.

The group's coal and base-metal companies, which contributed 12% to income last year, had mixed fortunes in the December quarter. Lead/zinc/copper producer, Black Mountain (55% held), continued to increase profits, reducing its debt load to R30m. Results of coal producers Apex and Clydesdale were satisfactory.

Sparkling results from Gold Fields

(79) STAR 5/2/86

Financial Staff

Confirming market expectations, the Gold Fields group has come up with sparkling results for the six months to December 31, enabling the group to raise the dividend to 55c from 40c previously.

Earnings a share increased by 44 percent to 137c from 95c in the six months, from an attributable profit of R111,8 million versus R77,5 million.

The directors say that providing there is no undue decline in the prevailing rand gold price, net earnings for the year should increase satisfactorily but not at the same level as during the first six months.

Total revenue, including income from investments and interest, increased to R170,3 million from R121,9 million in the same period of 1984.

At the pretax level earnings rose to R127,6 million from R89,7 million, but a sharply higher tax of R9,0 million (R5,5 million) and minorities of R0,3 million (R0,2 million), held back the rise in earnings at the bottom line.

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☐ Government will not, or more probably cannot, control its spend...

☐ Any shortfall will be made ...

Tutu slams violence

BUS DAY 28/1/86 (78)

● From page 1

fore then they all were considered SA citizens.

"It's no good saying things are getting better. The world will only believe it when we, the victims, say: Yes apartheid is disappearing."

Significant developments in this direction would include the lifting of emergency restrictions, withdrawal of troops from the townships, an end to the creation of "independent bantustans" and forced removals, the release of political prisoners, an amnesty for exiles and negotiations with authentic leaders on black representation in government.

Tutu reinterated his intention to call for punitive economic sanctions against SA if by March government had made no significant moves in these directions.

He said he did not pretend to hold much personal influence over Western leaders, "but it will be symbolic action on my part because I will be deliberately breaking an unjust law".

Tutu said his American tour, during which he received several awards and honours, had been a "resounding success" in achieving its three objectives:

☐ To thank the American people for their support for justice, peace and reconciliation in SA;

☐ To intensify international attention on SA because of the official clampdown on audio-visual media coverage of the townships;

☐ To raise funds for his diocese and for his refugee fund.

The Bishop said his visit had helped raise almost $1m for the Anglican Church. The money would help provide aid for families of polictical prisoners, detainees and other apartheid victims.

During his 12 city tour Tutu met the US Vice President George Bush; Senators Garry Hart, Ted Kennedy, and Jesse Jacksson, and personalities such as Jane Fonda, Bill Cosby and Coretta King, wife of assasinated human rights leader Martin Luther King.

Tutu said that while there had been much publicity given to those who criticised him, "many of my flock (who are white) are most supportive. It is mischieveous in the extreme for newspapers and television to exacerbate racial tension when we are seeking to work together."

Gold at new highs on JSE

28/1/86 BUS DAY (79)

● From Page 1

rand gold price trades at about R800/ounce.

Yesterday's surge on the gold board was led by the Anglo American Free State mines, before today's shareholders' vote to approve the merger of these mines.

"The US gold funds expect today's vote to be very close," says Myers.

President Steyn featured with a 775c or 13,1% jump to R66,75.

With the Continent still an agressive buyer of gold stocks and the local institutions buying quality stocks, bellwether Vaal Reefs moved up R13 or 6% to a new high of R245, with R3,3m worth of shares changing hands.

Dealers warn that the market is extremely volatile.

'Gold's role will diminish'

(79c) BUS DAY 31/1/89

FRED STIGLINGH

THE wealth-creating potential of gold should diminish in future and, with the unstable base for non-gold GDP growth, this would lead to increasing unemployment, says Koos Hough of the CSIR's Group for Techno-Economic Services.

Hough told a CSIR techno-economics symposium in Pretoria yesterday that the added value from SA's gold was declining.

"The dynamo of South Africa's economy is breaking down and worse is to come if the imminent decrease in the gold price is taken into account," Hough said.

He saw the trend towards instability in both gold and non-gold growth rates as "disturbing", and even more so the fact that GDP growth without gold had destabilised faster than growth with gold.

"Keeping in mind gold's irregular contribution to the GDP, it is clear why the GDP growth rate has become increasingly unstable," Hough said.

fall in the oil price
US oil com-
bankers.
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oil as a way of fi-
If so, the ef-
fall will not
by US consum-

also affected two

every way from cheaper oil. Each dollar off the oil price reduces its $40bn-a-year oil-import bill, reduces the operating costs of Japanese industry, enlarges the Japanese trade surplus and helps push up the yen.

The currency has already appreciated by more than 20% against the dollar since September.

Fears for gold's long-term role

17/2/86 BUSDAY

79

LESLEY LAMBERT

GOLD'S rebound to a $380 high in January was not very firmly-based, according to an investigation of underlying fundamentals by Barclays chief economist Cees Bruggemans.

With developments in the oil market reinforcing an international trend of lower inflation there appeared to be little to favour gold's role as a hedge against inflation, he said in the latest *Barclays Business Brief*.

Even if there were a change in the intervention policies of the G-5 nations, there would probably be enough slack in those economies to ensure a resurgence of inflation did not occur for some time.

Bruggemans added that gold had not necessarily benefited from its role as a hedge against inflation, but rather from the security-haven aspect which had appealed to investors.

January's gold price surge boosted local financial markets: the JSE All Gold index reached new highs, rand recovered to $0,46 and capital market yields, despite new inflation rate highs.

Coupled with renewed optimism on the political after the President P W Botha's opening-of-parliament speech, the performance of the gold price a rebirth of confidence in the medium-term for the economy.

However, Bruggemans said that while the gold might respond in the short-term to concerns the stability of the international banking system, the metal's long-term trend, in the presence of inflationary forces, looked less favourable.

PLASCON Parthenon, Western Cape, Municipal Workers' Union, is president.

SA might repay R1,1bn

BUSDAY 17/2/86

From Page 1

maturity profile of this amount. However, of SA's total foreign debt, 68% is short-term.

On the other hand, one major bank was borrowing money on a short-term basis in offshore markets and lending it on a medium-term basis to clients, particularly, it is believed, to government.

This suggests that the maturity profile may be longer than the average figure. If, say, a quarter of this money is short-term the State will have to repay $358m (750m) this year.

The other concern is with trade finance and trade credit, which are excluded from the standstill net.

At the end of September there was $3,5bn (R7,36bn) in government guaranteed trade credits and a further $1,5bn (R3,15bn) in short-term trade credits. Much of this will have to be repaid, but one senior banker believes all of it will be replaced by further credits, on the basis that the business will be too lucrative to turn down.

He estimates there could even be a small gain.

Overall, SA could be looking to repay $2,55bn (R5,36bn) this year. If SA's current account surplus remains at the same level as last year's $3,325bn (7bn), these repayments will account for the major chunk of it.

Assuming no significant sanctions are imposed on SA, then the current account on the balance of payments will benefit from the lower oil price.

But the higher rand value of recent weeks will depress the buoyant rand price of gold and perhaps encourage further importing. On balance, it seems the current account balance will remain at last year's levels.

Reuter reports that bankers in London said the general idea behind Leutwiler's proposal was to reach an accord that would allow the standstill to expire on March 31.

Banks will be asked to roll over voluntarily, until March 1987, payments that were due on the debt covered by the standstill.

In addition, the proposal will give banks the option to convert the remaining short-term debt into notes with maturities of not less than three years, at interest rates they will negotiate with counterparts in SA.

The bankers said President P W Botha's recent proposal on political reforms were not seen as a major breakthrough but at least improved the climate for talks.

While the question of interest rates needs to be addressed, bankers said the proposals included many suggestions they offered Leutwiler in response to the proposal from SA in December.

Political comment in this issue by Nigel Bruce. Newsbills by Terry Lofthouse. Headlines and sub-editing by Gordon Amos. All of 171 Main Street, Johannesburg.

UARY 17 1986

Markets show confidence

79

By Duncan Collings 20/2/86 STAR

As gold and platinum prices bounded ahead on world bullion markets yesterday and confidence continues to grow ahead of today's debt rescheduling talks and over the economy generally, the rand enjoyed another very good day on the local foreign exchange.

Stock exchange prices too were buoyant with both the market and foreign exchange largely ignoring the renewed township violence.

The rand pushed through the 49 US cents barrier to close nearly a cent higher at 49,20c and is now very close to the 50c mark which many dealers have been forecasting will be broached by the end of this month.

Trading was moderately active yesterday with both importer and exporter activity evident in the market, while the Reserve Bank continued to play its usual stabilising role.

Concern over unrest in South Africa helped push platinum prices to their highest levels for 19 months in active trading, with the metal nearing $400 an ounce before it backtracked in late trading.

Platinum is expected to be the star performer among precious metals this year, according to an industry analyst who forecast an average price this year of $450.

Following platinum, and helped by further weakness of the dollar on world foreign exchanges, gold also firmed sharply yesterday to trade at one stage around the $341 mark.

However, the metal eased in US trading and currently stands around $337 in the Far East.

FOREIGN EXCHANGE 78

~~FIN MAIL~~ 79

Guiding role 21/2/86.

The rand continues its climb — despite the falling gold price — largely on Reserve Bank support, import demand and a weakening dollar. The Bank is mostly acting through brokers, rather than directly with the banks. The market is quiet.

Dealers are complimentary of the way the Bank is gradually moving the currency. They feel the debt rescheduling meeting is unlikely to have a major impact, though there could be slight importer cover-taking. They are confident the Bank will prevent a major slide.

The rand has appreciated over 33%

over fiscal policy developments after the Gramm-Rudman budget balancing bill was declared unconstitutional. The judgment has been appealed but a final ruling may not be made before mid-year. Market expectation is that delay on a deficit reduction agreement will translate into reduced chances of aggressive easing of monetary policy.

Of major currencies, sterling recorded the least advance against the dollar. It lost considerable ground as the UK government rejected oil production cutbacks. The Bank of England is also refraining from using the interest rate weapon to stimulate sterling. ■

OR SALE

COMPANIES

Bus Day 26/2/86

79

New confidence seen in gold shares

BRIAN ZLOTNICK

SHARES of high-yielding, expanding and developing SA gold mines are being recommended to US and European clients by Rowe & Pitman analyst Philip Taylor.

He believes there is scope for the SA gold share market to move upwards as confidence returns.

Among the high-yielding quality stocks recommended are Hartebeestfontein, Vaal Reefs and Anglo American's three companies resulting from the mega-merger of its Free State mines — Free State Consolidated Mines, Orange Free State Investments and Welkom.

In the category of expanding and developing mines, Kloof, Libanon, Loraine, Southvaal, Western Deep Levels and Winkelhaak are recommended.

Current prices offer an average prospective gross dividend yield of 11,5% to overseas investors.

In the face of a gold price which the firm believes has a limited downside but a relatively gradual near-term growth potential, the rating is thought to be reasonable.

A yield of more than 12% would seem to indicate that more serious disturbances in SA are on the cards but the outlook is not yet bright enough for a return to single figures, says Taylor.

While the firm believes the gold price will improve this year, it fails to stick its neck out and make a more precise forecast.

The positive factors for gold are that fabrication demand is firm and there is concern over the banking implications of a low oil price which could well outweigh disinflation.

Furthermore, some economists are beginning to fear that world inflation rates could pick up later this year.

The supply squeeze in the platinum market is expected to help gold later in the year, as it appears to be doing so now.

However, the major factor against a rapid rise is still the Russians, who could again this year undertake heavy selling to compensate for sharply lower oil revenues.

Erratic gold market puzzles analysts

By Charles Johnstone
Holcom Commodity Brokers

Last week was certainly a mixed and somewhat confusing period on the gold and platinum exchanges.

Platinum continued its relentless surge on the Impala production news at a high of $422 an ounce on Tuesday. Gold, responding to news of strike action, attained healthier levels of above $350.

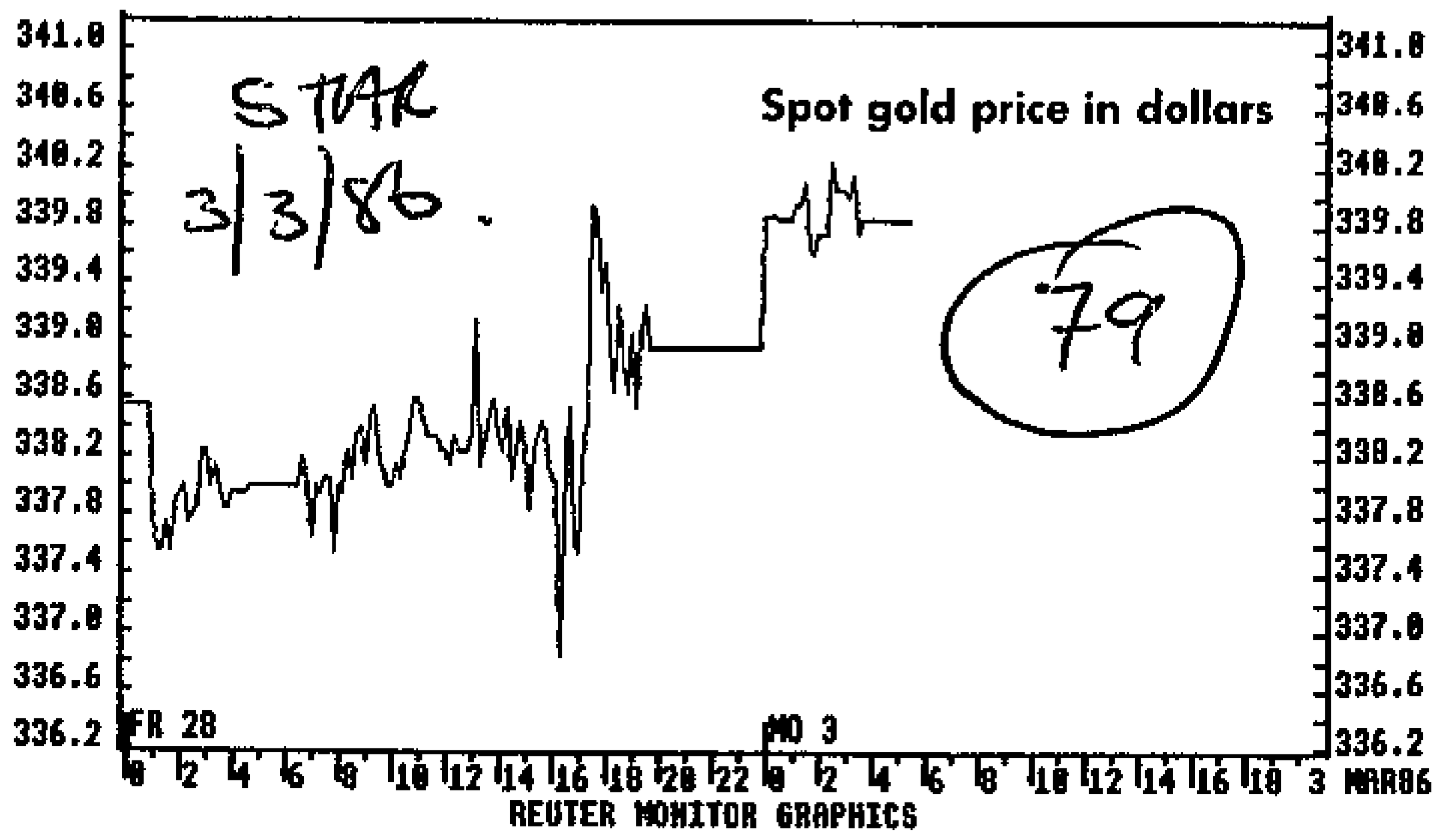
Dealers and jobbers remain extremely sensitive to bullish news emanating from South Africa, so it was something of a surprise when the markets turned down again sharply on Thursday evening with gold losing all its ground and platinum falling by some $30.

One analyst remarked: "We kept searching throughout the day for a major fundamental reason to account for the sharp sell-off, but most traders appeared at a loss for reasons."

However, he made a point

STAR 3/3/86.

79



about this sort of action which is becoming increasingly familiar. "The market has become extremely volatile and nervous of late with no obvious trend, so when a big seller appears, questions aren't asked. Dealers just scramble to dump their positions and the herd follows."

It has been a particularly hard time for analysts of late, especially since many of these erratic moves appear illogical.

Not so long ago the strong dollar accounted for gold slipping to $280, yet the subsequent weakening of the dollar has played little or no part in the yellow metal's behaviour since.

Perhaps analysts have been guilty of trying to pick major trends where none exist, especially in a market that has been trading broadly sideways for some time.

So when a market appears to be defying the basic rudiments of fundamental and technical analysis, how might one best forecast the short-term moves?

One indicator above all is proving to be quite effective, the Contrary Opinion theory.

Each week a survey is done and statistics are released out of New York pertaining to traders' overall bearish or bullish opinion of any one market.

Should the percentage consensus fall heavily in favour of the bulls this is often indicative of a price decline. Naturally the higher a market goes the more bullish traders tend to become and vice versa, but these extreme perceptions offer classic warning signs.

As with gold last week there was an increasingly bullish consensus prior to the sharp decline, so perhaps for the short term while irrationality prevails the Simplistic Contrary opinion theory offers the best form of forecast.

thereof and the Department is accordingly not in possession of statistics in this regard.

(3) (a) (i) 135.

(ii) 610.

(b) (i)	1984	41
	1985	75
(ii)	1984	22
	1985	54

Ermelo: new railway station

217. Mr W V RAW asked the Minister of Transport Affairs:

(1) Whether a new railway station has been built at Ermelo; if so, (a) when and (b) at what cost;

(2) whether this station has been put into use; if so, when; if not, why not?

The MINISTER OF TRANSPORT AFFAIRS:

(1) Yes.

(a) Officially opened on 23 April 1979.

(b) R820 000.

(2) Yes. Since April 1979 the station is being operated as a passenger stop and the station buildings are being utilised for other departmental purposes.

Medicines Control Council

219. Mr W V RAW asked the Minister of National Health and Population Development:

(a) How many applications were pending before the Medicines Control Council at the end of 1985 and (b) how many of these applications were lodged in each year prior to 1985 in respect of (i) medicines already on sale in other countries and (ii) new medicines not yet in common use?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(a) 995.

(b) (i) and (ii): Information not readily available.

Gold Reserves

HANSARD Q.COL 320

231. Mr L F STOFBERG asked the Minister of Finance:† 4/3/86 (79) (58)

(1) What were the gold reserves of the South African Reserve Bank at the end of 1983, 1984 and 1985, respectively;

(2) whether any of these gold reserves are kept abroad; if so, (a) why and (b) what percentage in respect of each of these years;

(3) whether any gold had been pledged at the end of these years; if so, what was the value thereof in respect of each such year;

(4) whether any gold had been sold in advance at the end of these years; if so, to what agencies in respect of each such year?

The MINISTER OF FINANCE:

	Value (R million)	Fine ounce (million)
(1) December 1983	3 250	7,790
December 1984	4 047	7,365
December 1985	3 632	4,841

(2) Yes.

(a) To have gold available abroad for prompt delivery in the implementation of the Reserve Banks's gold marketing strategy.

HoA

(b) December 1983—26 per cent
December 1984—21 per cent
December 1985—4 per cent.

(3) No gold was pledged. The Reserve Bank only engages in direct sales and swap transactions.

(4) No gold was sold forward.

Timetables/advertisements

235. Mr W V RAW asked the Minister of Transport Affairs:

(1) Whether South African Airways flights are published in (a) South African Development Co-ordinating Conference and (b)(i) Zambian and (ii) Zimbabwean Airways timetables or any other specified publications;

(2) whether the South African Airways advertises (a) in the (i) Zambian and (ii) Zimbabwean press and (b) on the (i) radio and (ii) television services of these countries; if so, what amount was spent on such advertisements in each country in respect of each of these categories in each of the latest specified two years for which figures are available;

(3) whether the offices of the South African Transport Services Travel Bureau in (a) Harare and (b) Bulawayo were closed on instructions of the Zimbabwean Government; if so, (i) when and (ii) what reasons were furnished;

(4) whether a levy is charged on South African Airways tickets to other countries sold in Zimbabwe; if so, what are the relevant particulars in this regard?

The MINISTER OF TRANSPORT AFFAIRS:

(1) (a) No.

(b) (i) and (ii) Yes.

(2) (a) (i) No.

(ii) Yes.

(b) (i) No.

(ii) Zambia—No.
Zimbabwe—Yes.

	1984/85	1985/86
Press and magazines...	R57 696	R76 026
Television....	R20 698	R49 170

(3) (a) and (b) No.

(i) and (ii) Fall away.

(4) No.

Vacant posts

HANSARD Q.COL 322

250. Mr A B WIDMAN asked the Minister of Communications: 4/3/86

How many posts on the authorised establishment of his Department were vacant as at 31 December 1985?

The MINISTER OF COMMUNICATIONS:

2 055—based on the authorised establishment of the Department.

Postmen: salaries

252. Mr A B WIDMAN asked the Minister of Communications:

(1) How many (a) White, (b) Coloured, (c) Asian and (d) Black postmen were employed by the Post Office in the latest specified year for which figures are available;

(2) whether the salary programme has yet reached the stage where the rate of pay is the same for postmen of all population groups; if not, (a) why not and (b) when is it anticipated that parity will be reached; if so, what are the respective rates?

The MINISTER OF COMMUNICATIONS:

(1) (a) 2 103;

(b) 1 145;

HoA

ARGUS 4/3/86

BUSINESS

Gold at $338,50

GOLD traded at $338,50 an ounce in Hong Kong today, up from yesterday's $336 London close, reports Reuter.

The US dollar was quoted at 178,90 yen on the Tokyo foreign exchange market today, down from yesterday's 180,00 close.

The dollar declined against most key currencies in US trading yesterday after moving generally higher in quiet European dealings.

Persistent but unconfirmed reports that major industrial nations are considering measures to stabilise foreign exchange markets have subdued trading and made dealers reluctant to alter their holdings significantly.

According to reports published in the United States and abroad, the exchange rate topic will be high on the agenda when the seven-nation summit is held in Tokyo in May.

Higher average price expected for gold

STAR 5/3/86

By Gareth Costa

The gold price for 1986 is estimated to average about $350 an ounce within a trading range of $310 and $380-$400 making gold shares attractive investments.

But beware if the price falls out of bed because SA will be the first to feel the crunch, warns Mr Jim Ainsworth, a mining and metals consultant for S G Warburg, Rowe & Pitman, Akroyd (Rowak) of London.

Mr Ainsworth, on his annual visit to South Africa, said yesterday the gold price should trade at about 10 percent more than last year's average, although the various fundamentals are mixed.

He said inflation rates are likely to go lower in developed countries; a weaker dollar will see increasing gold demand; Japan will buy more bullion for jewellery and interest rates are set to fall marginally.

A banking crisis caused by the lower oil price could also stimulate demand, together with the two wild cards for 1986 — the possible interuption in supply from SA and any curtailment of financial arrangements between the US and Libya, which could spark Middle East demand.

He said that his firm would continue to advise clients to purchase gold shares. The gold funds in the US and Europe are experiencing net cash inflows, but some are under pressure to reduce their South African holdings.

He added that the liquidity of the South African market remained attractive to overseas investors and, if the cash flow remains positive, foreign investors will continue to be interested, but there could be aa move towards Canadian shares.

COMPARISONS

Mr Ainsworth said it is hard to compare the South African gold shares with those of the US, Canada and Australia. The reasons are the difference in accounting practices and the fact that South African mines are restricted to one lease area only in which to prospect.

Other reasons are that pure gold companies in the US are limited, and even the biggest ones receive only 30 percent of their profit from gold.

Canadian mines are highly priced as they are deemed to be speculative and are also close to the US.

Australian shares are perceived to have short lives, and are hard to come by anyway while there was a possibility of taxes being imposed on gold mines there.

Mr Ainsworth warns that there is going to be a strong expansion of gold production over the next five years in Australia, Brazil, US, Canada and South East Asia.

These increases are not expected to affect the gold price as it will be accompanied by increases in demand, particularly for jewellery, but providing alternative gold share investments.

Gold continues to top the list for metal exploration, but platinum and chrome are both beginning to grow in significance.

"Base metals performed poorly in 1985 with only aluminium showing a 1,2 percent increase in demand over 1984, despite a GNP growth in OECD countries," said Mr Ainsworth.

Precious metals had held up well in comparison, despite low inflation, increased Russian selling, higher levels of production and more sophisticated selling practices by many of the small producers. However speculators have deserted all but the gold market for the more lucrative currency and index variations.

COPPER

Of copper, Mr Ainsworth said that supply is low, with certain mines in the US having been turned off and Western world capacity utilisation still well under 80 percent. The medium term outlook for copper revolves around the ability of US producers to make further cost reductions, which will ensure the present over-capacity continues for the next five years.

Platinum will remain at a premium to gold for the first half of the year, but this will be narrowed in the second, said Mr Ainsworth. Motor manufacturers are starting to stock up for the time when regulations demand catalysts in exhaust systems, and the metal is becoming more popular in jewellery. The Impala strike was a factor in the price rise, and he expects the trading range to between $340 and $425 an ounce.

Mr Ainsworth strongly recommends De Beers shares in the light of the increase in demand for smaller diamonds.

or revenue accounts; if so, (i) to which Development Boards, (ii) what is the total amount of these loans and (iii) when does he anticipate that repayment will be made?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(a) Bridging loans—Yes.

(i) Development Board	(ii) Amount
Natalia	R16 497 000
East Rand	R15 372 000
Oranje-Vaal	R20 000 000

(iii) Repayment will be considered as soon as the new sources of revenue for the local authorities have been realised and will depend on the extent of the new sources of income.

(b) Other loans—No.

HANSARD 6/3/86

Coal/minerals: exports

Q COL 375. 79

233. Mr L F STOFBERG asked the Minister of Mineral and Energy Affairs:†

Whether he exercises control over exports of coal and minerals; if so (a) in what way and (b) what procedure is followed in determining whether the yields in respect of such exports are correct for exchange and tax purposes?

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

Yes, apart from coal, also in respect of tiger's eye and emeralds.

(a) By means of permit control in terms of the relevant legislation and export control regulations.

(b) This aspect does not rest with the department of Mineral and Energy Affairs.

Imported meat

Q COL 376. 74

294. Mr R W HARDINGHAM asked the Minister of Finance:

HANSARD 6/3/86

(1) What was the (a) quantity and (b) value of the (i) tinned, (ii) processed, (iii) cured and (iv) spiced meat that was imported into the Republic in the latest specified year for which figures are available;

(2) what was the country of origin in each case?

The MINISTER OF FINANCE:

The import statistics can unfortunately not be furnished in the format as requested. Import statistics of meat according to the classifications in the Customs and Excise Tariff are however furnished for the period 1 November 1984 to 31 October 1985.

Description	Country of Origin	Quantity Kg	Value R
Meat and edible meat offals, salted, in brine, dried or smoked:			
Ham	Belgium	258	1 061
	W Germany	954	9 438
	France	12 282	139 250

Description	Country of Origin	Quantity Kg	Value R
	Italy	1 174	23 886
	Other unspecified countries	7 894	27 798
Other meat of swine	Denmark	76 016	301 569
	UK	23 939	96 528
	France	12 219	44 625
	Austria	60	1 012
	Italy	445	2 197
	USA	318	2 797
	Other unspecified countries	463	2 119
Other	France	419	3 087
	Switzerland	216	4 925
	Italy	512	2 517
	Israel	274	2 146
	Australia	16 712	17 782
	Other unspecified countries	7 040	32 195
Sausages and the like of meat, meat offal or animal blood:			
Other in airtight metal containers	UK	1 584	3 412
	W Germany	3 574	17 261
	France	117	1 299
	Switzerland	936	7 871
	Spain	3 428	20 184
	Italy	25 497	98 349
	Hong Kong	731	6 490
	Other unspecified countries	78	265
Other	Denmark	1 301	6 558
	W Germany	2 779	22 244
	France	31 713	252 121
	Austria	980	7 058
	Italy	20 479	90 948
	Other unspecified countries	1 108	6 702
Other prepared or preserved meat or meat offal:			
Bacon and Ham	W Germany	242	2 108
	France	25 292	290 523
	Switzerland	78	1 517

Golds ease, rand slightly down

STAR 15/3/86. (79)

Gold shares closed mostly easier on the Johannesburg Stock Exchange, but were above their early lows as the bullion price held steady and the rand eased slightly, dealers said.

Randfontein closed R2 down at R265 and Kinross 75c easier at R45, while cheaper gold share losses ranged to 30c, as in Loraine at R13,50. But Southvaal was among a few gainers, adding 100c at R116.

The financial rand traded lower at 34,75 US cents against Thursday's 35,50 close while the Krugerrand lost R5 at R718, they added.

Mining financials and other minings were mostly firmer, with Gencor rising 75c at R40 after annual results, while Rustenburg Platinum firmed 50c at R32,50, diamond share De Beers 5c at R20,15 and copper share Palamin 25c at R21,50. Samancor rose 10c at R7,90.

In insurances, new listing Lifegro ended slightly lower at 393c against a 395c close after its debut on Thursday.

Industrials closed in mixed in fairly active trading with 50 shares up, 36 down and about 50 unchanged.

Shortly before the finish the JSE all-gold index stood at 1218,3 against a 1219,2 close yesterday, but above a midsession 1210,4, while the industrial index was up slightly at 1154,8 from Thursday's 1150,9 finish.

The overall index rose slightly to 1409,4 from 1406,3.— Sapa.

purchaser furnishes the seller with a declaration on the prescribed form (Form VB52). This measure was aimed at tightening up control in regard to the application of the exemption relating to the sale of goods which are exported from the Republic. In addition, the matter of motor vehicles sold in the Republic to purchasers who allege that they are ordinarily resident in Bophuthatswana formed the subject of discussions on an inter-governmental level and certain measures have been proposed in order to put a stop to malpractices in that regard.

HANSARD 18/3/86 79

Gold

*4. Mr L F STOFBERG ~~asked the Minis-~~ ter of Finance:† QCSL 567

Whether his Department exercised any control over the actual gold production of gold mines in the period before exchange and export control in respect of gold; if not, (a) why not and (b) what agency exercised such control; if so, (i) what was the nature of the control and (ii) how did he determine (aa) when and (bb) at what price gold was sold?

The MINISTER OF FINANCE:

The function of buying bullion from the gold mines in South Africa was delegated by the Minister of Finance to the South African Reserve Bank as early as 1925.

This gold becomes the property of the South African Reserve Bank, and is sold on overseas markets in an orderly manner to the best advantage of South Africa in terms of the policy which has been in force for a number of years.

Any profits or losses incurred during such transactions are for account of the Treasury as provided for in section 17A of the South African Reserve Bank Act, 1944 (Act 29 of 1944) as amended.

A detailed statement of the "gold price adjustments account" is furnished to Treasury monthly in which are also set out the prices at which the gold transactions have taken place.

The South African Reserve Bank itself exercises a strict control on purchases and sales of gold, and a computer printout containing full particulars regarding each individual transaction is furnished daily both to the Governor and to the Deputy Governor in charge of gold and foreign exchange transactions. The dialy price of gold is determined by supply and demand on the different markets and there can thus be no meaningful average price for the thousands of transactions taking place over the years.

HANSARD 18/3/86 QCSL 568

Consumer price index

*5. Mr L F STOFBERG ~~asked the Minis-~~ ter for Administration and Economic Advisory Services:†

Whether he will furnish the items making up the so-called basket used in the calculation of the consumer price index; if so, (a) what items make up the basket, (b) how was the basket adjusted over the latest specified period of 10 years for which information is available and (c) how is the course of inflation calculated on the basis of these data?

The MINISTER OF ADMINISTRATION AND ECONOMIC ADVISORY SERVICES (Reply laid upon the Table with leave of House):

Yes. The so-called basket of items (i.e. the different goods and services together with their relative importance or weights) which is used in the calculation of the consumer price index was published as a special article in the September 1978 issue of the Bulletin of Statistics and copies of this article are freely available on request. A summarised form of the basket is in fact published in each Statistical News Release on the consumer price index. These news releases are issued free of charge on a monthly basis.

(a) The basket contains those consumer goods and services purchased by an average urban household. As the consumer price index is separately calculated for the lower, the middle and higher income groups as well as for all income groups, virtually four baskets exist.

In a summarised form, the basket for all income groups compromises:

Food	24,98%
Cold drinks and alcoholic drinks	2,60%
Cigarettes, cigars and tobacco	1,69%
Clothing and footwear	8,77%
Housing and household fuel and power	19,67%
Furniture and equipment	5,98%
Household operation	4,96%
Medical care	2,08%
Transport	14,94%
Communication	0,99%
Recreation, entertainment and reading matter	4,16%
Education	0,82%
Personal care	2,95%
Other consumer goods and services	5,41%
	100,00%

I have a copy of the detailed four baskets for the disposal of the hon member.

(b) The consumer price index is calculated on basis of the Laspeyres method of index calculation, which means that the relative importance of the goods and services or the weights is kept constant for a number of years. Up to now the weights of the consumer price index have been revised approximately every ten years without interim adjustment. The weights currently in use are based on the 1975 survey of household expenditure which will be revised on basis of the 1985 survey. I have already approved the revision of the basket (i.e. including the weights) on a five yearly basis in future.

(c) The consumer price index measures the change in prices of consumer goods and services over time. The rate of change of an annual basis of this index is usually defined as the annual rate of inflation. It is calculated by expressing the increase in the consumer price index of a particular month since the same month of the previous years as a percentage of the value of the index for the month concerned in the previous year. In calculating the average inflation rate for a year the arithmetic mean of the indices of the twelve months is compared to that of the previous year.

Johannesburg, Wolmarans Street: building purchased

*6. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

(1) Whether the South African Transport Services purchased a building in Wolmarans Street, Johannesburg; if so, (a) from whom, (b) at what price and (c) when;

(2) whether the South African Transport Services did a valuation of the building at the time of purchase; if so, what was the valuation; if not,

(3) whether a valuation of this building was done by a body other than the South African Transport Services; if so, (a) on what date, (b) by what body and (c) what was this valuation?

The MINISTER OF NATIONAL EDUCATION (for the Minister of Transport Affairs):

(1) Yes.

(a) Netherlands Properties (Pty) Limited.

(b) R11,75 million.

(c) 31 January 1986.

(2) Yes. R13 million.

Gold leaps while rand marks time

9/3/86 BUS DAY (79)

ALAN SENDZUL

AFTER a brief dip below the crucial \$0,50 level, the commercial rand regained composure and traded for most of yesterday between \$0,4990 and \$0,5020, to close square at \$0,50.

"The rand should be at least around \$0,51 on the latest gold rally alone," said one analyst.

Gold, fixed \$351,15 in London yesterday, has leapt by about \$10 in the past few weeks while the rand has barely budged.

Bankers say the Reserve Bank wants the rand over \$0,50. Yesterday it continued to be a dollar reservoir when the need arose.

At least one expert was perplexed by the rand dipping below \$0,50: "I can't imagine why the rand fell on Budget day if the bank was right there offering dollars all the time."

Market talk is that the Reserve Bank pulled out mid-afternoon on Monday shrinking the dollar supply line to the market. But the Bank is known to have a had a stern word with one of the banks it felt was marking the rand down to sway sentiment towards a weaker rand.

Banking crisis may not boost gold

SPAR 26/3/86

79

By Sven Lünsche

Several factors of varying importance can influence the dollar price of gold in the wake of any serious strains in the international banking system, says Professor Roger Gidlow, special economic adviser to the Reserve Bank.

In the March edition of the Bank of Lisbon's *Economic Focus* he writes: "Even if the international banking problems escalate the impact on the gold price remains a polemical issue. Such problems could induce a significant rise in the gold price in the short run. However the longer term implications would depend on the precise nature of these problems and the responses of the monetary authorities."

It is sometimes asserted that banking problems must necessarily be good for gold.

Professor Gidlow feels that this is untrue: "Despite the nervousness surrounding the international banking situation in the past three years, no significant shift of funds into gold appears to have transpired. This can be largely ascribed to the real interest rates which have prevailed in the major Western economies," he says.

He feels that if the banking problem intensifies the demand for gold could rise, as governments may try to reflate the economy and thereby lower interest rates, which could lead to fears of increased inflation.

"It should also be noted that the implications of any Third World debt crisis for gold could depend partly upon which debtor country sparked a crisis. The present problems are critically centred on oil producers such as Mexico, which reflects the sharp drop in oil prices.

"The latter in turn has disinflationary implications, and raises the possibility of extra gold sales from the Soviet Union. These two influences are negative for gold," he says.

Top move at Allied | Reichmans

Business Day

(79)

Gold breaches $350 barrier

Cape Times 22/3/86

LONDON. — Gold closed at its highest level since the end of January after making steady gains backed by dollar weakness, political uncertainty and short-covering before the weekend, dealers said.

However, trading remained very thin.

Gold closed at $353,75-$354,25 compared with an opening of $351,90-$352,40 and Thursday's close of $350,00-$350,50.

Gold opened stronger on fears of violence in South Africa connected with yesterday's anniversaries of the 1960 Sharpeville massacre and a police shooting of mourners at a funeral last year, dealers said.

Support

But technicals provided the support for the rise during the day, they said.

Although gold appears to have consolidated above the $350 level, the thinness of the market leaves it vulnerable to sudden changes of sentiment on important news, dealers said.

Most investors had their eye on the Opec meeting in Geneva but were very uncertain about its outcome or its effects.

● In Zurich, gold gained in late trading following purchases in the United States at the opening of the New York market, but dealers said trading here was quiet with no new factors.

● In Chicago, platinum prices soared to new life-of-contract highs because of fears of heightened unrest in South Africa, the world's largest platinum producer.

Trading was active at the New York mercantile exchange on Thursday, the eve of the anniversary of South Africa's 1960 Sharpeville massacre.

The platinum market has been sensitive for months to events in South Africa and reached the highest levels in three years in price action on Thursday.

The key April platinum contract gained $11,30 at $431,80 an ounce.

Gold prices at the comex started to keep pace with platinum, but fell short of the week's high and the April delivery ended only $1,90 higher at $352,70. — Sapa-Reuter

London stocks after hours: Blyvoors 535, Bracken 190, Driefontein $18\frac{1}{2}$, E Rand Prop $5\frac{7}{16}$, FreeGold $11\frac{1}{2}$, Grootvlei $4\frac{7}{16}$, Harmony $12\frac{1}{2}$, Leslie Gld 180, Randfont 92, SA Land Ex 185, Southvaal $38\frac{3}{4}$, Stilfont $7\frac{7}{16}$, Venters $6\frac{3}{8}$, West Rand 319, Zandpan 74.

Low investor interest dampens gold

27/3/86 (79) STAR

By Sven Lünsche

The investment sector of the market contrived to be the major factor in the price of gold in 1985, with the supply of gold being in excess of fabrication and physical demand.

Writing in the annual reports of Anglo American's Transvaal gold mines, Mr Peter Gush, chairman of Vaal Reefs, Western Deep Levels, Southvaal and Elandsrand and Mr Theo Pretorius, chairman of Afrikander Lease and Sallies, say that Western World production of gold last year showed a slight increase over 1984, but that the overall supply of gold did not change substantially in 1985.

The limited investor's interest was reflected in the narrowest annual trading range in dollars seen in the gold market since 1977. Gold traded during the year between $285 and $341 an ounce, a range of only $56.

The chairmen feel that the reduction in gold consumption in the coin sector has also contributed to the depressed prices.

"Although gold consumption for jewellery fabrication was maintained, the ban on imports of Krugerrands by the USA, Japan and Commonwealth countries caused this significant reduction.

"Other coins have not yet filled the void and overall the surplus of gold remained to be absorbed in investment markets in competition with more favourable opportunities. Depressed prices were the immediate result," they said.

The outlook for 1986 is more favourable. The combination of a lower dollar exchange rate and concerns of an international banking crisis as a result of the sharp reductions in world crude oil prices, have pushed the gold price into a yet unstable, but likely, new range of $330-360.

"The recovery in the price of gold has been matched by a strengthening in the value of the rand. Subject to political sentiment, any further improvement in the price of gold is likely to increase the strength of the rand, and it is unlikely that the average rand price of gold will improve markedly," they said.

Turning to the economy, Mr Gush and Mr Pretorius write that economic and political developments affected the gold mines in different ways during the last financial year.

The tighter monetary and fiscal measures adopted in mid-1984 had a recessionary effect. This coupled with the accompanying unemployment and the slow rate at which political and economic reform were taking place, manifested itself in serious unrest and the foreign debt repayment standstill.

"As a consequence of these factors the rand was weakened considerably and this resulted in the high rand-gold price received by the mines during the past year. However, the negative impact of this is already being experienced throughout the economy," they said.

Gold swap helps rand recover

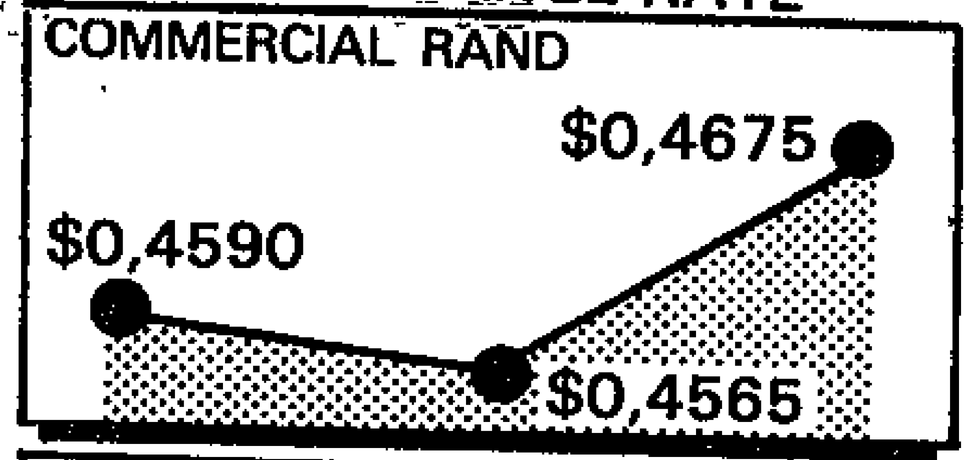
27/3/86

BUS DAY

79

ALAN SENDZU

RAND/$ EXCHANGE RATE



FINANCIAL RAND $0,3125

A GOLD swap helped the rand recover yesterday to close at 0,4675 after easing to $0,4575 in the morning.

Reserve Bank Governor Gerhard de Kock told *Business Day* that market talk about the gold swap — in effect a pledge of bullion to secure dollars — had been finalised to augment existing foreign reserves for the April 15 foreign debt payment.

De Kock re-emphasised that the Bank was well placed to meet repayment and will still have the future means to support the rand.

The disclosure of additional dollars being made available will probably erode the market's original assumption of a dollar crunch when the first debt instalment is made.

The swap was done more for prudence than for need.

Moreover, some foreign banks might allow debt that had matured to be rolled over. This could reduce the size of the $420m first payment.

The reversal of the rand's easier trend started with a normal supply of export dollars coming into the market.

The Reserve Bank was able to nudge the rand up after support was attracted at $0,46. It did so after midday when trading had thinned out and talk of the gold swap had filtered through to the market.

Trading is expected to be light today ahead of the long weekend, over which period exporters will attempt to hold as many dollars as possible.

Some banks remain cautious about interpreting yesterday's rebound as a definite turning point.

FIN MAIL. 79 28/3/86

GOLD

Sentiment turns bullish

Predicting the gold price has caused many analysts to rue the day they opened their mouths on the record, but an increasing number believe conditions are favourable for gold and the price could be set to move. Maybe not next week nor at first dramatically; but over the next few months they feel the gold price should perform.

Reasons lie mainly with increasing physical demand for gold for use in coins; the slumping oil price and the threat that poses to the international banking system through the debts of Third World oil-producing nations; and worries over labour developments this year at South African gold mines. Other factors include the repercussions of US economic actions against Libya, which have seen countries like Peru and Nigeria relocating and reshuffling monetary assets.

There are as many wild cards and jokers in the determination of the gold price as ever, but general opinion is that the balance is swinging in favour of the price moving up. Differing opinions, however, are what make markets: there are still analysts with strong bearish feelings.

"I believe there is greater downside risk than upside potential medium-term on the basis that a potential dollar rally is looming, even though the dollar may be in a long-term bear market," says Des Mayers, portfolio manager at Max Pollak & Freemantle. "Also I believe the decline in the oil price will negate any inflationary fears that may have arisen out of the fall in the dollar so far.

"Potential is there for the debt crisis to explode, but it has been in the background for some years and has had little impact so far," he adds.

"I am not looking for a dramatic jump but I do expect it to improve and do not see it sliding back below $320/oz again," says Charles Johnstone, senior trader at Holcom Commodity Brokers.

He points to healthy demand for physical gold over the past few months, particularly the unknown buyers who took some 120 t out of the market in January, taking up much of the slack on the supply side.

Davis Borkum Hare economist Mike Brown says the market has yet to see the demand — which could amount to some 200 t — from Japan for commemorative coins this year. The US also intends minting gold coins this year or next.

"I do not believe the gold price is ready for a run quite yet; but I believe favourable developments are a few months ahead and feel a bit more optimistic on gold's prospects," says Brown.

"Physical demand has been good and there has been reasonable underpinning at $330/oz. Short-term signs look bullish. The movement upwards through a key point of resolve on the charts last week was encouraging technically," says a partner in a major broking firm dealing only with institutional clients.

Nearly all analysts are concerned about the labour situation on the mines this year, of which a taste has been given at Randfontein, Blyvooruitzicht and Vaal Reefs. Large-scale disruptions could have a dramatic impact on the gold price because of the psychological effect of problems with the world's major supplier of the metal and also possible constriction of supply, depending on how tight the market situation may be.

The first indication of the effects on production will come early next month with the March quarterly reports. However, huge quantities of gold in private and institutional hands could be coaxed on to the market if the price rose enough, to make up any shortfall in current production. A labour-management crunch on the mines would not be favourable for investors looking at gold shares; many have turned to Krugerrands in preference. ■

OIL

Opec in retreat

Opec is in full retreat from the battlefields of the oil price war it started in January. After eight days of agonising in Geneva, Opec's 13 oil ministers agreed that the decision to go for a bigger share of the world market had been a mistake and that production cuts were necessary to revive crude prices, which have halved in three months.

They totally disagreed, however, on how cuts should be shared. As the *FM* went to press it seemed that the emergency meeting would break up with a general statement of intent to restore oil prices to US$26-$28/barrel, but no deal on the method.

Opec's acknowledgement of its error produced some reaction. The free market's benchmark crudes, North Sea Brent and West Texas Intermediate, rose by about $1/barrel to straddle the $14/barrel level. But there was no panic to buy as all the evidence from Geneva pointed to mounting discord within the cartel.

The Indonesian oil minister, Dr Subroto, came up with a price-saving production figure: 14m-15m barrels per day (bpd) against the current 17,5m. That was accepted. Little else was.

The five non-Opec producers at the meeting, Mexico, Egypt, Oman, Malaysia and Angola, which account for 9% of world output, promised co-operation. But they rejected out of hand the proposal that this should run to a 20% production cut.

Subroto wryly admitted: "We are on difficult terrain: lots of treacherous rapids, deep ravines, even quicksands." His confidence that Opec could negotiate its way through, however slowly and cautiously, was not supported by other cartel oil ministers. Venezuela's Arturo Hernandez Gristani, current Opec president, said that while Opec was agreed on a gradual restoration of the price to around $28, his country's president had ordered him not to accept "a single barrel reduction" in output.

Nor could Saudi Arabia, Iraq, Ecuador and the United Arab Emirates give their agreement to the quotas envisaged.

Iraq, having just increased liftings by 500 000 bpd to 1,7m bpd, demanded this level be left untouched. Its Gulf war antagonist, Iran (recent output 1,7m bpd against 2,3m bpd quota), will not make a deal unless Iraq accepts barrel-for-barrel matching cuts from the original 1,2m barrels figure.

The Saudis, offered a quota of 3,4m bpd against 4,35m (which approximates present output), demurred. They have been laying claim to 27% of Opec quotas, which on 14m bpd equates to 3,8m. Sheikh Yamani pleaded that he did not understand the figures, nor was he in contact with his own government — now totally opposed to Saudi Arabia resuming a sacrificial role of swing producer.

RAND'S PRICE

March 24 1986	R1 equals	One foreign unit equals (R)
SDR	0,416	2,405
	0,515	1,940
UK £	0,316	3,160
	0,420	2,379
US $	0,481	2,079
	0,493	2,028
Canada $	0,670	1,493
	0,679	1,473
Switzerland Fr	0,909	1,100
	1,353	0,739
France Fr	3,345	0,299
	4,873	0,205
Germany DM	1,074	0,931
	1,595	0,627
Japan Yen	85,000	0,012
	126,250	0,008
Italy Lira	739,750	0,001
	1 013,750	0,001
Zimbabwe $	0,763	1,311
	0,798	1,253
Austria Schil	7,625	0,131
	11 175	0,089
Holland Guilder	1,227	0,815
	1,802	0,555
US $ value of SDR	0,974	1,157
Financial Rand		
Cost in US $	N/A	0,325
Discount (%)	N/A	32,432

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only.

BUSDAY.

1/4/86

Amgold chief bullish on gold

MERVYN HARRIS

GOLD is unlikely to lose its attractions even if the Western world enters a new era of sustained growth and low inflation, says Anglo American Gold Investment (Amgold) chairman J Ogilvie Thompson.

On the contrary, he says in his annual review, its position in consumption and for risk diversification could well be considerably strengthened.

However, the present behaviour of the price attests to the delicate interplay of opposing forces in the current volatile situation.

On the supply side, worldwide mine production is likely to increase with growing sales from the communist bloc to offset lower revenues from oil exports.

Nor can distress sales of gold from some debtor countries be ruled out.

On the demand side, jewellery consumption should be encouraged by the relatively low gold price in terms of the yen, Deutschemark and Swiss franc, for example, although the dollar price is an important psychological factor.

The coin and medallion markets are by no means moribund and some resurgence is expected. But industrial offtake is unlikely to improve in the short-term.

Regarding fabrication generally, Thompson notes the growing importance of Japan as an importer of gold. He says this is likely to continue as a reflection of the stronger yen and fiscal changes to encourage spending.

Given traditional Japanese attitudes towards saving and consumption, this may well find expression in a greater interest in gold in all forms.

Investment demand will remain a crucial factor. The outlook for US inflation will be conditioned by the effect of the lower dollar, as opposed to a possible reduction in the budget deficit.

Outside the US the benefits of lower oil prices for oil-consuming nations, including less-developed countries like Brazil and South Korea, are clearly evident.

"But it remains to be seen how the international banking system can cope with the adjustments that will be forced on Mexico, Venezuela and Nigeria, not to mention the Middle East as a whole."

Thompson says the performance of US markets provides an interesting backdrop to changes in the gold price.

The sharp decline from $350 in November 1984 to below $300 in March 1985, and its moderate recovery to about $325 at end-September 1985, reflected reduced activity on the futures market and was associated with an upward trend in equity and bond prices.

"Yet the inverse relationship was not more marked in the final quarter of 1985 when security prices spurted ahead with renewed vigour. The gold market had clearly established a floor in the $320-$325 range," says Thompson.

He ascribes this remarkable resilience in the face of negative factors to changing attitudes towards the question of international debt.

From a strong belief that it could be handled through rescheduling and continued IMF surveillance, it became apparent that much of the advance by many developing countries in restoring their external positions was due to the exceptional growth in the world economy in 1984.

The potential for developing countries to reduce debt/service ratios any further was becoming limited by a slowdown in the US, poorly performing commodity prices and relatively high interest rates.

Gold still has a good future — Amgold chief

STAR 1/4/86 (179)

By Gareth Costa

The outlook for gold in the near future is subject to more uncertainties than usual, but even if the Western world enters into a new era of sustained growth and low inflation, gold should still remain attractive, says Anglo American Gold Investment chairman Mr Julian Ogilvie Thompson.

On the contrary, he says in his annual review, its position in consumption and for risk diversification could well be strengthened considerably. "At present, however, the behaviour of the price attests to the delicate interplay of opposing forces in the current volatile situation."

Mr Ogilvie Thompson says only a tentative assessment of the supply/demand outcome for 1985 can be made at this stage, but mine production increased and sales by the Communist Bloc were probably slightly higher.

Gold supply for the year ahead should see increased mine production world-wide along with sales from the Communist Bloc, particularly in view of lower revenue from oil exports. "Distress sales of gold by some debtor countries cannot be ruled out," he says.

"Turning to demand, jewellery consumption should be encouraged by the still relatively low gold price in terms of the yen, deutschemark and Swiss franc, for example, although it must be recognised that the dollar gold price is an important psychological factor and that the market is sensitive and takes time to adjust to new price levels."

He says that the coin and medallion markets "are by no means moribund" and some resurgence in this area is expected, but adds that industrial offtake is not likely to improve in the short term.

Mr Ogilvy Thompson says that Japan's importance as an importer of gold for fabrication was a feature of 1985, and is likely to continue as a reflection of the stronger yen and certain fiscal changes encouraging spending.

He says that investment demand will remain a crucial factor, and the outlook for inflation in the US will be conditioned by the effect of the lower dollar as against a possible reduction in the budget deficit.

Black unions are poised to test their muscle

The signs are that 1986 will be the year in which South Africa's black trade unions will move to the forefront of the struggle for black political and social emancipation, according to Tony Robinson of the *Financial Times*, London.

Robinson, surveying the labour scene in the newspaper's supplement on South Africa, says the most significant development on the trade union front has been the formation of Cosatu (Congress of South African Trade Unions).

"It remains to be seen whether Cosatu will use the combined muscle of its members in key sectors — mining, metals and engineering, motor industry, food and catering, textiles, transport, and others — to call a general strike, or whether, in the beginning at least, it will concentrate on the difficult task of creating industry-based unions out of the old patchwork of general and industrial ones.

"Experience has shown that the unions have preferred to use the legal channels open to them through conciliation boards and the Industrial Courts to gain significant legal and other gains without damaging industrial confrontation.

"But in this year of emotive anniversaries, like that in June of the Soweto rising 10 years ago, and of increasing militancy, the signs point to growing labour conflict, both over workplace and pay issues and in support of symbolic gains — like securing May 1 as a public holiday, to be traded if necessary against existing 'white' holidays such as Republic Day and Kruger Day."

Robinson also refers to significant changes taking place in the white trade unions. For example, "the Mineworkers' Union headed by Mr Arrie Paulus is still fighting a last-ditch battle against the last racial job restrictions on the mines".

He says the recession, which has led to major lay-offs in industry, has also badly affected white artisans and led to a re-emergence of "poor whites", unemployed and embittered.

"Hitherto, thousands have found sheltered employment in the great Afrikaner-dominated bureaucracies and para-statals like the railways and post office. But these, too, have been shedding labour, while the State has sought to keep pay rises below the rate of inflation."

A consequence has been the growth of right-wing elements in the white unions, resentful at what they see as erosion of pay differentials and growing competition for skilled and semi-skilled jobs from increasingly self-assertive and well organised black workers.

Robinson concludes: "As South Africa moves away from the politics of colour and seeks to re-organise the economy on market principles, the class divisions look like becoming more prominent. The growth of trade unions is part of this process."

Major obstacle to growth is raising of overseas capital

3/4/86 STAR

South Africa urgently needs a steady inflow of capital to achieve the level of growth required if the called-for political reforms in the country are to produce higher living standards and employment levels, the *Financial Times* said yesterday in its SA survey.

Anthony Robinson says the Leutweiler February agreement on repayment of loans to South Africa is onerous and falls far short of the hoped-for debt-rescheduling agreement.

"The provision for half-yearly reviews essentially puts South Africa on parole and under notice that normalisation of relations with the international banks, and a resumption of normal financial flows, is dependent upon tangible progress along the path of political and social reform.

The irony is that financing reform is made doubly difficult by the cut-off in new funds and the obligation to re-pay existing debt on such a heavy scale."

Robinson says it is only the severe recession in South Africa that has generated such large payment surpluses, and these have been used to pay back debt or finance funk-money capital outflows.

"The latter increased dramatically after introduction of the debt standstill, partly through manipulating trade leads and lags which kept the rand under strong pressure."

But Robinson says there has been a perceptible improvement in the econmomic and financial climate since early December, the turning point being December 9 when the authorities obliged the gold mines to sell all their gold to the Reserve Bank for rands, and forced traders to reduce their payment leads and lags.

Robinson predicts that the latest SA budget will provide additional stimulation. But there is little risk of overheating, due to high unemployment and high levels of plant under-utilisation.

But,"if conmsumer demand and employment prospects remain problematical, external factors look much more positive. Lower oil prices could reduce the import bill by up to R2 billion, while ensuring a steady but unspectacular growth in mineral exports, the star performer in 1985 thanks to rand depreciation."

Gold remains unpredictable but looks like reaching higher overall levels than 1985, barring massive distress sales by the Soviet Union, the Middle East and others hit by lower oil prices. The prospect of tough labour negotiations and rising labour militancy does cast a shadow over the sector, however.

Prospects for the farming sector also look reasonably good, says Robinson. The main problems there are a disappointing maize crop and the consumer boycott movements.

"The main external obstacle to future growth and stability remains, however, the difficulty of raising fresh overseas capital. Even so, the monetary authorities expect that South Africa will receive more in the form of export credits than it will disburse over the next two years or so, when foreign manufacturers and export credit bodies will be competing for large orders from traditional buyers like Escom, Iscor and Soekor, which is currently drawing up plans for the R4,8-billion natural gas project off Mossel Bay."

FINMAIL 79 4/4/86

ANGLO GOLDS

R940m capex plan

As the world's largest gold mine, **Vaal Reefs** has to sprint just to stand still. The R940m expansion to the west of its present lease area announced this week in the annual report is one of a number of moves aimed at maintaining its long-term production at a rate of about 900 000 t/month of milled ore. Also pending is a decision on further expansion to the south which, again, will maintain output and not boost it.

A new twin-shaft system will be sunk to a depth of about 1 890 m to mine the Goedgenoeg area at an estimated escalated cost of about R940m. Chairman Peter Gush says in his review that the ore reserves available to the existing Vaal Reefs shaft systems will keep the mine operating at full milled production capacity until about 1994, after which production will start dropping from the Nos 1, 6 and 7 shafts.

The 6 and 7 shafts lie in the western section of the Vaal Reefs mining lease next to the Goedgenoeg area, and the existing infrastructure will be used in opening up the new area. That Vaal Reefs already owns mineral rights to Goedgenoeg may have been a factor in the decision to go ahead there and delay development of the Moab area to the south of the mine for another year.

The mineral rights to Moab are held by Anglo and Gush says the feasibility study on Moab is to be put to the board early in 1987. The region has been redesignated the proposed 11 shaft area from the proposed 10 shaft area.

A key point to emerge from the report is that despite four months of labour unrest, including the dismissal of some 14 000 workers — 95% of whom were subsequently rehired — gold production for the year dropped by only 2% to 81,4 t. The mine made up lost production through waste washing, heap leaching and treatment of surface dumps, and was helped by the build-up of tonnage from the No 9 shaft which reached 79 000 t/month by December and should reach about 96 000 t/month by the end of this year. Full output of 240 000 t/month is scheduled for 1991.

The mine is again embroiled in extended labour disputes, with four shafts recently temporarily closed down. While a full-scale labour disruption would hammer Vaal Reefs' results it is worth noting how effectively management can claw back lost production through various routes. Capital expenditure for 1986 has been put at R181m (1985 — R169,4m) and gold production is expected to be slightly higher than last year.

Western Deep Levels' No 1 shaft kicks off this year and starts the mine's thrust into the Western Ultra Deep Levels (WUDL) region, heading for depths of 4 km and deeper. Gush says the shaft should be hoisting more than 70 000 t/month of ore by December and the No 1 shaft treatment plant should be working at its capacity of 160 000 t/month by end-1988.

However, design changes made to the No 1 shaft mean it will be able to hoist 300 000 t if management decides this is justified, and not the originally estimated 180 000 t. Drilling is currently taking place in the WUDL area to assess the Carbon Leader reef which did not form part of the original feasibility study for the shaft. Gush does not reveal if a decision has yet been taken to go for the higher throughput, which would also mean expansions to the treatment plant.

Grade at the mine has dropped steadily from 12,36 g/t in 1981 to 9,19 g/t last year, and Gush says it will drop further in 1986 but does not specify to what level. Increased throughput from the No 1 shaft, the conversion of the uranium plant to gold production and the No 3 shaft rock dump reclamation plant commissioned last August should see gold production up 10% in 1986 on 1985's level of 37,5 t. Capital expenditure for 1986 is put at R249m (previous year R284m).

SA Land chairman Theo Pretorius has finally confirmed the JSE rumours over the last few months of a possible link-up with Egoli to reopen underground workings at the Sallies No 1 shaft and including the old Brakpan mine claims.

He says feasibility studies have not yet been concluded and a crucial factor is the allocation of costs for pumping underground water from the whole of the East Rand Basin. Gencor's Grootvlei mine has been doing the pumping but the State last year withdrew its subsidy for the work and Grootvlei is not prepared to carry on bearing the total cost while other mines reap the benefit.

The announcement adds some speculative interest to Sallies — but investors should remember the way the share price collapsed in November 1984 when Anglo, after extensive studies funded by a rights issue, ruled out restarting underground operations.

Elandsrand expects to build up gold production at the same rate as last year, meaning the mine is looking for about a 10% increase in production, to 13 t from last year's 11,8 t. Capex is estimated at R69m (previous year R71,8m) and chairman Gush says results so far from the prospecting programme show there is a higher-grade trend of the Ventersdorp Contact Reef into the south of the lease area.

Brendan Ryan

W. Mail 10/4/86 (179) (163)

Win on inflation; lose on gold

By REG RUMNEY

NOT only JR Ewing had reason to weep this week when oil prices collapsed

Gold bulls saw the gold price fall to close in London at $330,50/$331,00 on Tuesday in the wake of oil's slip. This compares to Thursday's $346,75/347,25, and around $350 just before that.

The continuing oil-price slide was bound to hit the gold price, given the by-now firmly held belief the two are directly linked.

The theory is that lower oil prices are deflationary, and that gold and other commodities will do better if inflation takes hold again in the West — or at least if more people expect inflation to rise, and buy hard assets like gold to hedge against it.

Another theory has it that weak oil prices will in the long term aid gold because it raises the spectre of heavily indebted oil-producing nations defaulting on loans and producing a new world debt crisis. But until potential buyers of gold buy this theory as well, a weak world oil price equals a weak gold price.

So when news came that oil prices had fallen to $10 a barrel, gold was sure to fall. It fell below $10 a barrel at one point on Wednesday, but rose when the US expressed concern at the effect of the fall on its own oil industry.

Oil had traded around $30 a barrel last year.

The slight improvement in oil prices on Wednesday helped gold recover: it closed at $335,00/50 in London.

Yesterday afternoon in London it was fixed at $334,75.

And gold's fall pulled down gold shares. The JSE's all-gold index, the index of all the gold shares on Diagonal Street, fell by its biggest one-day decline this year to 1 251,5 on Tuesday from 1 188,7.

What made the gold price bad news on Wednesday was also good news for the South African economy in other ways. A fall in the oil price translates into savings on foreign exchange, but as the information on SA's oil requirements are classified, how much is guesswork.

And a cut in the price of petrol may be in the offing.

The effect on the current account of the balance of payments of a drop in the gold price is easier to quantify.

A senior economist says a $10 drop in the gold price translates into a $220-million drop in import earnings over a year.

Still, gold will have to suffer a sustained fall before panic bells start ringing.

Fears should by now have been allayed of a strain on the Reserve Bank because of the lump sum immediate repayment of R500m to foreign banks, and the rand should be able to get up and dust itself off soon.

The rand closed at $0,4640/50 on Thursday.

It fell to $0,4660/70 on Wednesday from $0,4680/90 on Tuesday.

Part of this fall may have been due to the easing of gold, but the rand, because most dealing in the currency takes place in the local market, is not normally wildly affected by the gold price.

Feeling is that the rand may stay around the $0,46 mark for a month or so before rising again.

How oil prices might also affect gold is through the dollar, which usually has a close inverse relationship to the gold price.

For the moment, a lower oil price has been interpreted as being good for the US, and therefore for the dollar.

● Ben Temkin is abroad. His column will resume shortly.

reserves is a case in point, and will probably be unavoidable, as it might be expected by an enlarged, sophisticated group of shareholders. Another question is whether other merchant banks — such as Senbank, Standard Merchant Bank, Finansbank and Rand Merchant Bank — will feel the need to follow VMB's example. *Christopher Marchand*

TAMBOTI

Commercial leaning

Tamboti, SA's twelfth property fund, will be listed on the JSE on May 14. The public are to be offered 5m units at R2 each, half of these to be preferentially allocated to unit holders in Umdoni, a sister fund launched by Yellowwood Property Fund Managers in 1983.

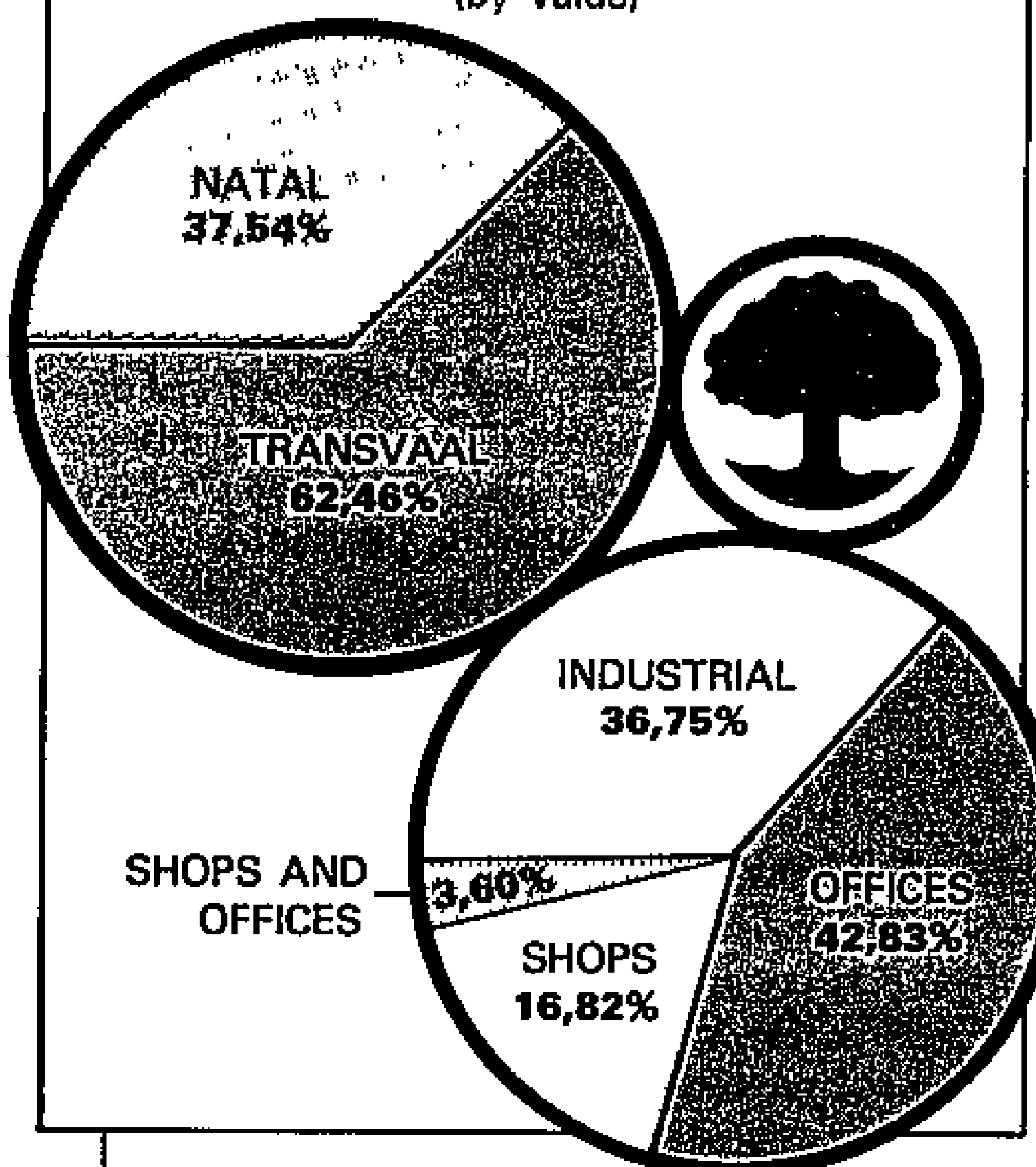
An additional 10,7m units will be privately placed through institutional investors, and the remaining 34,3m units will go to vendors who contributed properties to the fund. Offers open on Wednesday, April 9 and close on April 30.

The prospectus forecasts the yield for the first full year at 12%, which compares with the sector's historic average yield of 10,9%. On fundamentals, directors say they would "reasonably expect there to be a premium of between 10% and 15% on the issue price."

When Umdoni was launched three years ago, it was 25 times over-subscribed. Considering the over-heated investment climate on the JSE, coupled with the inherent tax advantages for unit holders, the Tamboti listing should be reasonably well received.

HEAVY ON OFFICES

Analysis of total Tamboti portfolio (by value)



The portfolio comprises some 22 properties in the commercial and industrial sector valued at R80,5m. The main difference between Tamboti and Umdoni is that the new fund's portfolio is predominantly Transvaal-based, and spread more heavily into mixed commercial and retail suburban development. Umdoni is more firmly located in Natal with the emphasis in the industrial sector.

That the fund's leaning towards the commercial and retail sectors is a weakness in the current soft retail market is conceded by Mick Hyatt, MD of Rusell Marriott & Boyd Trust, which assembled the portfolio. He tells me the objective is to redress this imbalance. Cash generated through the listing, he says, will be ploughed primarily into industrial properties in the Transvaal.

A breakdown of the portfolio shows Tamboti has 42,8% of its investments in offices, 16,8% in shops, 3,6% in shops and offices and 36,7% in industrial properties. Ideally, Hyatt says, the industrial element should be doubled to provide a greater risk spread.

Spate of listings

Tamboti is only the latest of a spate of new property trust listings. The sector's market capitalisation has grown from R256m to R1,6 billion in five years. This has led to doubts about the attraction of more listings, and it has been suggested that Yellowwood might have done better to put more Umdoni units onto the market.

Hyatt insists, however, the sector is not over invested, and there is probably room for "many more funds." Viewed against the size of the total property market, the sector's capitalisation he argues, is "a mere drop in the ocean." Besides, he adds, there were cogent reasons for the formation of a new trust — one being that vendors invariably look for units rather than cash.

Comparisons will inevitably be made with Umdoni. One salient difference is that Tamboti leases have, on average, longer to run. A total of 48% are due for renewal after the fifth year. It also has secured some major lease insurance guarantees which Hyatt describes as "putting belt and braces over the income stream for the first five years." This may put it in a stronger position than its sister fund. *Graham Fiford*

GOLD REPORTS

79 FIN MAIL 11/4/86

Cautious views

The rand gold price should be weighing heavily on the minds of Gencor's gold division executives — it currently sits below the pay limits set out in the latest batch of annual reports from the group's gold mines.

Gencor recalculated its gold ore reserves at R24 000/kg compared with R19 100/kg in 1985, giving the clearest indication in the generally guardedly-worded reviews of the average gold price it expects this year. The strength of the rand since January depressed the rand gold price close to R21 000/kg at one stage. It now stands at about R23 000/kg.

Add an underperfoming rand gold price to the effects of 18% inflation on working costs, and you have a scenario which could lead to a replay in this year's wage negotiations of the stand Gencor took on pay increases last year. The tight financial constraints facing some of its mines persuaded the house to dig in its heels over wages.

The house applies a rule of thumb that a 20% rise in working costs makes 10% of its gold reserves inaccessible if the gold price remains unchanged. Wages amount to 50% of working costs — more on some of the older mines — so a 40% pay increase will provide the 20% rise in working costs.

Closest to the edge is marginal **West Rand Cons**, where December-quarter working costs in the December quarter hit R20 765/kg, perilously close to breakeven on current rand gold prices. Management had planned an ambitious capital programme for 1986 amounting to R8,7m compared with R3,2m in 1985.

Chairman Bruce Evans says some capex may have to be deferred over the next few years depending on profitability. A key element in the capex plan is R1,2m intended for a pilot plant to assess the technical viability of plans to treat the North Sand Dump. Evans says the mine has limited high-grade areas available to provide some buffer against inflation and low gold prices, and its policy of hedging gold sales will continue.

Grootvlei has started drilling from the surface to explore the area lying east of No 6 shaft as part of its drive to find new payable ore reserves on which its continued existence depends. The recalculation of reserves at R24 000/kg has raised available reserves by only 400 000 t to 2,8 Mt. The mine's working costs went up by 19% in 1985, and management is involved in negotiations to share the cost of pumping water from the East Rand basin with other mining companies following the end of the State subsidy for this work. Capex for 1986 is estimated at R10,1m (previous year — R7,7m).

Marievale, in addition to the normal problems of being a highly marginal producer, currently has the added burden of being some 533 employees over strength. It had to re-instate these workers after negotiations with the National Union of Mineworkers (NUM) following the decision in the Industrial Court, confirmed by the Supreme Court, that it had dismissed workers unfairly last year. Chairman Carl Netscher says the employees recruited to replace dismissed strikers will be transferred over time to other mines in the Gencor group.

Beatrix chairman Ted Pavitt says development work will continue on a multi-blast basis until the required ore reserves for the present rate of production have been established. He says numerous water intersections delayed the establishment of stoping face, but production forecasts have been met anyway. The share price has been weak recently, apparently on investor concern over the company's borrowings; but two leading mining analysts say these fears appear unfounded and the share rates a buy at present levels of around 760c. *Brendan Ryan*

$90m swap deal estimated

Gold swap hits SA reserves

● DE KOCK

HAROLD FRIDJHON

THE Reserve Bank's gold and foreign exchange reserves fell by only R532m to R3,804bn at the end of March, in spite of the bank's stock of bullion being diminished by 366 863 ounces.

It is improbable that all this gold was involved in the swap agreement announced last week by Governor Gerhard de Kock because the February holdings of bullion was 93 000 ounces above the December and January numbers. It seems likely that between 250 000 and 300 000 ounces was used in the deal, which might have raised about $90m.

This is estimated on the assumption that 300 000 ounces were pledged to the foreign lender at a price of around $300/ounce. This is far short of the maximum $420m which must be paid to foreign debtors by next Tuesday, but Reserve Bank assets would not show the amount of dollars held by the Public Investment Corporation (PIC).

The PIC collected the interest due by SA debtors, payable in dollars, since the start of last year's standstill and which presumably was invested abroad pending last month's interim repayment settlement.

The Reserve Bank also appears to have dipped into its own holdings of dollars to meet the first repayment tranche because, according to the bank's statement, its holding of dollars dropped from R1,051bn at the end of February to R571m at the end of March.

The Reserve Bank's Other Foreign Assets were also reduced by R48m.

The reason why the total gold and foreign reserves showed a decline of only R532m was that the reduced gold holdings were valued at R661,30 an ounce, compared with R613,28 in February and R729,97 in January. It reflects how tenuous is the valuation of bullion in the vaults, because its depends not only on the movements in the gold price but also the exchange rate of the rand.

In spite of the draining away of the gold holdings, the value of the Reserve Bank's gold was R3,033bn at the end of March, compared with R3,037 at the end of February.

Bearing in mind that any financial statement reflects a position at a given point in time, the Reserve Bank has probably increased its foreign currency reserves this month — particularly since import demand appears to have been light and yesterday's reports tell of the foreign exchange market having a surplus of dollars.

Balanced upon a solid-gold sword's-edge

WEEKLY MAIL 11/4/86 79

Common sense economics tells us that when oil drops, gold must follow. How then do we explain gold's relative strength this week? DUNCAN INNES reports

THE dollar price of gold is currently poised on a knife's edge.

Towards the end of last year, gold was trading in a narrow band between \$315 and \$330. More recently it has broken upwards and, since January, has traded mainly between \$330 and \$355.

Apart from its initial breakout spurt, which took it briefly up to \$380, gold has not been able to sustain itself for any length of time above \$355. But nor has it fallen significantly below the \$330 mark. This latter fact is particularly important.

Last week's collapse in the oil price to below \$10 per barrel has serious implications for gold, which is often bought as a hedge against inflation.

Opec's first major price rise in 1973 played a part in freeing gold from the \$35 to \$42 official price range in which it had been held since 1944. The second major oil price rise in 1979 sent gold soaring through the \$300 mark to reach \$850 in January 1980.

However, since those heady days — and especially since Ronald Reagan introduced his anti-inflationary policies — gold has broadly been on the retreat.

Since there is a clear correlation between inflationary expectations and the dollar-price of gold, the recent collapse of the oil price, which is deflationary, must exert downward pressure on gold.

This pressure is strengthened by the fact that the oil price collapse is not an isolated occurrence. It is part of a general decline in world commodity prices, especially primary goods. The collapse of the international tin cartel a few months ago is further evidence of this, as are current low dollar prices for such diverse commodities as copper, sugar and silver.

These price falls raise the prospect of an immediate phase of deflationary growth in the developed countries. In February — that is, before the most recent collapse in the oil price — the United States consumer price index recorded its biggest drop in over 30 years, while these indices in Japan and most European countries are also falling. Consequently, stock markets throughout the West are booming as, for the first time in 40 years, developed Western economies look forward to the prospect of economic growth without a concomitant fear of immediate inflation.

For the South African economy, this is not good news. High local inflation combined with falling world prices of raw materials, which are our main exports, will put a squeeze on many local exporters. This in turn could adversely affect the balance of payments and therefore the rand. If the general deflationary environment knocks the gold price as well, our misery will be complete.

Yet, significantly, gold has not yet begun a major slide. Many commentators have pointed to the fact that last week the gold price followed oil downwards. But this drop was not particularly significant, especially as the price held at around the previous break-out point of \$330.

A more meaningful comparison is between gold's performance and the oil price over the last six months. During the period since last November the price of oil has fallen by around 66 percent (from over \$30 to \$10 a barrel), while the price of gold has actually risen — from trading mainly in the lower \$315 to \$330 band to the higher band of \$330 to \$355.

How, then, does one explain gold's current strength in the face of a deflationary environment?

Here we must remember that although a correlation does exist between the gold price and inflation, a number of other factors also influence the metal's price movement. These may be summarised as follows.

First, there are the contradictory implications of the oil price collapse. For the developed Western countries this collapse is unquestionably good news. Even for those developed countries which are also oil producers, such as Britain, Norway and the US, benefits will flow since oil makes a relatively small contribution to their total GDPs. Consequently, the advantages of cheaper energy to their economies as a whole will far outweigh the detrimental effects of lower oil revenues.

Not so the Third World. For oil producing countries like the Arab states, Mexico, Venezuela, Indonesia and Nigeria, which rely heavily (if not almost exclusively) on oil revenue, the news is exceptionally bad. Even for those non-oil producing Third World countries which rely on exports of primary commodities, the current deflation poses problems. Although they will benefit from the lower costs of imported oil, their export revenues will probably be hit in the short term.

This, of course, raises the danger that some of these countries, particularly oil producers like Mexico, might default on their debt repayments — which in turn raises the spectre of an international banking collapse. Fear of this serves to prop up the gold price, since investors also buy gold for security reasons.

Drawing: Derek Bauer

Libya's Khadaffi ... A gunfight at the Gulf could be the deciding factor

Secondly, there is the fact that any major upswing in the developed world must increase the demand for primary goods. The memories of the last 40 years are still too vivid for people to believe that, at least over the medium to longer term, the West's economic recovery will not be inflationary. Thus gold will still have a role to play as a hedge against inflation.

It is this expansion of demand which may well come to the rescue of the Third World countries.

It will also probably swing the market advantage back in favour of the oil producing countries, which may then enable Opec to resume its monopolistic practices, thereby forcing up the oil price again.

Thirdly, a major US-led economic upswing can only strengthen the dollar (which, despite its recent fall, still seems over-valued), thereby weakening US exports and causing the import bill to rise.

This in turn will push up the deficit on the current account of the US balance of payments, causing the US foreign debt to grow to what is likely to be mammoth proportions and generating widespread nervousness of a possible financial collapse in the US — a scenario which favours gold.

The final factor in gold's advantage arises out of the very volatile situation the world is in at the moment. Economically, the fact that the current era of prospective deflationary growth has not been encountered since World War II means that investors have few guidelines to go by of what to expect. This uncertainty may well lead many of them to accumulate at least some gold — just in case.

Add to this the precariousness of the world political situation at the moment as Reagan and Khadaffi line up for the Gunfight at the Gulf of Sirte and you have an even stronger argument for "just in case".

For a variety of reasons, then, gold is currently poised on a knife's edge, caught between the powerful deflationary force pushing it down and the countervailing factors mentioned above which are holding it up. In the light of this it seems far from obvious at the moment that gold is definitely heading south, though there are many who argue this.

Certainly one can expect a good deal of price uncertainty in the coming weeks. The figure to watch is the \$330 price mark — the previous breakout point. Only if gold breaks below this figure can we say that it is likely to be headed a good deal lower. So long as it holds above \$330 it is still in relatively safe territory. And the longer it holds above this point, the more likely it is to move back up again, possibly above the \$350 level.

Springs Dagga merger 'makes sense'

Rand gold price hits Golden Dumps, GFSA

(49) STAR 11/4/86.

By Gareth Costa

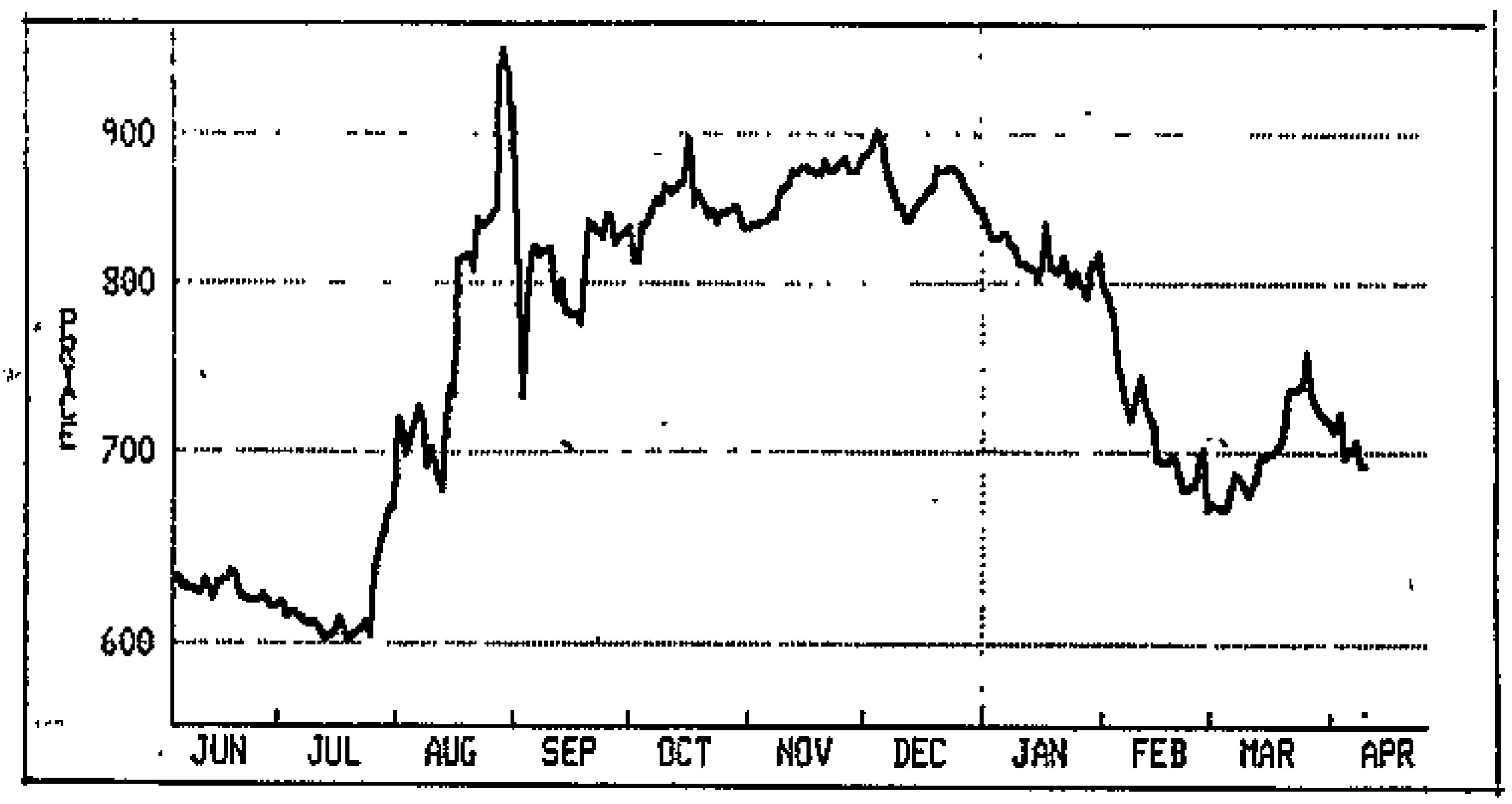
The recently depressed rand gold price has marred the performances of the gold mines of Golden Dumps and Gold Fields of SA, with GFSA's after-tax profit down from R273 million to R240 million for the quarter to end-March 31.

A big difference has also arisen between the prices received by the two houses for their gold, with the two Golden Dumps mines (Consolidated Modderfontein and South Roodepoort) receiving an average R22 341/kg and R23 370/kg respectively, while the GFSA average was R25 029/kg (The previous quarter's gold price average was R27 170/kg.) Cons Modder made a net profit of R10,8 million, down from R14,9 million. South Roodepoort was only slightly down from R2,9 million at R2,6 million.

Golden Dumps chairman Mr Loucas Pouroulis said that the reason for this was the difference in actual accounting periods. "We delivered our gold once a week during the quarter, and received the price of that time. The average for the actual quarter was just over R22 000/kg."

Golden Dumps closes its books about 10 days before the end of the quarter, while the other mining houses close theirs as much as a month before the quarter ends.

This accounting technicality reflects especially badly on Golden dumps because during December the rand was below 40,00 US cents, so gold sales during this time would have been much higher than those during March (see graph), and Golden Dumps did almost a third of its sales during this time.



London gold price in rands/oz. *Graph — Simpson Frater.*

Critics challenged

However, working costs on Cons Modder and South Roodepoort are still way below other mines, with an average R54,69 per ton for the two, while the GFSA average costs were R81,57, and this helped to offset the much lower gold price. Mr Pouroulis challenged any critics to see if they could find other mines to match his working costs.

The third operation controlled by Golden Dumps, Springs Dagga, has been the subject of much speculation on the JSE lately, and rumour has it that there is going to be a merger of it and Cons Modder.

The main reasons cited for why the merger should go ahead are the delaying of tax payments by Cons Modder, a life extension of as much as 30 years and the boosting of ore tonnage to more than double current levels.

Sources close to the company say plans are going ahead, but Mr Pouroulis and his directors are still remaining tight-lipped over the issue. One director answered a question about the merger by saying: "We've heard those rumours too, and they make good sense."

Cons Modder is currently being assessed for tax and could expect to pay tax in the next six months. However, the merger could save Golden Dumps as much as R180 million in tax alone, calculates one mining analyst. But sources report that benefits could go a lot further than that.

Springs Dagga is only due to come into full production in July 1987, but work on the mine is reported to be slightly ahead of schedule. Director Mr Richard Johnson reports that a new station is being cut in the Kimberly Reef which will make access to the lumps of reef much easier.

In the GFSA stable, Kloof and West Drie both experienced hiccups in yields, with West Drie's drop being attributed to a temporary loss of access to the carbon leader. Kloof's drop "cannot be explained".

The group is drilling two boreholes to explore the southern boundary of Deelkraal. Vlakfontein was the only operation to reduce working costs.

GFSA's total gold production was 29 861kg, down from 30 824kg, with revenue also down at R749 million from R839 million. Total working costs were R305 million, up from R294 million.

FOREX RESERVES 79

FINMAIL 11/4/86

Looking sickly

Figures just released from the Reserve Bank indicate a fall-off in gold holdings of R4,74m to R3,03 billion in March. In February they fell R510m to R3,04 billion.

In volume terms this represents a fall to 4,59m oz from 4,95m oz. Gold reserves were valued at R661,30/oz in March against R613,28 in February and R729,97 in January, which helps explain why the drop in gold and forex reserves was only R532m, although the stock of bullion fell by 367 000 oz. The total value of gold and foreign assets was R3,804 billion, down from R4,74 billion.

Sombre picture

If, as *Business Day* reported on Monday, one takes the gross figures and deducts short-term liabilities of the monetary banking sector, the picture is sombre — a real reserve figure of a *negative* R2,8 billion at the end of last year. Indeed, if we go back to 1971 and deduct reported changes of net reserves, a base figure of R6,4 billion would have been needed at the end of that year if a break-even point were to be reached in 1985. In fact, reported 1971 net reserves were only R374m. As Ronnie Bethlehem of JCI points out, "the figures are technical in that we have seen a shift into the monetary banking sector of short-term liabilities normally recorded under corporate debt." It is not usual for credit lines to be subtracted from gross reserves.

Mike Brown, economist at stockbroker Davis Borkum Hare, believes the low level is cause for concern when taking into account foreign commitments, more specifically, debt repayments outside the standstill. Should imports start to pick up in the near future, says Brown, there is bound to be an impact on BoP.

Despite the debt moratorium and strict forex measures, the net outflow on capital account was R10,4 billion in 1985. Seen in this light, the reserves could be inadequate to sustain any large shocks unless stability and confidence return to the market.

A sobering analysis comes from Bethlehem, who regards SA as having "an extreme liquidity crisis." He observes that the authorities have limited room for manoeuvre in the forex market.

Bethlehem tells *FM* that there are, however, grounds for optimism. He points to a projected healthy current account surplus potential in 1986 and buoyant non-gold export growth. The drop in the oil price relative to the gold price will help BoP too, improving the terms of trade, Bethlehem believes.

Given SA's counter-cyclical pattern of economic growth, recession at home and vigorous growth abroad bodes well for exports. Strong export growth on the back of a weak rand will bolster SA's balance sheet. The upshot will be relief for the reserves and current account, whose surplus has effectively been mortgaged on foreign commitments. ■

Gold future contracts prove expensive for JCI

Randfontein's profits plunge drastically

STAR (79) 16/4/86

Mr George Nisbet

By Gareth Costa

Johannesburg Consolidated Investments' poor performance in the currency markets once again saw Randfontein Estates receiving a rand gold price well below that enjoyed by the other houses — an average R21 048/kg, compared with as much as R25 000/kg in some cases.

Investors and analysts alike are suggesting that it is time JCI stopped its currency and futures dealings and concentrated on mining, or at least cover itself back to back with forward gold sales as well as currency hedges as it has done with its other mine, Western Areas.

For the quarter to end-March 31, Western Areas got R23 877/kg for its gold and as stated in the results: "Forward contracts include both the forward sale of gold and the purchase of put options that give the company a discretionary right to sell gold at a predetermined price during a specific period."

When asked to comment on the varied prices received by the two mines, Mr George Nisbet, retiring chairman of the gold division said: "They are different mines and they deserve different treatment. JCI's policy is to cover forward when we think it is neccessary, it is a form of insurance and for it we have to pay a premium, but it is easy to criticise with hindsight."

He said the contracts were long term ones of about a year, and "the group does not just jump into them on a monthly basis." But he declined to say whether more would be taken out this year or whether JCI thought it neccessary to do so at this stage.

GFSA received an average R25 000 a kilo for its gold and if Randfontein, with production of 6 456kg had managed to get what Kloof got it would have been no less than R29 million better off last quarter.

Even using JCI's own figure for the average London gold price during the quarter, Randfontein managed to drop R17 million below this.

When compared with Vaal Reefs and Southvaal figures for 1985, a respective R71 million and R62 million was lost on behalf of Randfontein.

An excellent example of disclosure has been set by Anglovaal which states in detail all forward transactions that have taken place during the December quarter and those already done for the next two.

Labour problems

Davis Borkum Hare analyst Mr David Giese said that the Randfontein results are "very poor".

The strikes of earlier this year caused the mine to lose 28 000 tons of mill throughput, and resulted in the reduction of surface stock piles and a consequent drop in grades to 4g/t from 4,8g/t. Labour problems are still a concern, and Mr Nisbet says the close proximity of the Cooke 2 hostel to the town ship is having an influence on the workers.

Gold revenue went down from R187 million to R133 million, with working costs only slightly up at R47,87/ton. After tax profit was markedly down at R51,3 million from R84,9 million.

Capital expenditure was also down because labour was taken out of development projects and into the stopes during the strike to keep production going. The amount spent was R37 million, down from R56 million.

Western Areas results were more impressive, with the increase in working costs remaining reasonably low at R84,04/ton from R82,91/ton, with gold production only slightly down at 4 028kg from 4 330kg and revenue R96 million from R107 million.

After tax profit was R20,5 million, down from R24,4 million, while capital expenditure was up at R16 million from R11 million.

Cape Times 28/1/86

Rand spurts

79

THE rand came close to breaching the 45 United States cents mark yesterday as the gold price spurted to over $360.

The rand was poised to reach $0,45 around midday but then eased back in the afternoon to close at $0,4488.

Gold's rise was caused by growing fears that the slump in world oil prices may lead to Third World oil producers being unable to repay their loans to United States banks.

Gold shares rose on the Johannesburg Stockmarket with the major gold mines — which are favourites of overseas investors — soaring in heavy buying.

Sterling weakened yesterday amidst the Westland crisis and at the close of markets last night only R3 were needed to buy a pound.

● Full report page 10

Disappointing trend in gold quarterlies

18/4/86 STAR 79

By Gareth Costa

Foreign and local gold analysts have pointed to Randfontein and Buffels as the "most shocking" of the quarterly results, with the general trend disappointing even in the light of the lower rand gold price.

Mr Warren Myers, gold analyst at brokers Merril Lynch in New York says: "The December quarter featured a spectacularly high gold price and it was inevitable that the results in the latest quarter did not look so good. However, Gencor's results were the most disappointing in general and Buffels is looking particularly sad with its working costs sky-high."

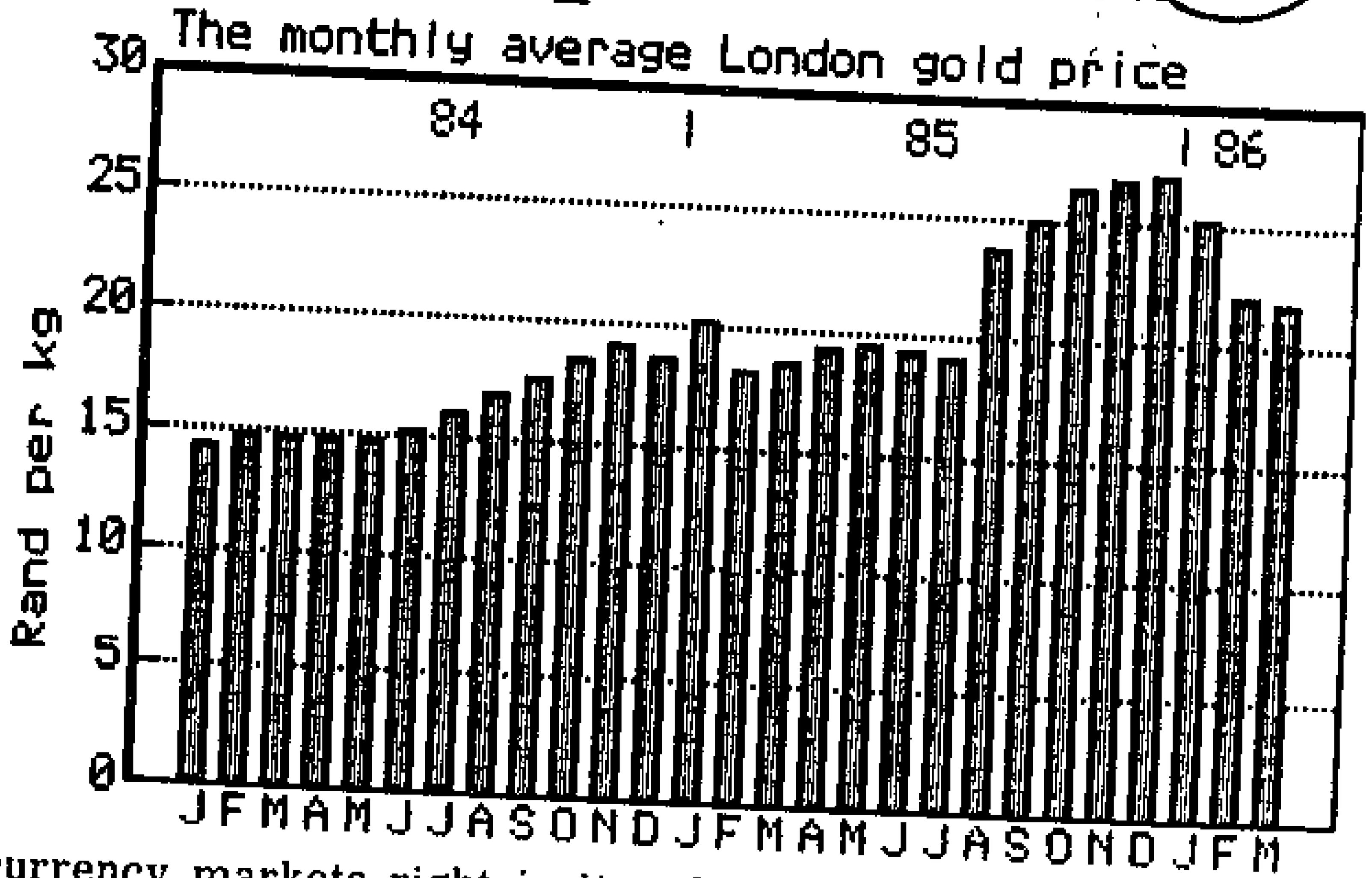
Mr David Giese from brokers Davis Borkum Hare says: "Buffels' bad performance is a signal that it has got problems and it is running out of reserves. They are battling with the Strathmore shaft and so have a reduced tonnage because of a shorter working face. Working costs are also 23,8 percent up."

Randfontein was also in line for castigating, as Mathison and Hollidge broker Mr Hilton Ashton says: "Randfontein was disappointing and it high lighted the impact of labour problems affecting grades, I expect the market to re-rate the share 10-15 percent downwards. On these results the share is overpriced."

Randfontein also featured the lowest gold price received of all the mines, but the JCI management team seem unrepentant and unwilling to provide a detailed explanation of their currency dealings.

Hartebeesfontein was unanimously the high light of the quarter and as Mr Ashton says: "It is undervalued." Mr Myers adds: "The star performer".

One of the reasons why Harties produced much better results was because it read the currency markets right in its forward sales and made a handsome profit. It was also one of the few mines to increase grades since most of the others did not begin to switch over to the higher grade areas along with the weaker gold price.



ET Cons was also singled out as perfroming reasonably well, along with the Anglovaal mines and GFSA mines, which were the first out and looked rather poor initially. Kloof received thr highest gold price for the quarter with an average R25 260/kg.

The Anglo American mega-mine Freegold also fared reasonably well with its first combined quarterly results, with profits only 17 percent down at R189 million when compared with halved profits of some of the mines. The Anglo mines all received better than average gold prices, with Freegold receiving R24 351/kg and Vaal Reefs R24 460/kg.

Mr Giese says: "The Freegold results are impressive and in line with expectations, especially the dividend payouts. However, the full benefits of the merger are still to be felt. Also the developments along the Basal reef are encouraging."

The total amount of gold recovered for the quarter by all the mines was 155 tons compared with 161 tons for the December quarter, with an average gold price of R24 042 against R26 127/kg.

Looking ahead at what investors can expect from the current and following quarters, Mr Giese says: "I expect levels to flatten out and the mines to adjust to the lower levels with a switch of grades to the higher yielding areas. The quality mines are capable of doing this.

"Also some of the mines have year-ends after this quarter we are in now and we can expect to see them write off large lumps of capex against tax and so profits should increase. Some of these are Randfontein, Harties, ET Cons and Buffels."

The MINISTER: Mr Speaker, I am not aware of any of these Press reports that the hon member is referring to.

Mr D J N MALCOMESS: Mr Speaker, further arising out of the hon the Minister's reply, if I can find the Press reports and let the hon the Minister have them, will he undertake to investigate the matter?

†The MINISTER: Mr Speaker, surely the hon member knows it is his right as a member of Parliament to bring anything to my attention. I do not think I have to answer to that any further, because it should be obvious.

Mr D J N MALCOMESS: That is precisely what I am going to do.

GA CCL 1255

Gold

HANSARD 22/4/86 79

*2. Mr L F STOFBERG asked the Minister of Finance:†

(1) Whether South African citizens may (a) purchase and (b) possess gold freely; if so, (i) since what date and (ii) subject to what conditions; if not, why not;

(2) whether the premium on the purchase of Kruger rands by South African citizens was increased recently; if so, (a) when, (b) to what extent, (c) why and (d) what stipulations apply in respect of the purchase of Kruger rands by South African citizens;

(3) whether he will consider legislation in terms of which South African citizens will be permitted to purchase gold by means of certificates without physically possessing the gold; if not, why not; if so, when does he propose to introduce such legislation;

(4) whether the above-mentioned certificates will be freely negotiable; if not, why not;

(5) whether he will make a statement on the matter?

†The MINISTER OF FINANCE:

(1) (a) and (b) By virtue of Exchange Control Regulation 2 no one may buy or sell gold without the permission of the Treasury. Regulation 5 provides that anyone resident in the Republic who has the right to sell gold, or to effect its sale, must within 30 days offer that gold for sale to the Treasury or its agent. The SA Reserve Bank is the Treasury's appointed agent in this case. In the light of our foreign exchange needs, all gold is sold to the Bank, which in turns sells it, when needed, overseas for foreign exchange. Individuals are not permitted to buy or to possess gold. This does not apply, however, to processed gold such as gold coins or jewellers ware for which an annual quota is allocated by the Treasury for processing purposes.

(2) Yes.

(a) 24 March 1986.

(b) 1 ounce coin—from 3 per cent to 12 per cent
½ ounce coin—from 5 per cent to 14 per cent
¼ ounce coin—from 7 per cent to 16 per cent
$\frac{1}{10}$ ounce coin—from 9 per cent to 18 per cent.

(c) To dampen the abnormally high local demand for Kruger rands.

(d) There is no bar to the purchase or sale of Kruger rands by South African citizens within the Republic. Exchange Control Regulations apply, however, and thus no Kruger rands may be exported or taken from the country without the permission of the South African Reserve Bank.

(3) No. For the same reasons as those behind the restrictions on the minting of Kruger rands—namely, that this would draw down the Republic's gold reserves. Any issue of gold certificates would in any event have to be backed by physical gold. The Republic's gold reserves are held by the Reserve Bank, and any sales thereof by way of the issue of gold certificates would mean that the gold would no longer form part of the country's reserves. A gold certificate would also be subject to exchange control in order to prevent an outflow of foreign exchange. Under all these circumstances, the issue of gold certificates would not be feasible.

(4) Falls away.

(5) No. The matter is fully dealt with in the answer to 3 above.

GA CCL 1257

Foreign television programmes

HANSARD 22/4/86

*3. Mr L F STOFBERG asked the Minister of Foreign Affairs:†

(1) Whether any actors in and producers of foreign television programmes have intimated that they are considering (a) discontinuing the supply of such programmes to the South African Broadcasting Corporation or (b) donating the proceeds from the showing of such programmes in South Africa to terrorist organisations; if so,

(2) whether he intends taking any steps in this connection; if not, why not; if so, what steps;

(3) whether he will make a statement on the matter?

The DEPUTY MINISTER OF FOREIGN AFFAIRS:

(1) (a) A number of overseas actors and film producers have given notice that programmes in which they appear or which are produced by them, may not be made available in South Africa.

(b) Confirmation has not yet been received that the proceeds of the showing of such programes will be donated to terrorist organisations. It must also be pointed out that donations of this kind have for some time been made by various Western governments and organisations in Western countries. It is a complex problem which is receiving attention.

(2) Falls away.

(3) No.

HANSARD 22/4/86

Kuni Village, Ciskei

GA CCL 1258

*4. Mr E K MOORCROFT asked the Minister of Education and Development Aid:

(1) Whether any persons from the Kuni village in the Chalumna District in Ciskei have been resettled on South African Development Trust land; if so, (a) how many persons, (b) where were they resettled and (c) how far from East London is this resettlement area;

(2) whether any relief aid has been granted to these persons; if not, why not; if so,

(3) whether such aid is still being granted; if not, why not; if so, for what period will this aid be continued;

(4) whether any objections have been received from any farmers' associations in this resettlement area; if so, (a) when and (b) from which associations;

(5) whether these associations were consulted prior to the decision being taken to resettle these persons in the area concerned; if not, why not; if so, (a) when and (b) what was their response?

†The DEPUTY MINISTER OF DEVELOPMENT AND OF LAND AFFAIRS (for the Minister of Education and Development Aid):

(1) Yes, from Kuni Villiage in Ciskei

Golds an insurance against 'upheaval'

19/4/86 SAPA

79

By Duncan Collings
Deputy Finance Editor

International brokers, S G Warburg, Rowe & Pitman, Akroyd (Rowak) say that they presently rate gold shares as holds for insurance against unexpected political or economic upheaval.

Noting that gold remains stuck in a narrow trading range, Rowak say the metal does not look likely to move much either way in the near term although there is some modest potential for an upward move considering the "increasingly unstable political outlook."

Pointing out that with the partial recovery in the rand marginal gold mines will be squeezed, Rowak says that their recommendations remain confined to the expanding, good quality mines such as Kloof, Southvaal, Western Deep Levels and Winkelhaak.

Rowak say that "a highly geared marginal may perform better when gold moves but could be badly hit in the meantime".

As far as the international price of gold is concerned, on the positive side fabrication demand continues to grow; concern over the imminent collapse of the banking system has been given a boost by the oil price fall (although this does not seem to be causing concern at the moment) and disruption of South African supplies by strikes and unrest is becoming a potential bull factor.

Rowak says that such disruption is becoming progressively more likely as the black union movement gains strength but "we doubt whether any stoppage would be widespread or long enough to affect output very much. South Africa still has substantial reserves (nearly three months output) to make up any shortfall."

Rowak identify the bear factors as the low international inflation rates, the Soviet need to sell gold for foreign exchange and increasing worldwide gold production.

But "if the price is going to break out, we currently think the odds are that it will go up because the general level of political tension is rising and we are not fully convinced that the problems of energy-related bank debt have been solved."

As far as South African gold mines are concerned, Rowak say the second quarter is likely to show another fall in profits. Working costs will inevitably rise and could be affected by stoppages as black wage negotiations proceed.

"The one bright spot," say Rowak, "is that grades could be raised modestly on some mines in response to the lower rand gold price but this is a slow process on most operations, particularly the deeper and more heavily mechanised mines."

"On balance, if current gold prices persist, ie R22 000/R23 000 per kg, working profits can be expected to fall away by about 20 percent compared with last quarter."

catastrophe
e good news

Gold, on the other hand, dipped slightly; traders believed that if the Russians were now going to buy agricultural produce from overseas they would have to sell gold to raise the dollars to do it.

exposure to both the black market and exports.

Von Loeper says Midas Parts Centre has been appointed a supplier to the Black Taxi Drivers' Association, with a market potential of some 120 000 black taxi drivers. Exports have also grown from R500 000 in 1985 to R1,2m this year.

Although Midas' earning growth is backed by greater market share, its management of overheads has been outstanding. Von Loeper tells me that overheads have been reduced from 20% of turnover in 1983, to the present 13,5%. Clearly, this has provided the leverage for the impressive earnings growth.

The ability of management to maintain control of the low overhead structure will be a key to future profit growth. Having learnt from the setback in 1983, the group looks to be headed in the right direction. If Midas can maintain this performance, I think the share should be worth acquiring on longer-term considerations. *Patric Ho*

FIN MAIL 2/5/86

GOLD QUARTERLIES 79

Little comfort

At a time when the rand gold price is well down from its peak above R27 000/kg set in the second half of 1985, and average working costs are being pushed steadily upwards by SA's 18%-20% inflation rate, productivity is of crucial importance to the gold industry There was thus little encouragement for investors in the production figures disclosed in the March gold quarterlies.

Of the industry's 34 producing gold mines, no less than 21 gold mines posted lower gold production in the December quarter. Only nine managed to increase output — some of these only marginally — and the rest were static.

In most cases, production fell because both tonnage throughput and recovery grades were down. Some unpleasant surprises were seen from a number of mines such as Kloof, whose grade dropped from 13,9 g/t to 13 g/t; Randfontein, whose grade fell from 4,8 g/t to 4 g/t; Elandsrand, whose tonnage throughput slipped from 502 000 t to 465 000 t; and Buffelsfontein, whose tonnage was down from 824 000 t to 704 000 t.

There were, however, a few more positive developments: These included an improvement in Elandsrand's grade, an increase in both tonnage and grade at Hartebeestfontein, and a grade increase at Libanon.

These figures refer only to one quarter and in many cases the fluctuations will be smoothed out by future results. On balance, though, the March quarterlies have worsened rather than bolstered the currently dour market sentiment on gold shares. At present, there is too much caution around — on the possibility of costly labour unrest in coming months — for investors swiftly to overlook steep falls in gold production and earnings. Highlights from the March quarter include:

Freegold

Tonnage throughput was higher at 5,3 Mt (5,2 Mt), but the recovery grade slipped from 5,26 g/t to 5,07 g/t, with the result that gold production fell from 27 158 kg to 26 856 kg. However, the real test of Anglo's merged Free State mines is still to come. If the enlarged mine can produce the vaunted productivity and cost efficiencies, its rating should improve.

The first major new development since the merger was announced this week, was the go-ahead for a major new shaft system, the No 1 shaft Freddies mine, which will serve the north-eastern corner of the lease area. Current cost of the shaft is estimated at R728m. Production is set for 1991, when it will build up to an initial hoisting capacity of 180 000 t/month, with output capable of being increased to 280 000 t/month. The total life recovered grade is forecast at 7,5 g/t and the shaft will produce about 10 t of gold a year.

Elandsrand

The grade of 5,9 g/t was in line with the 1985 average, but gold production was curbed by a decline in tonnage throughput that resulted from increased seismic activity that damaged a number of underground workings. Significant production increases are expected in 1986/87 when the new gold plant comes into production and stoping starts from the new sub-vertical shaft.

Ergo

Although gold production jumped and taxed profit rose by 80%, distributable earnings were substantially reduced by a steep increase in capital spending, which climbed from R6,6m to R35,4m. Higher spending levels may curb dividend potential for some, time, but longer-term production capacity is being increased.

Vaal Reefs

Production took a noticeably severe knock at the relatively high grade South Lease area, where both tonnage and grade declined, the latter falling from 9,54 g/t to 9,09 g/t. This was essentially owing to sporadic labour unrest which occurred throughout the complex. The adverse effects are expected to continue into the present quarter.

Western Deep Levels

Management blames the production fall on labour unrest and on increased seismic activity, particularly in the higher grade Up-

GOLD EARNINGS

	Year end	•EPS(c) Dec	•EPS(c) Mar	••Accumulated Earnings	(c) +Declared
ANGLO AMERICAN					
Elandsrand	Dec	31,9	23,8	23,8	—
Ergo	March	30,7	—	52,1	85
Vaal Reefs	Dec	667,9	441,5	441,5	—
Western Deep	Dec	132,4	98,1	98,1	—
ANGLOVAAL					
ET Cons	June	94,9	64,7	246,2	100
Hartebeestfontein	June	40,2	32,1	98,9	45
Loraine	Sep	67,5	32,8	100,2	—
GENCOR					
Bracken	Sep	28,7	20,9	49,7	50
Buffelsfontein	June	358,0	204,5	797,3	500
Grootvlei	Dec	55,3	34,7	34,7	—
Kinross	Sep	115,3	85,2	200,4	190
Leslie	Sep	20,8	15,7	36,5	30
Marievale	Dec	16,1	8,5	8,5	—
St Helena	Dec	134,9	106,9	106,9	—
Stilfontein	Dec	64,4	39,1	39,1	—
Unisel	Sep	54,8	44,2	99,0	90
WR Cons	Dec	44,0	28,0	28,0	—
Winkelhaak	Sep	145,3	110,1	255,3	245
GFSA					
Deelkraal	June	22,1	20,1	49,8	20
Doornfontein	June	100,8	69,2	243,2	110
Drie Cons	June	126,1	77,0	275,0	145
Kloof	June	40,0	29,4	97,4	55
Libanon	June	160,3	119,3	362,0	170
Venterspost	June	96,8	47,3	164,8	90
Vlakfontein	June	24,5	15,4	52,6	—
JCI					
Randfontein	June	464,9	234,8	1 124,5	700
Western Areas	June	30,6	9,5	39,9	16
RAND MINES					
Blyvoor	June	66,3	38,7	145,9	100
Durban Deep	Dec	250,8	(5,0)	(5,0)	—
ERPM	Dec	(218,4)	(91,3)	(91,3)	—
Harmony	June	76,7	44,9	198,3	—
INDEPENDENT					
Cons Modder	June	45,7	26,4	110,9	55
South Rood	June	93,6	80,3	254,8	27
Wit Nigel	Dec	5,1	2,7	2,7	—

• = Earnings after tax and capital expenditure. •• = Distributable earnings for the mine's financial year to date. + = Total dividends declared to date.

'Manipulation of gold's rand price can avert bear market'

6/5/86 STAR (79)

The decline in the rand price of gold has put gold shares into a correcting phase but it is not likely to develop into a bear market — provided the rand price is manipulated to keep gold above R650/ounce.

Writing in her *Economic Reporter*, Hill Samuel's Carmen Maynard says she 'suspects' this is precisely what Pretoria will do.

"The recovery in the dollar/rand exchange rate has caused a substantial decline in the rand price of gold.

So, despite a gently rising price in the dollar value of gold the rise in the rand from 38 to 50 cents caused the rand price of gold to fall to around R700/ounce.

This she describes as the "lower end of the comfort zone" of mine profitability, gold mine taxes and export revenues.

"The Minister of Finance appears to have based his March budget on an average gold price of R725 dollars/ounce" she points out.

The March quarterly statistics reflect the turnaround in the rand value of gold as a result of sharply rising costs and lower revenues but quality gold shares continue to trade at relatively attractive yields and indeed even at $700/ounce, yields on such shares are double those of industrial shares.

South Africa's continued dependance on the "barbarous relic" as gold has been described, is still very evident in Maynard's analysis.

She comments: "The price of gold remains the big swing factor in the economic fortunes of the country and a major move in any direction will inevitably overshadow all other considerations in determining the course of the economy."

Against a gold price fall she lists:

- Plummeting oil prices;
- USSR gold sales to generate foreign exchange;
- For a gold price rise she lists:
- The doubtful stability of the international banking system;
- Falling US interest rates which could mean divestment into deposits and bonds denominated in other currencies — with a spin off benefit for gold.

She concludes: "While the gold price appears to be working its way back to the $400/ounce level, this is not a reflection of gold's inherent strength but of dollar weakness.

"Nonetheless, gold is holding up surprisingly well in the face of plummeting oil prices, although it remains weak against non-dollar currencies."

IMPROVED FINAL DEMAND

As for the long awaited economic recovery Mrs Maynard says there is little evidence of a build-up in inventories and the prospects for real investment spending are not encouraging.

"However, if short-term rates decline further and signs emerge of an improved final demand, some inventory build-up is likely during the course of the year."

The foreign debt repayment requirement and the need for an on-going surplus on the current account to generate the necessary dollars remains the biggest threat to economic growth, she concludes.

On interest rates, she says there is some downside potential in long-term interest rates but it is likely to be short-lived. — Sapa.

Labour disputes and Japanese coin issue 'could lift gold price'

STAR 29/4/86 (79)

By Neil Behrmann

LONDON — The gold price could rise sharply in May because potentially disruptive mine labour disputes will take place while Japan is ordering large quantities of bullion, according to brokers James Capel.

Japan has announced that it intends buying 200 tons of gold for coins which will commemorate the 60 anniversary of their emperor's reign.

Some bullion dealers believe that the Japanese have covered their gold requirements by taking up gold options.

But James Capel, like others, cannot confirm whether options were purchased. If this is so, says the firm, the option granters have not covered their option positions.

"Taking the Japanese statement at face value, it seems that either Japan or the option granters will still need to buy the gold on the market," says the firm.

MINE STRIKE CALL

Gold purchases will begin immediately after the Japanese parliament approves the purchase, says James Capel.

The blanks for the 10 million gold coins must be completed by hand, so buying must take place as soon as possible.

But purchases of substantial quantities of gold will occur when there is a call for a national mine strike in South Africa. This will coincide with the tenth anniversary of the 1976 Soweto riots, and people in South Africa will also be commemorating the deaths in Langa township.

"This suggests to us that the gold price will move ahead smartly from May onwards."

"James Capel advises that only 'braver (foreign) investors' should buy South African shares. It recommends, North American, Australian and Cana dian gold mines and also Sumitomo Metal Mining in Japan.

REASONABLE LIQUIDITY

SAFIT, the "South African Trust Fund" managed by the Union Bank of Switzerland, says that it has pursued a "rather cautious investment policy because of the unrest and the reintroduction of the dual exchange rate".

But the Trust bought Driefontein, Kinross, Winkelhaak and Rustenburg in the first quarter of this year even though it "intends maintaining a reasonable degree of liquidity in the near future".

Main holdings of SAFIT are Vaal Reefs, Southvaal, Driefontein, Western Deep Levels, Gold Fields of South Africa, Amgold, Randfontein, Kloof, Free State Consolidated and Hartebeestfontein.

James Capel notes that few of its institutional clients are prepared to buy gold-related investments.

The firm says the market is very quiet. It may pay foreign investors to take a contrary view because a dearth of institutional interest indicates that a buying time is nigh.

'Smile', says Schoeman as gold income rises

STAAL 3/5/86 79

DELMAS — Income from gold sales increased from R9 929 million in 1983 to R15 460 million last year, the Minister of Transport Affairs, Mr Hendrik Schoeman, said yesterday.

Opening the Delmas Show, he said the gold price in March, this year, was $346 an ounce, compared with $317 last year, $360 in 1984 and $424 in 1983. Mr Schoeman said people were inclined to be pessimistic over the economy and he provided export figures which he believed "should encourage every South African":

- Exports through harbours increased to 83,1 million tons from 73,7 million tons in 1984 and 62,2 million in the previous year.
- Exports of iron ore last year were 10,4 million tons, the same as in 1984, although foreign exchange earned last year was R319,3 million, compared to R241,8 million in 1984.
- Coal exports totalled 43,6 million tons last year and earned R3 138 million, compared to 40,2 million tons in 1984, earning R1 716 million.
- Agricultural exports netted R2 358 million last year, R1 921 million the previous year and R1 773 million in 1983.

These figures, coupled with an expected increase in the maize harvest and political reforms being initiated, should promote a more positive attitude among South Africans, he said. — Sapa.

7/5/86 BUSDAY 79

Reserves hit seven-year low

JOHN TILSTON

SOUTH AFRICA's gold and foreign exchange reserves took a pounding in April. By month-end they had declined by 14,7% to R3,24bn, the lowest level since 1979.

Reserve Bank figures released yesterday showed gold holdings had declined to R2,6bn from R3,0bn in March. The decline was partly the result of a decline in the average price used to calculate the reserves to R638,13 per fine ounce from March's R661,30 an ounce.

But there was also a reduction of about 400 000 ounces in the Bank's physical stock, suggesting there was some selling or swapping of gold in April to bolster reserves.

Physical gold holdings, at just over 4-million ounces, are at their lowest level since at least 1977.

The Bank reported that its reserves of foreign currencies fell nearly 18% to R633,9m at the end of April from R771m a month earlier.

The parlous state of the nation's reserves indicates the pressures exerted by the repayment of foreign debt and the Reserve Bank's support of the rand.

Although the level of reserves, as reported, represents only a "snapshot" of the situation and they may have recovered since the end of last month, the overall trend is down.

They have declined for the first four months of this year, and must now cast serious doubts on the authorities' ability to support the rand at present levels in the medium term.

Intergold shrugs off UK ban on SA gold coins

BUD P17 26/5/86 (79) (96)

LINDA ENSOR

THE British ban on the import of all gold coins from SA — which came into effect on midnight on Friday — was unlikely to have a great effect on trade between the two countries, a spokesman for International Gold Corporation said yesterday.

Intergold is the sole SA marketer of Krugerrands on the international market.

"Over the last few years, the import of Krugerrands into the UK has been low," the spokesman said.

The decision was not unexpected. It merely formalised the statement of intent made by the British government after the Commonwealth Conference in Nassau, Bahamas, last October.

In announcing the move, British Foreign Secretary Sir Geoffrey Howe told the House of Commons: "Following the commitment given by the Commonwealth heads of government in Nassau last October, we have been considering what action might be possible to preclude the import of Krugerrands ... Account has been taken of the fact that SA is now minting the new Protea coin."

The Intergold spokesman said it should be borne in mind that substantial existing stocks of Krugerrands within the UK could still be traded.

This meant the choice of the British investor remained unaffected, as he could still buy Krugerrands, the Maple Leaf coin and the new American and Australian coins due to come out later this year.

An informed source involved in international trade — who did not wish to be identified — denied the SA government had minted the Protea coin in order to circumvent the proposed ban, as has been suggested in Britain.

"The Protea was never intended to replace the Krugerrand. It was a legal tender commemorative coin minted in limited numbers by the SA government and sold at the fixed price of R9,50. The price of Krugerrands, which are sold at a small premium, fluctuates with the gold price," the source said.

The Protea was intended to commemorate the centenary of Johannesburg and of gold mining and was aimed at a small group of coin collectors.

UK analyst tips expanding quality gold mines in SA

12/5/86 STAR 79

By Neil Behrmann

LONDON — International brokers recommend only quality gold mines because they expect the gold price to remain locked in a trading range of $330 to $360 during the next few months.

Philip Taylor, mining analyst of S G Warburg, Rowe & Pitman says Kloof, Southvaal, Western Deep Levels and Winkelhaak are solid investments.

"A highly geared marginal may perform better when gold moves, but could be badly hit in the meantime," says Mr Taylor.

He maintains that bull and bear factors are well balanced, although there "is some modest potential" for an upward move.

"We rate gold shares only as 'holds' for insurance against unexpected political and economic upheaval," says Mr Taylor.

The mines face lower rand gold prices, now that the rand has recovered to more reasonable levels, he says. The stronger rand will "squeeze the marginals" so recommendations are confined to "the expanding, good quality mines".

Mr Taylor believes that disruption of South African supplies is "becoming progressively likely as the black union movement gains strength".

But he doubts whether any stoppage would be sufficiently lengthy to cut output drastically.

"South Africa still has substantial reserves — nearly three months output — to make up any shortfall," he says.

Dr Fred Collender of Strauss Turnbull & Co, says Vaal Reef shares "are sound relative to other mines" He also expects Southvaal to outperform the market and says that Free State Consolidated Gold Mines are "for all institutions and shareholders".

Shares of Elandsrand, Driefontein and Deelkraal, however are "expensive", he says.

Mr Collender also does not expect much excitement from the gold price.

"The gold price again held well within our limits and is still trading in a narrow range about $340 an ounce," he says.

Fabrication demand and supply factors are now playing a greater part than in the recent past when the price and trading of gold "was dominated by fear and greed", he says.

Both firms' cautious optimism contrasts with the very bullish stance of James Capel.

James Capel predicts that gold will surge during coming months when Japanese purchases coincide with strikes on the mines.

James Capel believes that the Japanese have some way to go before they complete a 200-ton order to mint 10 million coins to celebrate the reign of their emperor.

But the firm recommends Australian and Canadian mines instead of South African shares.

(i)	(ii)	(c)
Ntirhisano	150	Monthly
Newsletter of the Johannesburg West Commando	500	Quarterly
Octavo	Dormant	Dormant
Parade	7 000	Quarterly
Paratus	36 000	Monthly
Pergamus	10 000	Monthly
Praevenimus	2 000	Quarterly
Primus	1 000	Monthly
Regulus	400	Every two years
Reveille	Dormant	Dormant
Sopfist	100	Two-monthly
Strelitzia	2 000	Two-monthly
Supero	1 000	Two-monthly
Swartberger	2 000	Quarterly
The Anthill	500	Quarterly
The Infantryman	800	Quarterly
Three Feathers	Occasionally	Occasionally
Uniform	44 000	Fortnightly
Vigilantia	300	Quarterly
Wingfo	250	Monthly
Yearbook of 1 Construction Regiment	1 000	Annually
Yearbook of 1 Parachute Battalion	1 000	Annually
Yearbook of 2 Special Service Battalion	1 000	Annually
Yearbook of 4 SA Infantry Battalion	1 000	Annually
Yearbook of 4 Field Regiment	1 000	Annually
Yearbook of 73 Motorised Brigade	2 000	Annually
Yearbook of the Infantry School	1 000	Annually
Yearbook of the Army Gymnasium	1 000	Annually
Yearbook of the Personnel Service School	1 000	Annually

(e) 31 March 1986.

Q Cl. 2023.

Suicide

HANSARD 28/5/86 (2859)

1060. Mr K M ANDREW asked the Minister of Defence:

(1) Whether, with reference to his reply to Question No 885 on 2 May 1986, any members of the South African Defence Force who committed suicide in 1985 had made any previous attempts to commit suicide; if so, what means did each such member employ in (a) each previous attempt to commit suicide and (b) committing suicide in that year;

(2) whether any members of the Defence Force who (a) attempted to commit and (b) succeeded in committing suicide in 1985 had previously been convicted by military courts under the Military Discipline Code of contravening (i) section 14 (a) and (ii) any other section of the First Schedule to the Defence Act, No 44 of 1957; if so, of what offences was each such member convicted;

(3) whether any of these members had been receiving psychiatric help; if so, how many?

The MINISTER OF DEFENCE:

(1) No, (a) and (b) fall away.

(2) Yes.

(a) (i) 32 including four persons

who were also tried in terms of a further charge, as indicated in (ab), (ac), (ad) and (ae) below.

(ii) (aa) Section 19—4
(ab) Section 19 (2)—1
(ac) Section 30 (a)—1
(ad) Section 18 (a)—1
(ae) Section 39 (d)—1

(b) (i) 2

(ii) None.

(3) Yes, 31 of the above mentioned persons received psychiatric or psychological treatment. The other seven persons were psychologically evaluated but no treatment was considered necessary.

Note: The above mentioned statistics refer to members who were sentenced by Court Martial. Statistics with regard to Summary Trials are not readily available.

Military service

1074. Mr R M BURROWS asked the Minister of Defence:

Whether male children of non-South African parents are required to render military service; if so, (a) in terms of what statutory provision and (b) subject to what conditions?

The MINISTER OF DEFENCE:

Yes, if they are White South African Citizens.

(a) Section 3 of the Defence Act, 1957. (Act no 44 of 1957).

(b) None.

29/5/86 **South African Mint**

1075. Mr P G SOAL asked the Minister of Finance: HANSARD 79

Whether the South Africa Mint supplies (a) gold and (b) coins to two companies, the names of which have been furnished to the Minister's Department for the purpose of his reply; if so, (i) what are the names of these companies, (ii) what total quantities were supplied to each of them during the latest specified period of 12 months for which information is available and (iii) what are the terms on which gold and coins are supplied to these companies?

The MINISTER OF FINANCE:

(a) No; the companies referred to are not licenced to purchase unwrought gold.

(b) No; individuals associated with the companies concerned are, however, like any member of the public and subject to the same conditions, free to purchase proof coins from the South African Mint.

Annual reports

1089. Mr P G SOAL asked the Minister of Defence:

(a) How many annual reports were produced by the South African Defence Force during the latest specified period of 12 months for which information is available, (b) in respect of what bodies were these reports produced, (c) what was the cost of producing each such report and (d) who did the printing of each report?

The MINISTER OF DEFENCE:

The SA Defence Force does not publish an annual report.

THURSDAY, 29 MAY 1986

†Indicates translated version.

For written reply:

General Affairs:

Liquor outlets

926. Mr P G SOAL asked the Minister of Constitutional Development and Planning:

Platinum gains $8 on the day

CAPE TIMES 31/5/86 (79)

LONDON. — Gold held steady in fairly light trading, while platinum broke through what was considered a resistance area to gain about $8 on the day, dealers said.

Gold closed at $343,40/80, a little up on its fixing prices of $343,20 in the afternoon and $343,35 in the morning, and on the opening $342,90-$343,40.

But interest in the precious metals sector was concentrated on silver, which rallied for a second afternoon running but gave back some of its gains at the close, and also on platinum, which was around $422 an ounce by London's close after a $417,50 afternoon fix and $416,35 morning setting.

Dealers said platinum had moved through the $418 to $420 resistance area after repeatedly failing to do so earlier in the week.

Over the last few days, a series of platinum-buying spates in New York have been turned back at the $417-mark, they noted.

They said the fact that platinum had held above $420 late in the London afternoon instead of easing in line with silver was perhaps an indication of its bullish fundamentals, notably the massive dependence on SA for supplies.

Concern about the situation in SA is perhaps more immediate in New York than it is in London, a dealer added.

- In Zurich, gold ended slightly higher in quiet trading in spite of the firmer dollar, dealers said.

Gold ended at $343,40-$343,80, $1 above the previous close and $0,55 above the opening.

ARGUS 4/6/86

Krugerrand hits record price

Financial Editor SAP 77

THE Krugerrand price has soared R72 from R858 to a record R930 in the past 10 days, making the coin one of the hottest investments.

Dealers say the high price is mainly the result of the slide in the rand's exchange rate. But there are indications that local demand for the coin has also increased.

In the past week and a half the rand has fallen from US44 cents to US41,70, lifting the South African gold price R41 from about R777 an ounce to R818.

On top of this South African buyers have to pay a 12 percent premium and the broker's commission.

The 12 percent premium is necessary to bring prices in line with those charged by Intergold, the Chamber of Mines department which issues Krugerrand.

This premium was raised recently from three percent to reduce the heavy local demand.

Mr Koos Groenewald, a Cape Town coin dealer, said trading in the Krugerrand had increased in the past few days. However, there had been a good two-way trade with many people taking profits.

Britain, following the lead of the United States, has banned imports of the coin.

Russian sales and impoverished sheiks depress bullion price

Gold has bottomed at $342

8/1/8C

(79)

4/6/86

By Neil Behrmann

LONDON — The gold price has bottomed but sales from the Soviet Union and other producers could limit any sharp appreciation, said George Milling-Stanley, co-author of Consolidated Gold Fields latest annual survey on the metal.

He said that fabrication and central bank demand at prices between $300-340 indicated that gold was underpinned at present levels of $342 an ounce.

"Investment advisors are no longer afraid of talking about gold in front of their children," said Mr Milling-Stanley.

"They are saying that a small investment — five percent to 10 percent — is a good insurance against a fall in stockmarkets, international banking problems and a renewal in inflation."

Fund managers noted that gold was stable in the face of falling oil prices and worldwide disinflation, he said.

The annual report of Consolidated Gold Fields, regarded as the most influential study on the subject, estimated that Western gold production rose from 1 148,9 metric tons in 1984 to 1 212,8 tons last year. This is 27 percent higher than levels seen in 1980.

South African output fell from 683,3 tons to 673,3 tons, but Canada's output increased from 83,4 tons to 86 tons, United States from 68,5 tons to 79 tons and Brazil from 55,1 tons to 63,3 tons.

Australia's production soared from 39,1 tons in 1984 to 57 tons last year and is set to rise further in the next few years. Australia produced only 17 tons in 1980.

Total production in Oceania rose from 32,3 tons in 1980 to 92,7 tons last year.

The gold market has been underpinned by a 72 ton rise in jewellery offtake last year to 898 tons. Central banks also bought 135 tons of gold in 1985 following net sales in the previous two years.

Central banks of South American, African and South East Asian producing countries bought directly from their mines.

Finland bought 20 tons and other central banks were also in the market buying or trading gold, said Mr Milling-Stanley. Purchases continued this year.

Sales by Communist nations, mainly Russia, rose by only five tons to 210 tons last year, estimated Mr Milling-Stanley, but he reckoned that Communist bloc gold sales would be between 300-350 tons in 1986 because the Soviet Union needed export revenue to offset the decline in oil prices and the Chernobyl accident.

The market was buoyed by unusual demand from Japan which is set to be "the biggest absorber of gold this year," said Mr Milling Stanley.

But Middle Eastern gold demand slumped by 30 percent to 159 metric tons last year and continued to be weak in 1986.

Annual demand in the late seventies exceeded 300 tons. "Demand fell away as (the oil price) and economic realities began to assert themselves," said the gold survey.

"The money in the Middle East has dried up," said the report. Middle Eastern gold imports "dwindled rapidly" because investors reduced their gold hoards, the report said.

Saudi Arabian and Yemeni gold consumption, mainly for jewellery fabrication, shrank from 56 tons in 1984 to 36 metric tons in 1985, the report said.

Identified investment holdings in the two countries tumbled from 35 tons to 25 tons.

"The general picture of (slack demand) continues this year," said Mr Milling-Stanley.

Middle Eastern and investors in other nations preferred bonds and stocks to gold, he said.

The fall in disclosed Middle Eastern investment holdings indicated that sheiks and other investors were buying and depositing less gold in Zurich and other major gold centres, said a London bullion dealer.

With the exception of Japan and the Indian sub-continent where gold purchases soared, fabrication and investment demand in the Far East fell.

SA's external debt position improves $1,8-bn

Central banks bought 165 tons of gold last year - BIS

9/6/86 STAR

79

By Neil Behrmann

LONDON — The latest Bank For International Settlements (BIS) annual report estimates that central banks bought 165 tons of gold last year.

The estimate of the BIS, the central banks' central bank is higher than Consolidated Gold Fields' calculations of 135 tons. But since the BIS monitors and trades on behalf of central banks, its figures should be taken more seriously.

The BIS notes that the turnaround from net sales of 20 tons in 1984 came about because of Colombia. The South America's nation's gold reserves declined by 89 tons in 1984, but last year rose by 14,8 tons.

Other developing nations adding to their official gold holdings were Brazil, 51 tons (which absorbed the bulk of its domestic production into its reserves), the Phillipines 21,5 tons, India 20,5 tons and Peru and Taiwan 17 tons each.

In the industrial world, says the BIS, Finland acquired 20 tons. But the two main gold producers in this group, the United States and Canada reduced their holdings by 4,4 tons and 0,9 tons respectively.

The BIS estimates that communist country sales, mainly the Soviet Union, jumped by 100 tons to 250 tons last year.

Expressed in current dollar terms, countries' official reserves, other than gold rose by about $42,5 billion or 11 percent.

But the 943 million ounces of gold reserves at market prices were worth $308 million last year, or 41 percent of all reserves — foreign exchange, gold, IMF reserve positions, special drawing rights and ECU's

The BIS noted that South Africa reduced its borrowings from major international banks by $1,1 billion last year. Deposits received from South Africa rose by $700 000.

So, despite the debt moratorium, South Africa's external debt position improved by $1,8 billion. The BIS also noted the improvement in South Africa's current account of the balance of payments.

The BIS said that "the threat to the international banking system represented by simultaneous default on a large number of international banking loans seems less acute than it did some years ago."

Besides the efforts to "render such default less likely... Banks have been able to strengthen their capital base."

The BIS, however, is uneasy about financial innovations in the markets. "The above mentioned strengthening of the banks' capital base may be more apparent than real," it warns.

The BIS is happy that the world economy is much healthier, but cautions that excessive growth of money supply, especially in the United States and United Kingdom, could rekindle inflation.

Gold mining industry in good position: report

9/6/86 BUS DAY (235) (79)

ROY BENNETTS

THE South African gold mining industry is in a better position than it has been for many years, says Consolidated Gold Fields in *Gold 86* — its latest annual report on the world's gold markets.

Despite some fluctuations in the price of the metal, revenue still remains at a comparatively high level while a deceleration in the rate of escalation of working costs has been a welcome feature.

Also there is the prospect of improved use of labour on the gold mines, with greater productivity as a result, and continuing achievements in the field of applied research.

Using three hypothetical price levels, the report estimates that at R21 000/kg, gold production should rise from just over 675 tons in the current year to a peak of 845 tons by the year 2000.

From there it is expected to decrease to a paltry 15 tons by 2050.

At R19 000/kg, South Africa is calculated to produce 724 tons in 2000 with an even faster drop to 15 tons covering the same period as the higher price.

The lowest figure used in the report, R17 000/kg, shows production of 718 tons for 1987, climbing to 694 tons at the turn of the century.

Bottom-line recovery at this price is estimated at 22 tons in 2040.

Over the next 15 years there are at least 15 to 20 mining propects which are likely to come into production, with each producing between five and 15 tons of gold a year.

On the other hand, says the report, there are many mines that will have to close down in the next decade or so, as a result of the exhaustion of payable ore reserves.

The long-term projection remains on a downward trend due to the exhaustion of high grade ores on most mines.

Political and economic uncertainty in the country has weakened the rand to such an extent that the rand price of the metal is 50% higher than the last dollar peak of January 1980, resulting in the mining of increased tonnages of previously unpayable and very low grade ore.

Reviewing the South African gold mining industry as a whole, the report notes that it accounts for 55% of free world gold production, employs 513 832 black and white workers, and maintains its position as a basis for much of the activity of the other sectors of the economy.

Gold 86 says that the decade ahead is unlikely to be marked by complete economic stability.

Fluctuations arising from the business cycle will continue, currency parities will react to differing rates of inflation or balance of payment positions in the trading nations of the world and inflation might be reduced but is unlikely to disappear.

B. DAY. (79) 9/6/86.

Gold reserves go up 8,9%

ALAN SENDZUL

SOUTH AFRICA'S gold and foreign exchange reserves improved marginally in May after a sharp decline the previous month. By month-end they had risen 8,9% to R3,53bn from R3,23bn.

Reserve Bank figures released on Friday showed the value of gold holdings increased to R2,9bn from R2,6bn in April. The increase occurred mainly because of a sharp rise in the average price used to calculate the reserves to R719,57 from April's R638,13 per ounce.

The gold stock in the vaults remained virtually unchanged at 4,06bn ounce from April's 4,08bn. This suggests that no gold swaps were done to beef up reserves.

The Reserve Bank can either use the forward market to generate dollars or it can do a swap.

The May balance on liquid foreign currency was slightly higher at R479,1m (R471,1m) after reserves had dropped 18% in April.

Foreign Reserves have been dwindling in recent months with the heavy debt repayments and continued leakages on the capital account.

CAPE TIMES 11/6/86 (79)

Gold, platinum prices surge

LONDON. — Platinum and to a lesser extent gold should continue volatile, with the possibility of further significant gains, ahead of the June 16 anniversary of the Soweto riots in SA, dealers said.

Gold closed at $348,70-$349,10, slightly up on its sharply firmer opening of $348,30/70, and $6,50 ahead of Monday night's close here.

The opening reflected a strong rally in New York on Monday that was fuelled by the SA crisis.

Platinum was fixed in the afternoon at $440,25, $17,25 up on the previous afternoon fix, but was starting to come off as the London market closed.

Dealers said that if New York's platinum price for July delivery could break through resistance around the $448 to $450 area, it could easily reach $460 and then the way could be clear to $500 in the fairly near term.

While movements in the platinum price are expected to be choppy, no operator wanted to go short, given that troubled SA accounted for over 80% of supplies.

Gold could make further gains if the New York market took August delivery through resistance around the $357 level.

But the existence of extensive gold stocks outside SA could put a damper on any advances.

Dealers said that while the New York market was focussing on the near-term possibility of civil unrest in SA at the time of the Soweto anniversary, London operators were equally concerned at the prospect of Commonwealth sanctions on Pretoria.

The precious metals market opened here with light follow-through buying, which quickly turned to selling as feeling grew that movements had been overdone and profits should be taken. This pattern repeated itself after New York opened.

Gold was fixed at $347,55 in the morning and $347,70 in the afternoon. Dealers detected some producer selling of gold and possibility platinum. — Reuter

Exhibition attendance drops 8%

ATTENDANCE at this year's Cape Town Chamber of Commerce's Design for Living exhibition at the Good Hope Centre was about 8% down on last year at 97 000 people.

Exhibition manager Roger Haupt, however, notes that a public holiday fell on a traditionally busy Saturday. The mid-week attendance figure was broken last Thursday with 11 800 visitors.

More than 200 exhibitors participated, although five companies pulled out at the last minute. Their stands were taken up by others on the waiting list.

Blyvoor increases dividend

Financial Staff

Rand Mines gold producer Blyvooruitzicht has increased its final dividend by 10c to 100c, while both the group's marginal mines, Durban Roodepoort Deep and ERPM have passed their interims. This takes Blyvoors' total distribution for 1985/86 to 200c — against 180c previously.

Blyvoors chairman Mr Clive Knobbs said: "The mine's average gold price for the first calendar quarter of 1986 was just under R24 000. With gold now moving in a range of between R27 000 and R28 000 per kg, Blyvoor's average gold price in the current April/June quarter must clearly have improved."

On Durban Deep Mr Knobbs says that the decision to pass the interim should come as no surprise as it was forecast that further dividend payouts would only be possible if the gold price averaged over R25 000 a kg.

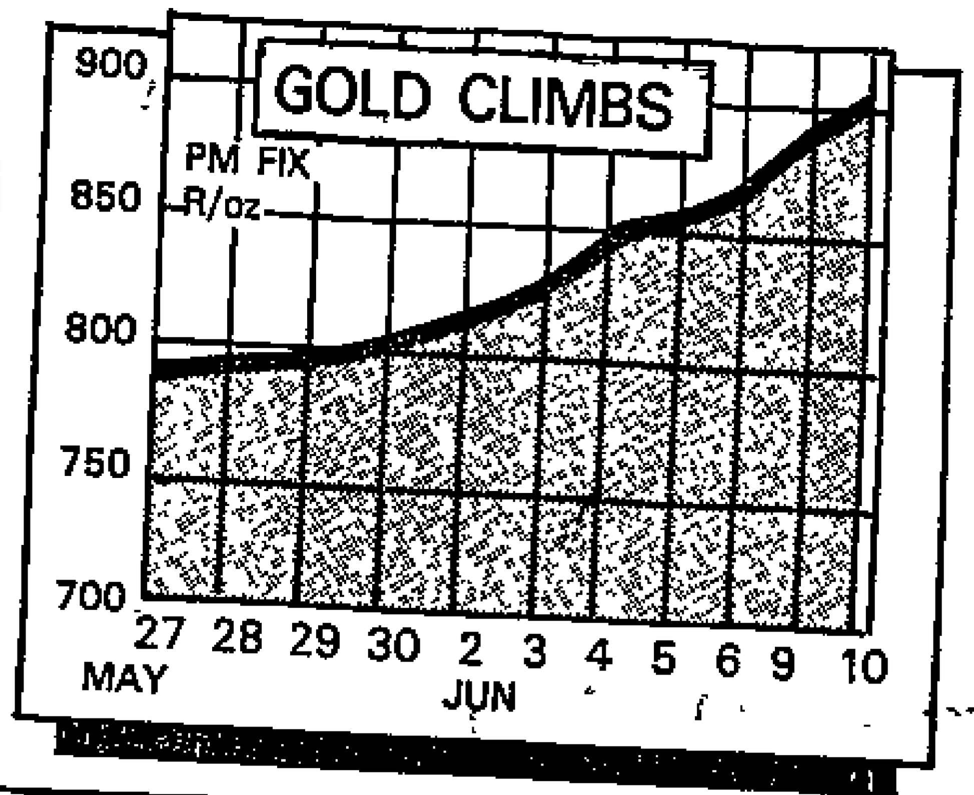
In the March quarter the gold price received averaged R23 854 and the mine's capex programme absorbed all profits. But the drop in the value of the rand will improve second quarter results, but not enough to justify the payment of an interim.

The big far east vertical project at ERPM continues to prevent it from paying a dividend. The mine — currently getting state assistance — had its March quarter profit of R5 million more than offset by capex of R15 million.

"THE VITAL

BUSDAY 11/6/86 (79)

Concern over SA supplies has precious metal markets climbing



PRECIOUS metals climbed on world markets yesterday, partly on concern about SA supplies and partly on a tumble in Wall Street, plus renewed debt pressure in Mexico.

Gold rose to a peak of R908,82/ounce, equal to R29 226/kg, while the Krugerrand climbed to a new peak of R1 010. The rise was accentuated by the rand's fall to $0,3835 yesterday from $0,3865 on Monday.

However, a short-term rise in the gold price does not necessarily imply a maintained uptrend in the longer-term earn-

LIZ ROUSE and ALAN SENDZUL

ings of the gold mines, as payment to mines depends on the day of delivery to the Rand Refinery.

Major mines may deliver three times a week, while others will vary between once a week and twice a month. Also, some gold is sold forward at previously contracted prices so the day's value makes no difference.

The average gold price in the past three months to date was R24 405/kg, based on an average gold price of $341,51 and an average rand of $0,4499.

On the JSE, selected gold shares, particularly those favoured by US operators, rose between 4% to 6% yesterday sending the all-gold index up 25,5 points to 1 262.

The JSE platinum index climbed 89,5 points to 2 515,7 and the overall market index firmed 15,1 points to 1 499,6, nearing its all-time high of 1 508.

An arbitrage broker said current gold share prices reflected a rand gold price of R800/ounce and foreign operators were therefore prepared to dip into gold shares on a short-term basis.

However the dollar price of gold remained an uncertainty and at the moment foreign operators were "raiders" rather than longer term investors in golds.

The London afternoon gold fix was $347,70, compared with Monday's close of $342,50. Free market platinum traded in the $438,75/$439,50/ ounce range yesterday, compared with Monday's afternoon

● To Page 2

Precious metal markets climbing

11/6/86 BUSDAY. (74)

● From Page 1

fixing of $422,50.

The metal jumped $25 to $445,70 on the New York Mercantile on Monday, mainly in anticipation of intensified racial unrest and concern over supplies from SA mines.

In SA, pessimism also hit the long-term bond market. Yields on the politically sensitive RSA 13% 2005 shot up to a peak of 17,6% (17,23% on Friday) sending bond prices crashing.

One bond trader said: "A disturbing trend is in the making. Long RSA bonds are headed up towards their record high of 18,34% in mid-November last year. We've had an eight-month bull run and it looks as if the low of 16,8% in early May has been confirmed as a turning point."

Political comment in this issue by Ken Owen. Newsbills by Michael Allwright. Headlines and sub-editing by Gordon Amos. All of 171 Main Street, Johannesburg

ROAD PASSENGER TRANSPORT

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Bullion dealers discounting 'scare stories'

Gold market rally has run out of steam

11/6/86 79

By Neil Behrmann

LONDON — Large South African gold stockpiles and potential sales from the Soviet Union and other producers stifled a gold market rally, dealers said yesterday.

But prices are likely to remain above $340, they said, because purchases by the Japanese and other consumers were underpinning the market.

Gold prices soared on Monday on expectations that unrest in South Africa would disrupt production.

But the spurt did not last. It was checked by reports that the Soviet Union, Canada and other producers were selling.

"It is just another blip," a West German bullion manager said "There were several scare stories in the past 18 months; soon afterwards boomlets fizzled out."

Speculators were overemphasising the impact of violence on South Africa's gold sales, said Mr Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner & Smith in London.

"If we look at the actual price performance it is hardly an inspiring picture."

"South African mines took steps to minimise potential supply disruptions," says Consolidated Gold Fields in an annual gold survey. It estimates that gold stocks are equal to "as much as three months' worth of normal production".

So far sporadic violence has had "minimal" impact on South African gold production, according to Consolidated Gold Fields.

Output fell by only 10 metric tons last year to 673 tons, mainly because the mines mined lower grade ore.

South Africa regularly supplied the markets in the past few months , dealers said.

"So much so that on Monday and Tuesday they took advantage of higher prices and completed their full weekly sales quota," said a Swiss bullion manager.

A wave of Japanese gold buying in the past few months was a more significant influence on gold prices than the unlikely possibility of supply disruptions, dealers said.

Japan leads market

Japan's gold imports were 136 tons in the first four months this year, nearly 70 percent of total imports in the whole of last year, said Sumitomo Corporation (UK) Ltd, a Japanese metals company.

"Without doubt Japan is leading the gold market this year; only a few years ago, it was insignificant, " a US dealer said.

Japanese were favouring gold partly because it was so cheap.

In dollars the gold price had risen by 24 percent from its low point last year, Japanese dealers said, but prices in yen had fallen by 22 percent.

Japanese buying, London dealers said, also boosted the market because their agents were demanding delivery on gold futures and options bought on Comex in New York. Traders on Comex had insufficient gold to supply the Japanese and were scrambling for gold, they said.

The gold deliveries, London dealers said, would be used to fulfil a part of a 200 metric ton order to mint 10 million coins to commemorate the 60th anniversary of the Emperor Hirohito's reign.

Some bullion dealers are confident that Japanese purchases, strong jewellery consumption and the potential investor and central bank demand will offset higher sales of the Soviet Union and other producers.

They said that the uncertain South African situation, Mexico's debt problems and weak stockmarkets would draw investors back into gold.

The Chernobyl accident and oil price decline would force the Russians to sell less gold than expected, a Swiss bullion manager said.

"Reports of Russian sales are highly exaggerated," the Swiss banker said. "They aren't so naive; they have negotiated large credit lines," he said.

Other dealers remain cautious and expect extensive Soviet selling.

Demand from the Middle East, a significant gold market slumped by 30 percent last year a Swiss bullion manager said.

"But for these sudden surges the market was dead, quite dead," he said.

79

THE ECONOMY

A June 16 kick for Kruger sellers

By REG RUMNEY

HARD assets like Krugerrands, long neglected because of their weak returns compared with money, stock markets and property, have come back into fashion recently.

Understandably, hard asset dealers last week in the run-up to June 16 reported renewed interest from buyers. Among these hard assets, the most popular is undoubtedly the Krugerrand.

The rush to buy gold, taken in all parts of the world as a sign of political uncertainty, is in South Africa also a sign of diminishing faith in the ability of the currency to hold its value. Krugerrands represent the most easily attainable "currency hedge" for the man in the street, and the expected decline in the rand offered the hope of speculative profits.

This is how it works.

If you bought one Krugerrand in, say, March this year, when gold was around $340 an ounce, and the rand was worth about US50c, a Krugerrand would have cost you around R700, including the then three percent premium.

If you sold that Krugerrand on Thursday, June 12, only three months later, at the more than R1 000 an cunce the Krugerrand was quoted on the JSE that day, you would have achieved a return of about 43 percent — less hidden costs, like the cost of holding a non-interest bearing hard asset investment like the Krugerrand, of course.

If, however, you had held on till this Tuesday to sell your Krugerrand, you would have kicked yourself.

The Krugerrand was quoted at R885,00 on the JSE.

Many, wrongly expecting that the South African political situation would panic the local and overseas markets, sending the gold price soaring and the rand plummeting, undoubtedly did kick themselves.

The opposite happened. Gold fell from a New York close of $346,75 on Thursday, June 12 to $336,25 late in London on Tuesday, recovering only slightly later in New York to $337,00.

The rand continued to rise, from a low of $0,3650 on the Thursday the State of Emergency was declared to close at R1 = $0,4250 on Wednesday.

At the close Thursday it stood at $0,4105.

Barclays Bank senior economist Lauretta Gell says, "The feeling in the market hasn't changed that the long-term trend is downwards," but in the short-term the rand could go to US43c, or even US45c.

Increased local demand for Krugerrands was evident months before June 16.

Indeed, at the beginning of April, the premium paid by local buyers of Krugerrands over the gold price was upped by the authorities by nine percent (on the one-ounce coin).

This was apparently done to dampen demand, which had risen because of the speculative possibilities Krugerrands offered, the logic being that the idea of Krugerrands was originally to garner foreign exchange by creating a second international gold market, of the coins, in addition to the bullion market.

However, the international Krugerrand market has been badly hit by the decision by the US, among others, to ban Krugerrand sales there. The US had been the biggest single market for the coins, after it opened up to Krugerrand selling in 1975.

Since the Chamber of Mines began selling in 1970, it is estimated that around 51-million Krugerrands have been sold, with fewer than 2-million sold in South Africa.

Krugerrand sales hit a peak of 6,01-million ounces or 26 percent of total gold production in 1978, declining to a sorry 1,77-million in 1984. Peak annual sales in South Africa have been put at around 300 000.

Current sales are not known, and Intergold, marketer of Krugerrands, has withdrawn behind a veil of secrecy, but sales dropped so low that in November last year Intergold suspended minting of the coins.

In any case, for South Africans, at the current and the expected short-term rand/dollar rates — unless you are optimistic enough to think the rand will miraculously take off to US50c and above soon — Krugerrands are probably still a good investment.

Golds turn mostly lower

14/6/86 STAR

Gold shares closed mostly lower on the Johannesburg Stock Exchange, reversing their firmer morning trend amid quiet and cautious trading, after the confused gyration in prices seen Thursday following the announcement of a nationwide state of emergency, dealers said.

Randfontein fell R7,00 at R273, Welkom 150c at R20,00 and Western Areas 60c at 900c, but Harties ended 20c firmer at R13,40. At the close about 24 gold shares were down, only 10 up and 10 unchanged.

Platinums were mixed with Rustenburg up 35c at R35,35 and Lydenburg down 50c at R29,25, while in diamonds, De Beers lost 75c at R27,25 after climbing to R28,50.

Mining financials and other minings tended easier in sympathy, Anglos dropping a 100c at R44,00 and SA Manganese 10c at 910c.

The Krugerrand closed R5,00 lower at R1010 while the financial rand ended at 22,15 US cents against yesterday's 21,65 finish.

The rest of the market generally followed the trend. In banks, Barclays fell 50c at R19, while industrials had Barlows down 25c at R17,20, Amic down 50c at R40,50 and Safren down 25c at R15,75.

At the close some 52 industrials were easier, 30 unchanged and only 13 firmer.

Shortly before the finish the JSE all gold index had slipped to 1225,1 from yesterday's 1237,4 close, the industrial index to 1137,3 from 1154,4 and the overall index to 1465,2 from 1484,7.— Sapa.

sons (RP)" says Bieber. He explains that the gap in RP's switchgear market below 10 kV will be filled by C-H.

In the existing diesel engine operations, NEI already has the Mack, International Harvester, Proguard Filter, Cummins and Perkins franchises. The addition of the transmission and axle range will bring it a step closer towards its aim of establishing a "bumper-to-bumper" truck network.

Bieber says that after acquiring C-H four years ago, Eaton Corporation has now returned the local operation to SA ownership on the grounds that it was not in Eaton's interest "to perpetuate a far-flung branch."

Given an option, NEI would presumably prefer to settle the acquisition by a share issue rather than by cash; one reason being the hefty 166% premium the share price of R43,50 attracts on end-December's net worth. Another is the containment of its interest bill, which multiplied more than tenfold to R3,6m last year. But whether or not Eaton would be willing to take shares in another SA-based group is a moot point.

Fuller implications will be available with the interim announcement in about eight weeks. As for interim earnings, investors will no doubt be expecting an improvement, in keeping with the past record. But, warns Bieber, "under difficult economic circumstances, I will be satisfied with a pedestrian pace."

Patric Ho

FIN MAIL 13/6/86.

BOUMAT

Off the bottom

The economic recession has hit the building industry harder than most. Against this background, investors will no doubt welcome Boumat's preliminary results for the year to end-March. Bear in mind, however, that the earnings improvement comes off a very low base. The 1986 earnings a share of 8,2c are only 10% of earnings two years ago.

Also, the earnings improvement did not emanate from better trading conditions. Chairman Irvine Brittan estimates a drop of some 10% in real activity. Although gross profit improved, it was not enough to compensate for the 11% increase in operating costs and the marginally higher incidence of bad debts.

In his forecast last year, Brittan projected an improvement in operating margins to 4,4%, mainly as a result of lower bad debts. This did not happen. Bad debts, which edged up to R7,2m (R6,8m), dragged actual margins down to 3,7% (3,9%). But Brittan reckons the worst is over. He tells me that remaining debtors are financially stronger than before.

Another blow, accounted for in extraordinary items, is the R2,8m write-off of the investment in B & S Furniture. Despite prospects of some sort of rescue operation at B & S, Boumat will recover little of its investment. Market value of B & S before its suspension was R512 000.

BOUMAT MOVES UP

Year to	Mar 31 '85	Mar 31 '86
Turnover (Rm)	412,1	416,9
Operating profit (Rm)	16,1	15,2
Interest paid (Rm)	12,4	10,6
Attributable earnings (Rm)	0,2	1,2
Earnings (c)	1,2	8,2
Dividends (c)	38,0	34,0

Bottom-line improvement came from lower interest paid, resulting mainly from easier interest rates in the second half and a lower effective tax rate. Although the tax rate dropped to 57,3% (72,4%), certain subsidiaries are still operating at a loss.

In line with the revised distribution policy of paying out 10% of net worth, a final dividend of 17c a share has been proposed to bring the year's distribution to 34c. Shareholders will again be given the option of a cash dividend or bonus shares in the ratio of one bonus share for every 20 shares held. Brittan makes no comment about future prospects ahead of the annual report.

Patric Ho

FIN MAIL 13/6/86.

GOLD 1986

Little optimism

79

Considering the widespread concerns about possible disruptive effects of threatened unrest in SA, it is not surprising that the gold price jumped to $347 on Tuesday. Investors had apparently taken the view that South African mining production could be hampered, while renewed worries about the Mexican debt imbroglio were also given as being behind the demand for gold.

For local investors, too, the combination of a firm bullion price and the crumbling rand has made gold-related investments attractive. The Krugerrand has broken through R1 000 to all-time records, and a number of gold shares showed gains over the past few days. None of this can yet be taken to indicate the strength of the bullion price will be anything but short-lived.

Prospects of any material disruption of South African gold production are dubious, given that the industry is believed to have accumulated above-ground stocks amounting to some three months' production. Leaving aside this question, there is also little for the immediate comfort of gold bugs in *Gold 1986*, the annual assessment of the gold market produced by Consolidated Gold Fields. On the whole, factors favourable for bullion are counter-balanced by negative factors. The report, written by George Milling-Stanley and Timothy Green, concludes there is "little prospect of any sustained movement in the price in either direction in 1986, although there will probably be a greater degree of volatility."

Like other commodities, bullion is influenced increasingly by currency factors. But the 27% depreciation in the dollar's trade-weighted value has not produced a commensurate rise in the gold price. "There are definite time lags in the past relationship between the two, and the gold price could move still higher on currency considerations alone, but it is more likely to remain unexciting unless a resurgence of inflation stimulates renewed investor interest."

There appear to have been some benefits from currencies. Imports of bullion into Japan edged up just 7%, which, while the highest ever recorded, was considered somewhat disappointing in view of the weakness of the price in local currency terms. However, when looking at investment demand, the report notes that the strength of the yen prompted substantial hoarding throughout the seven months from October 1985 to April 1986, and this is expected to remain at a high level during this year.

Japan is, in fact, forecast to be the biggest consumer of gold in the world in 1986, with its issue of 10m gold coins in celebration of the 60th anniversary of the accession of the Emperor Hirohito likely to absorb 200 t. Figures released this week show Japanese gold imports excluding coins soared in May to 94,26 t from 59,06 t in April. Against this, the whole coin market last year shrunk to its lowest level for 10 years. While fabrication of the Canadian Maple Leaf used 66,4 t (36,1 t) of gold in 1985, SA used only 24,4 t (74,1 t), and the total gold use in official coins dropped from 125,2 t to 108,1 t.

More important concerns centre on the Middle East, where demand fell in most sectors. "Throughout the Middle East, investment in gold declined during 1985 as the falling oil price reduced purchasing power," says *Gold 1986*. "Moreover, as hundreds of thousands of migrant workers were sent home from Saudi Arabia, Kuwait and the Arabian Gulf states, the number of potential buyers shrank." In the Middle East, identified investment holdings fell from 54,7 t to 40 t, gold use in carat jewellery fell from 143,2 t to 107,8 t, and total fabrication of gold tumbled to 118,8 t from 172,2 t.

Also, newly-mined Western production is increasing, having risen last year from 1 148,9 t to 1 212,8 t. Largest expansions were in the US, up to 79 t (68,5 t), Australia 57 t (39,1 t), Brazil 63,3 t (55,5 t), and Papua/New Guinea 33,2 t (18,7 t). While sales from the Communist bloc to the West remained steady in 1985, they are expected to be much higher this year. Lower hard-currency receipts from exports of oil and gas are assumed to lie behind higher Russian sales, and there is the new factor of Chernobyl.

Actions by SA could also be a depressant. *Gold 1986* says SA is under mounting pressure to increase gold sales. It argues that SA has large amounts of gold tied up in swap transactions, and has increased the total outstanding since the debt moratorium. However, certain debts fell outside the scope of the moratorium, and SA is finding it difficult to meet the required level of monthly repayments. "One solution being suggested is to convert some of the outstanding swaps into straightforward sales, and any significant increase in the gold price could render these pressures irresistible." ■

Gold coins in favour as bullion production gets steadily higher

Dr Gidlow

By Roger Gidlow

For many years the range of legal tender gold coins which were available on the market remained limited despite the success of South Africa with its Krugerrands.

This situation, however, is now changing fast. Several countries are planning to introduce their own gold coins.

The most important newcomer is in the United States which is launching its Eagle coins in October this year.

These coins could consume around 60 tons of gold in the first year, according to gold analysts.

The legislation authorising the issue states that the coins must be minted from newly mined American gold as far as possible, with Treasury stocks being depleted only as a last resort.

Unfortunately, this wll not be easily achieved. The sales policy of many American mining companies means that there is almost certain to be a deficiency in supply from domestic mines, and some of the gold required for the Eagle may be drawn from Treasury stocks.

DOMESTIC MARKET

Another important newcomer is Australia, where the Perth Mint in Western Australia has indicated that one ounce and fractional coins will be available from September onwards.

The expected demand for the coins in the domestic market alone could mean that roughly 10 tons or more is absorbed on an annual basis, partly because competition from foreign coins is restricted by import duties.

Both Luxemburg and Brazil are also planning their own coins, while even the Bolivian authorities are considering such a venture.

In the Bolivian case the proposed coin would be designed to provide help to the beleaguered tin industry. The government would mint coins from newly mined metal, and the profits would be used to help the tin industry.

Meanwhile, Mexico is selling gold coins to commemorate the World Cup soccer tournament, while Japan is buying more than 200 tons for a gold coin issue to celebrate th 60th anniversary of Emperor Hirohito's accession.

These coins are to be distinguished from bullion coins like the Krugerrand and others, but in the case of Japan a successful issue of this special coin could be possibly followed by a bullion coin at some future date.

These governmental moves to market gold coins have been motivated by several considerations. Firstly, some of these countries are seeking to exploit the opportunities presented by the growing resistance to the Krugerrand in the wake of the unrest in South Africa.

MARKET SEGMENT

The new competition is viewed in certain governmental quarters as one means whereby limited ecomomic sanctions can be imposed on South Africa by damaging the earnings of the country from its gold exports.

Although the coin market has shrunk in recent years with sales falling from 125 tons in 1984 to 108 tons last year, each different coin serves a new market segment. The overall result, therefore, should be increased demand for gold coins, especially since competition for market share could be fixed.

In the case of countries such as America and Brazil, their emergence as purveyors of coins is partly a by-product of their growing importance as gold producers. Given these circumstances there is a desire to expand the market potential for gold.

Brazilian production rose from 55 tons in 1984 to 63 tons last year, while Australia's production jumped almost 50 percent to 57 tons from 39 tons.

As the number of coin producers increase several interesting issues arise. One concerns the question of whether non-gold producing countries, like the Isle of Man and Luxemburg, should enter the market with their own national coins.

On the one hand this appeals to patriotic motives in segments of the coin market and should add to the overall offtake of gold coins.

On the other hand, a coin which is produced by a country which does not mine its own gold is likely to have limited credibility and appeal to investors, unless the country has traditionally been involved in large-scale gold trading such as Britain.

It might be preferable for such a country to market a coin with a purely international appeal.

MARKETING STRATEGY

Another issue focuses attention on countries which are gold producers, and the question of whether their coins should be marketed on a broad international scale or promoted abroad on a regional basis.

In the case of the US a broad international campaign would be suitable in view of the status of the dollar as an international currency, but in the case of other new producers like Brazil and Australia a regional marketing strategy may be preferable.

In other words, Brazil could concentrate its foreign marketing on the rest of Latin America, while Australia could provide coins for countries in the Far East.

Joel nil paid letters hold promise for Randfontein takers

Bus Day. 30/6/86

ADAM PAYNE

INVESTORS seeking to obtain shares in JCI's new Joel gold mine in the Free State will have the opportunity today of buying nil paid letters of allocation.

These are the shares being issued to Randfontein, which, because of its 45% interest in Joel, it is passing on to its shareholders.

Randfontein is the only holder of a large interest to be passing on its rights in Joel. Anglo American and associates will retain their 10% and JCI and associates will retain their 45% interest.

It is unlikely that large numbers of nil paid letters will come on the market from shareholders of Randfontein.

The shares are fairly tightly held, with JCI having 30,6%, which will give it an indirect interest in Joel beyond its original 45% direct holding.

The remaining shares in Randfontein are largely held by institutions and by other mining houses which are unlikely to pass on their rights.

One broker close to the scene has advised clients wishing to buy the nil paid letters not to go above R17,50.

The letters entitle the holder to five shares at R6 each and to one class A option operative in December 1987 entitling the holder to buy one share at R6, and finally one class B option entitling the holder to buy another share at R6 in December 1988.

"If the letters are above R17,50 we advise clients to rather buy Beatrix, which is almost an identical mine and is already producing," says the broker.

Gold loses its reputation for volatility

79 STAR 25/6/86

By Richard Lander

LONDON — At the turn of the decade, when the price of gold was heading towards $800 an ounce in leaps and bounds, Reuters news agency took the trouble to correct a report it had issued on the rapidly waning health of President Tito of Yugoslavia.

A translation error, Reuters reported in all gravity, meant the earlier dispatch had erred in saying that President Tito had managed to get out of bed. The true story was that after many days of almost total incapacity, he had at last been able to sit up in bed.

It is not recorded whether the gold price leapt dramatically after the Reuters medical bulletin had been set straight, but it neatly encapsulated an era when the merest hint that a key player on the world stage might be about to speak his exit line could provoke a sharp reaction on the bullion market.

The coincidence of the second oil shock, the Russian incursion into Afghanistan and the Iranian hostage crisis all served to send the precious metals markets spiralling upwards and the queues outside the offices of silver dealers stretched around the corner.

Today, the world is a very different place. The Russians remain in Afghanistan, but the American hostages are back home and the oil market has fallen apart.

More importantly, a six-year spell of positive real interest rates in most of the Western World has crushed inflation and knocked the stuffing out of gold as a hedge against the falling value of monetary investments.

The result has been that gold — around $340 an ounce — now reacts to global political developments with all the vigour of an octagenarian.

Whether it is an Indian or an Egyptian head of state being assasinated, or President Reagan bringing his "stand tall" policy to bear on the cities of Libya, the gold market has scarcely batted an eyelid.

The story has been repeated in recent weeks as South Africa, the world's largest gold storehouse, has erupted in political unrest of such magnitude that the government has seen fit to impose a state of emergency not seen in the West outside of a world war.

There is little point in wasting energy bemoaning this change in the volatility of gold, unless of course you happen to be one of the "apocalypse later" gold bugs, hiding out with your stock of bullion bars in a nuclear-proof bunker.

However, the situation in South Africa now is perhaps slightly different and deserves some second thoughts.

In a world accustomed to instant communications and a panoply of information sources, the most fundamental difference is that the level of uncertainty about events there is extremely high and increasing by the day.

The government's news blackout applies as much to events in and around the gold mines as to Soweto, Crossroads and the smoggy black townships of the Eastern Cape.

The Pretoria government has promised to maintain the media gag until it feels the spiralling violence that has shaken South Africa for almost two years has been brought under control.

By using its own criteria — and President P W Botha is not prepared to use anyone else's — it would be a fool who put money on a return to normality on any particular date soon.

On top of that uncertainty, there is also the possibility that the tentative structure which passes for industrial relations in the South African mines could break down completely.

It became apparent last week that Mr Cyril Ramaphosa, general secretary of the black National Union of Mineworkers had gone into hiding . . .

Whether he succeeds in evading the security forces, Mr Ramaphosa is effectively out of action.

The state of emergency has disrupted the consultation process all along the line, between unions and employers as well as between union leaders and their members.

It is desperately difficult to predict what might happen at the mines should the state of emergency continue to sustain this industrial relations hiatus.

Whatever transpires, there is a good chance that as far as the international gold markets are concerned, the developments in South Africa will take place in conditions of imperfect information — perhaps the most vital ingredient of price volatility. — *The Times*.

27/6/86 (79) FIN MAIL

FT GOLD CONFERENCE

Keeping the Au in caution

Ranging from the bullish to cautious to downright worried, speakers at the *Financial Times* gold conference in London provided the 208 delegates with much to ponder. That there were any bulls at all was perhaps surprising in the light of a general consensus about the slow growth, low inflation scenario for the world economy.

As for the anxious, the most prominent being Consolidated Gold Fields consultant Timothy Green, even they felt gold looked secure, if pewter-dull, in a \$300-\$350 trading range. The most positive view was voiced by the conference's one chartist speaker, Brian Marber, a leading UK technical analyst. Bearish at last year's Lugano gathering, Marber stated: "By my definition, gold is in a bull market." Behaviour of the spot price and moving averages (both the three- and 12-month) signalled an upturn which could run until 1989.


Baring

Unless something happened to abort the trend, Marber said gold should reach a minimum of \$403/oz. If it cleared that level, \$511 (the 1982 high) was the next target, followed by a technically feasible \$850. The price, however, is still perilously close to the breakdown point, the 12-month moving average sitting at \$331. Hence, Marber was worried about last week's abrupt reversal on Soweto anniversary day, emphasising, however, that "until and unless you get three consecutive London afternoon fixings of \$330, gold is in a bull market."

Non-technical advice from Alfred Schneider, first vice-president of Swiss Bank Corporation, was that "the period of consolidation is behind us and we have entered the preparation phase of a new bull cycle that could last for several years." There was, however, no need to hurry into bullion. The world remained sceptical of gold and the new trend required clear signs of a resurgence in inflation before it was "firmly launched."

Main


Tom Main, Chamber of Mines assistant general manager, remained a well-hedged hopeful: "No fireworks in the near future . . . (but) solid grounds for moderate optimism." He saw little chance of help for gold coming from the international debt situation. But Main did wonder how the perceptions of American investors would alter if US inflation doubled, if only to 6%, as falling oil prices ceased to be a factor and the weaker dollar made its impact.

Green, however, backed by Julian Baring, senior partner at brokers James Capel, argued that rising production meant the goldmining industry could not afford to wait for a return of investor interest. This year the only market which could be counted on for demand growth was Japan. The Emperor coin issue — 10m containing 20 g — could lift Japanese offtake to 500 t, double last year's imports. It could start a craze.

Victor Lam, MD of Shearson Lehman Brothers Bullion (Asia) of Hong Kong, said allocation of the coins would be done by lottery. And the Yen 100 000 face value was a premium of some 150% to the gold content which should prove irresistible to forgers. Green felt Japan might even take as much gold as SA produces, and said this was probably the chief reason the price had held at around \$340 this year. What happens if Japanese growth slows? And if India, where gold commanded a \$70-\$100 premium, ceases to be a strong market? Demand elsewhere was weakening. Italian fabrication was 10%-15% down as US and Middle East jewellery sales faltered.

Carat jewellery from Saudi Arabia, Yemen and Egypt has been coming back as scrap gold. Outside Japan, Far Eastern imports, which sustained gold's rally from its February low in the first five months of 1985, were down. Lam reported Hong Kong imports running at less than 20% of last year's average; Singapore was "very depressed;" Taiwan idle; and gold had been flowing out of Thailand to India.

Against this background, the swelling supply picture worried Green. In 1987 Western new mine output could be close to 1 400 t — nearly 200 t up on last year. Russia's oil and gas revenue losses and possibly the impact of Chernobyl on Ukraine food production meant "we must anticipate perhaps 300 t" from the whole Communist bloc (against 210 t in 1985). With Chinese sales rising — Lam reported China's gold reserves at 400 t six months ago and increased internal prices to stimulate small worker production — Communist sales could regularly total 250 t-350 t a year.

Leaving aside scrap (276 t in 1985), new supplies threaten to run at 1 650 t-1 750 t annually in the years ahead, said Green. He called for a radical marketing approach to jewellery — like that which launched the Krugerrand — to boost its consumption from 900 t to 1 000 t-1 100 t. Baring suggested the Western mining industry consider spending 3% of revenues on gold promotion — on Main's figure of R127m last year, Intergold's outlay was rather less than 1% — to meet the threat of expanding production.

Overall the *FT* conference did little to take the Au out of caution as an investment. A show of hands poll on whether gold's next big move would take the price to \$400 or \$280 produced a split which narrowly favoured the negative. ■

SPANISH ELECTIONS

Democracy rules

Belgium knocked Spain out of the World Cup on a penalty shoot out and tarnished the celebrations which greeted the re-election of Prime Minister Felipe Gonzalez's Socialist government on Sunday. It was, in any case, a solid victory, rather than a glittering triumph, which contradicted late opinion poll indications that the Socialists could lose their majority in the 350-seat Cortes.

Apathy was a strong factor. Nearly 30% of Spain's 29,2m eligible voters stayed away. That was 50% up on the 1982 total of abstentions and much of the increase was blamed on the indifference of 2m young first-time voters. This benefited the regional parties while disillusion — mainly over high unemployment of 21% — provided a fillip for two political comebacks, by ex-Premier Adolfo Suarez and the Communists.

As the *FM* went to press, with 90% of the count completed, both the Socialists and the rightwing Popular Coalition (PC) had lost seats. Projections gave the Socialists a safe majority of 187 (against 202) and the PC 103 (106) seats. The result was expected to produce the resignation of PC leader Manuel Fraga. The biggest gain went to Suarez and his Democratic and Social Centre (CDS). From two seats it shot to 19 — making the CDS the third biggest party in the Cortes — after a campaign in which Suarez traded heavily on the popularity he earned as prime minister during the transition to democracy after Franco's death. The battered Communist party doubled its representation to eight deputies. And the upsurge of regionalism in the Basque province and Catalonia gave these groups extra seats.

COMPANIES

79

Coins ban won't sway gold market yet

MERVYN HARRIS

THE planned introduction of new gold coins by several countries — or the expansion of the production and marketing of existing coins — will not significantly affect gold consumption before 1987.

This is the view of Anglo American directors in their review for the year ended March.

They say the ban on the importation of Krugerrands into the US, Japan and other countries resulted in a severe reduction in the sale of these coins, and a significant drop in gold offtake by the coin sector of the market.

"A substantial surplus of gold thus remained to be absorbed in investment markets, in competition with more attractive investment alternatives. This determined the flat prices experienced during 1985," they add.

With the exception of a brief rally to $341 in August, the dollar price of gold traded between $308 and $335 for the last nine months of 1985 — the narrowest price range seen in the gold market since 1977.

This reflected lack of interest by the general investor when attention was absorbed by strong stock market performances in all major centres, continuing real returns in the bond markets and movements in the currency markets.

However, the sharp depreciation of the rand against all major currencies sent the rand gold price to R900 by December. The price eased to R730 at the end of March after the recovery of the rand.

The investment sector of the market remained the determining influence on the price of gold in 1985, with gold supply continuing to exceed physical demand.

SA gold production declined slightly in 1985, though overall Western world production increased and Comecon gold sales grew by a small margin.

Renewed market interest in 1986 has pushed the price to a new range of $330 to $360. This price range has been sustained by investor concern over a combination of issues, including the lower dollar, political tensions in Middle Eastern countries and Libya, labour unrest in SA mines, and the possibility of an international banking crisis arising from falling world crude oil prices.

The directors note that oil prices have not yet established a firm floor level and the full effects of these developments remains to be seen in the oil and bullion markets.

Coal sales by SA mines administered by Anglos increased from 37,8-million tons to 38,1-million last year. This formed about 23% of the national total.

The market for internationally-traded steam coal continued to grow, and prices under longer-term supply contracts were generally higher than in 1985.

However, increased availability from established suppliers such as Australia, SA and the US, and, more recently, from Colombia, has depressed spot prices.

The price fall has been accelerated by the sharp decline in oil prices this year.

SA coal prices have been further hit by the decision of certain countries to lessen, or even eliminate, their reliance on SA coal because of unfavourable perceptions of the country's political situation.

While depressed domestic markets last year were partly offset by rising exports, fiscal measures, supported by monetary policies, are likely to have a modest expansionary bias in the year ahead.

"Unfortunately, only a moderate growth target can be countenanced under present circumstances," say the directors.

"Inflation is at an exceptionally high level, and domestic spending has to be kept within the limits imposed by debt-repayment commitments concluded with foreign banks.

"The emergence of a recovery, and its strength and durability, depend critically on the country being able to move towards normality in international and domestic relationships."

79 FIN MAIL 4/7/86

POTCH GOLD

Listing ahead

The mining exploration section of the JSE will soon list another company — Potchefstroom Gold Areas (PGA) — which will offer investors the chance to participate in exploration work looking for new gold mines in the "Potchefstroom gap," between existing gold mines of the West Wits line and the Klerksdorp area.

PGA's assets will include the exploration and mineral rights currently held by Southern Prospecting in exploration joint ventures in the region led by Anglo American Corporation. Sponsoring broker for the issue is Martin and Co and the merchant bank is UAL.

Confirming the intention to list PGA, Southern Prospecting MD Chris von Christierson, tells me the Potchefstroom gap has become one of the most promising areas in the gold exploration boom that has run since 1982. He declined to give details of the issue price or number of shares on offer ahead of the release of the prospectus later this month.

Raymond Preston

PGA's Von Christierson . . . exploration to intensify

Von Christierson believes the exploration boom will intensify because of pressure on the mining houses to find replacement ore reserves. "If you look at the existing mines with short expected lifespans, say 10 years, then you get a figure of about 78 t a year of gold production that needs to be replaced.

"Let's assume the current average grade for the gold mining industry remains unchanged at 5,78 g/t, which implies no further decline. That means an additional 13,5 Mt a year would have to be milled to replace today's short life production. To justify this new investment, reserves for 25 years — about 338 Mt — have to be proven immediately.

"Assume also that a reserve of 40 Mt of ore is the minimum needed to support a major new shaft system, or a smallish mine such as JCI's Joel or Gencor's Unisel. We therefore need 8,5 such new mines to be on stream within 10 years, amounting to one every 14 months.

"That may not happen, but it shows why the mining houses are spending so much on exploration," Von Christierson says.

PGA's exploration interests include a 10% subscription right — the company does not have to contribute to exploration costs — over some 10 000 ha of ground in the area north-east of Potchefstroom. This is known as the Mooirivier venture.

The company also has a 26% stake over some 36 000 ha in the Vyfhoek venture area, running from immediately north of Potchefstroom south to the Vaal River, and west to the Lucas block east of Buffelsfontein gold mine. PGA has a 6% subscription right here and must contribute its share of exploration costs on the remaining 20%.

PGA also has subscription rights ranging between 8% and 10% over ground totalling 10 000 ha in the South West Vaal Venture Area, lying north and west of the farm Goedgenoeg where Vaal Reefs gold mine recently announced a major expansion.

Of the three areas the Mooirivier venture looks the most interesting: the ground in which PGA has a stake lies immediately south of the farm Gerhardminnebron and takes in the farms Stompoorfontein, Buffelsvlei and Boschhoek. These farms occupy key positions in a major exploration drive by Anglo and Gold Fields of SA (GFSA) to prove a possible new entry point into the Witwatersrand Basin; eight drill rigs are operating in the area.

AAC and GFSA and their associates or subsidiaries hold the bulk of the mineral rights to the area. New Central Witwatersrand Areas (NCW) holds rights to the southern portion of Gerhardminnebron where Anglo is currently drilling. Last year NCW sold off 50% of its Gerhardminnebron mineral rights to parent Anglo for R9,45m. The deal raised queries on whether NCW should have retained the stake in a possible new gold mine and instead have held a rights issue to raise money to fund its share of the drilling costs

In April NCW published results for borehole MGM1 in a form which did not refer to specific reef horizons but instead gave a block of reef intersections classified as: "conglomerates of the Johannesburg subgroup." Other geologists have refined these published figures, and point out that MGM1 showed values of 821 and 1 756 cm g/t on the Bird Reef, and of 209, 60, 577, 710, 440 and 83 cm g/t on the Livingstone Johnstone reef series

The focus since the mid-Forties, when drilling first started in this area, is the Bird Reef because of the belief held by some geologists that the Bird Reef correlates with the Vaal Reef, which is exploited by the mines of the Klerksdorp field. NCW's MGM1 Bird Reef intersections are encouraging.

A number of geologists are now convinced the Bird and Vaal reefs correlate. They feel the drilling programme around Gerhardminnebron is aimed at proving a new mine or mines to exploit this horizon, and that the work south of Potchefstroom is looking for upthrown, isolated blocks of Vaal Reef.

They may be right, but investors keen to get some of the action through a company such as PGA should remember these are highly speculative shares. There will be no dividends and any rewards will come in the form of rights to subscribe to any new mines set up. There is also no guarantee on when developments will occur. As noted, the mining houses have been drilling this area for more than 30 years. But developments could be close to hand — an announcement say within three years — given the need to find new ore reserves and the limited areas left to explore.

Brendan Ryan

FIN MAIL

USCO 4/7/86

No fireworks

Given the benefits of a much improved local steel market, Union Steel Corp's (Usco) recovery hopes for the interim to end-March were dashed by unresolved teething problems at its new direct reduction plant. However, losses in the steel division have been reduced. In the previous year, the group ran up total losses of R19,5m, of which R26,8m was attributable to the steel division; at the interim the total figure was whittled down to R7,6m.

Despite a 35% drop in the non-ferrous division's despatches, group turnover increased by 20,8%, largely as a result of better local steel demand and higher billet exports. However, the group's copper and aluminium products markets were not as buoyant. Delays in capital projects hampered demand, and this resulted in "a substantial decrease

Shift in emphasis to fighting unemployment

Inflation rates crucial to a gold price recovery

2/7/86 STAR (79)

Dr Gidlow

By Dr Roger Gidlow

Six years of positive real interest rates in most of the western countries and sluggish economic growth have combined to bring about a marked fall in the rate of inflation. One by-product of these conditions has been a sharp decline in the dollar price of gold as investors downgrade the merits of the yellow metal as a hedge asset in a less inflationery world.

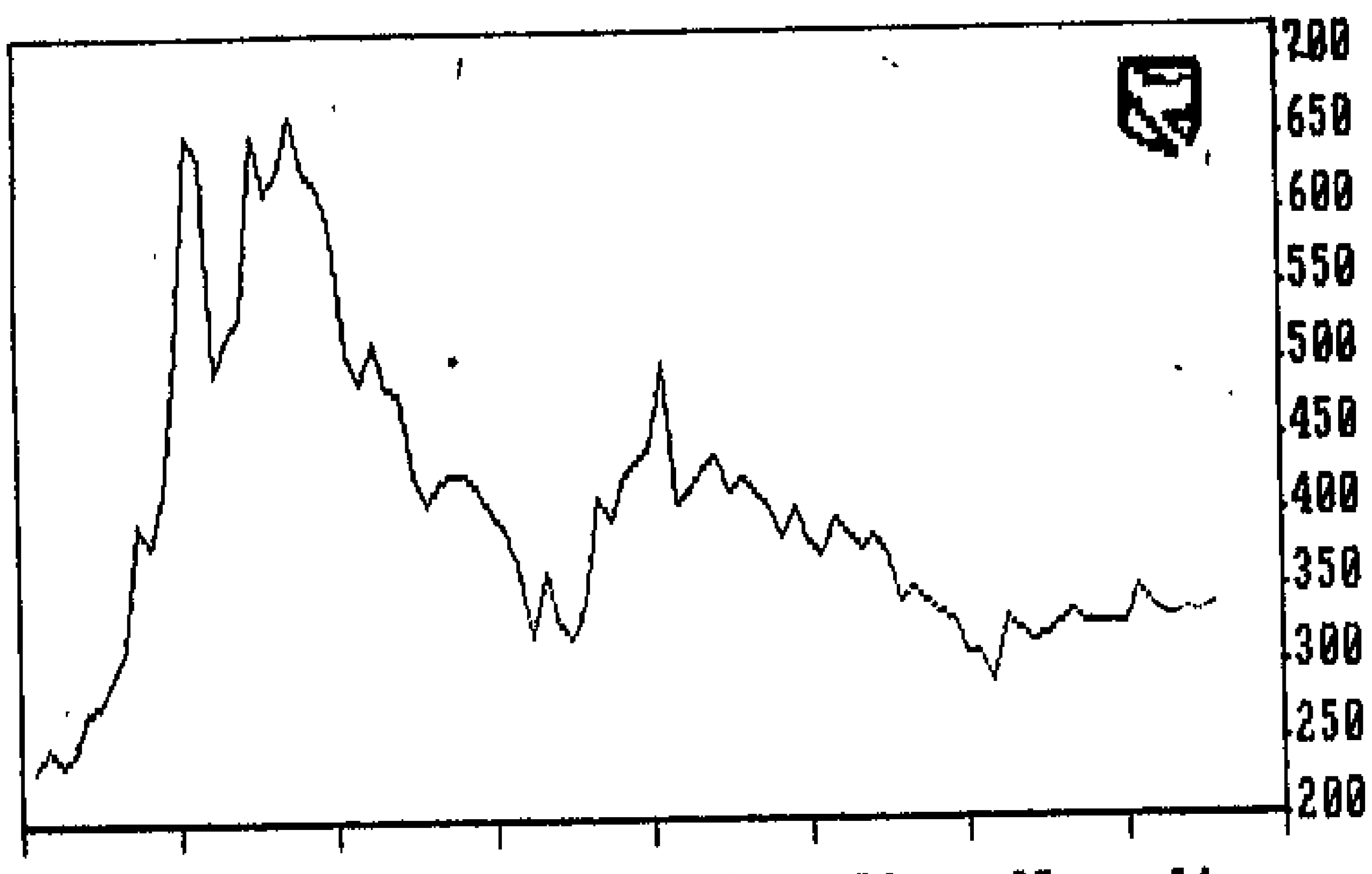
Most analysts take the view that a sustained recovery in the price of gold will only occur if inflationary pressures begin to increase again in western countries.

On this basis it is crucial to ascertain whether the very low level of inflation now prevailing in western countries is temporary or permanent.

Only time will tell, but some insight on this question can be gleaned from recent developments in the British economy where the success achieved in reducing the rate of inflation has been particularly pronounced. After rising above 20 percent in 1980 the rate of inflation as measured by the consumer price index fell to 2,8 percent in April this year, its lowest level for 18 years.

Keen debate

The British government now faces a major challenge in trying to convince the public that low inflation is beneficial and here to stay. The cost of bringing down inflation in terms of manufacturing output has not recovered to the levels prevailing back in 1979.



The London gold price in dollars since 1979.

A keen debate is now emerging about whether the present anti-inflationary policies will produce long-term benefits and, if they do, whether they will be enough to outweigh the costs incurred in bringing down inflation.

In Britain today there is in any case scepticism about the durability of the present low inflationary environment. Political pressures are perceived to be slowly inducing the authorities to shift their priorities from fighting inflation to fighting unemployment. This perception partly explains why long-term government stocks still yield 9,5 percent while the rate of inflation is below three percent.

This failure of long-term interest rates to follow in the same direction as inflation has been a disappointment. It not only indicates a lack of conviction that inflation can remain low. It has also deprived the public of one of the most important economic benefits expected from the low inflation.

High interest rates played a key role in the original formulation of anti-inflationary policy. Once inflation was conquered the low interest rates which were to follow were supposed to be the main stimulative force which would restore full employment.

This has not occurred. The longer these potential benefits prove elusive the greater the danger that political pressures in Britain will lead to a reversal in policy, and therefore the adoption of more expansionary economic policies. This fear is deeply ingrained in British financial markets.

Scepticism about the chances inflation remaining low is only strengthened by the present outcome of wage negotiations.

Wages are rising at an annual rate of roughly 7,5 percent, and this is threatening to push up prices once the full effects of the recent fall in international oil prices have exerted their influence.

The experiences in Britain in the past few years have convincingly revealed that inflation can be curbed by appropriate monetary policies. Yet policymakers in Britain and elsewhere have failed to find the formula for rendering lower rates of inflation compatible with high levels of employment.

Negative impact

The presence of exceedingly high real interest rates in the face of a collapse in inflation in Britain has been especially crucial. If these rates do not fall the fears which sustain them may become fulfilled as the authorities resort to more expansionary policies and inflationary pressures become more visible.

High positive rates of interest are not confined to Britain even though they are especially marked in that country.

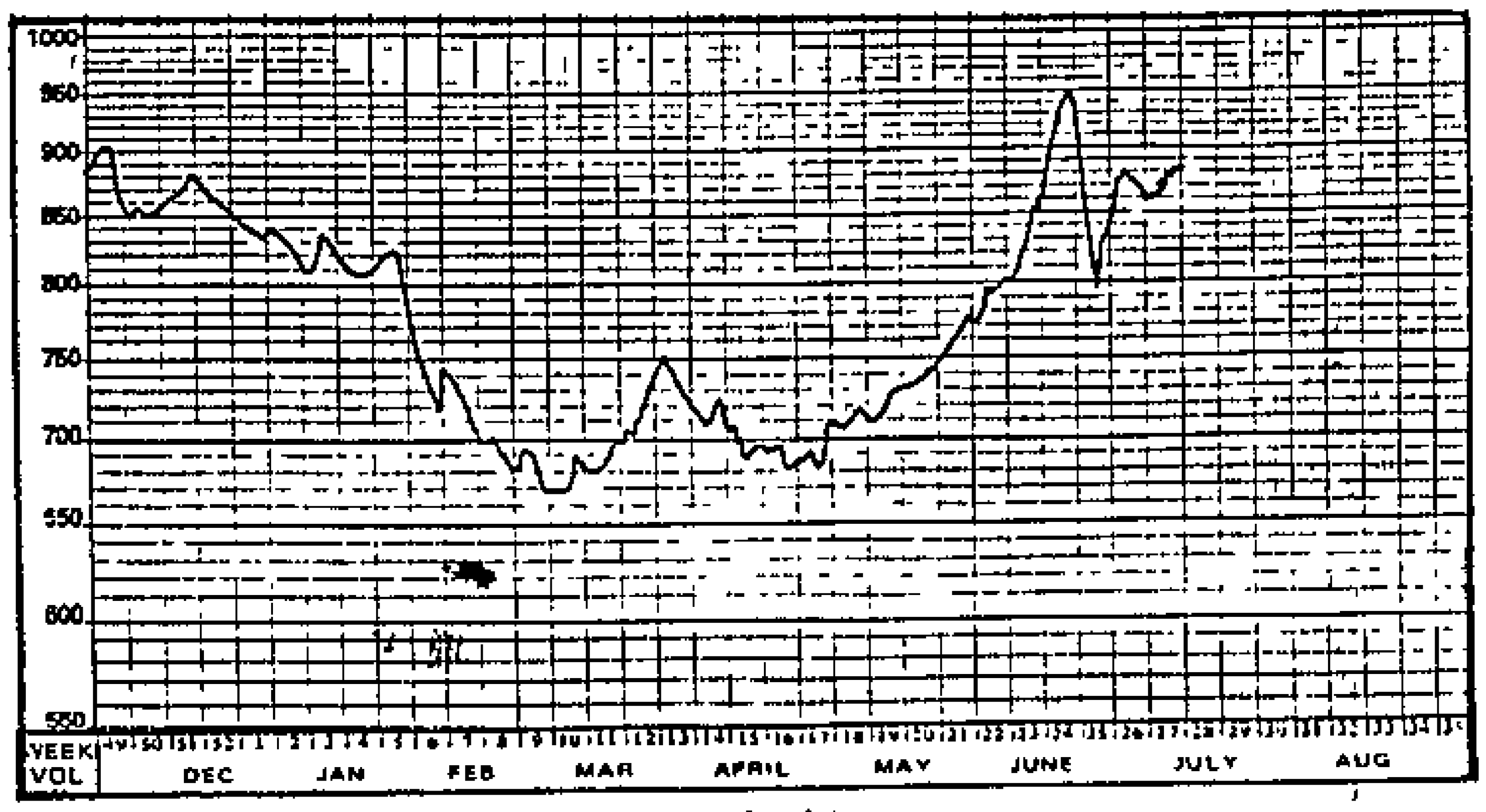
From the point of view of the gold market any continuation of such high rates of interest in western countries in general, although negative in the short term, may prove bullish in the longer term.

This is because policy-makers could become more inclined to adopt less restrictive policies in an effort to counteract the negative impact of such high rates on employment in western countries as well as the Third World debt impasse.

Fluctuating gold price hurts GFSA's half-yearly results

8/7/86 Star (79)

By Gareth Costa



Gold price in rands this year.

The fluctuating rand gold price played havoc with Gold Fields of South Africa's (GFSA) quarterly results to end-June, with the group recording working profits well below those of the previous quarter.

After achieving a better-than-average — and one of the best — gold price of R25 000/kg in the first quarter, GFSA dipped below the R24 700/kg average for the past three months to record an overall R23 743/kg.

In fact, if it hadn't been the mines' year-ends when capital expenditure is pushed through with a consequent tax reduction, the mines would have been in the sorry state of having earnings lower than the R240 million last time.

Instead, the 28 percent decrease in tax to R185 million helped to achieve a working profit of R252 million.

Mr Colin Fenton, head of GFSA's gold division, ascribes the lower than average gold price to timing.

One of the main reasons must be that the group closed its books for the quarter at least two weeks before the end of June.

The gold price in this short period was a lot higher than that in the last two weeks of the March quarter, which formed a part of the accounting period, and so the average price was lower.

The group's tonnage milled remained the same at 3,7 million tons, while gold production was slightly up from 29 861kg to 29 951kg.

Gold revenue was R36 million down at R712 million, while pre-tax profit was down from R499 million to R437 million.

The working costs per ton were up from R81,57 to R87,11, mainly due to a liability provision on the mine's unskilled labour's leave scheme.

Capital expenditure rose by 56 percent to R135 million, but Mr Fenton said that this was not an increase in actual expansions, but mostly the accelerated paying of bills before the year-end.

The individual mines saw Libanon and Venterspost performing better than their richer stablemates by increasing grades and limiting working cost increases.

Chairman Robin Plumbridge

Kloof continued to get the relatively low grade of 13g/ton, but Mr Fenton said that the mine was beginning to work a rich longwall, which could see it showing grades in the region of 15g/ton in about six months time.

He added that the yields did vary over time and it depended on the mix of longwalls throughout the period. After-tax profit was R9 million up at R78 million.

Driefontein peformed the worst even though the gold price received was more than R24 000/kg, but the tax bill was not low enough to compensate the R20 million drop in gold revenue.

Grades remained virtually static, but they could improve as the Carbon Leader reef is worked again, while a slight drop in gold production saw working profit down at R223 million from R247 million.

Profit after tax was R6 million down at R109 million.

Doornfontein was "battling with grades", but an overprovision for tax of R5 million helped lift the bottom line to R23 million from R14 million.

Deelkraal costs "were not good" at R77 a ton which had been held down by the lack of development, while total profit was well down

$350,80 gold price pleasant surprise for SA

News 9/7/86

79

Financial Editor

IN these unhappy times there is one encouraging development. It is the continued firmness of the gold price — the key to South Africa's current prosperity.

In spite of forecasts by many authoritative commentators that the gold price is likely to drop to $300 an ounce, it still keeps on rising.

Today in London it reached $350,80 an ounce — its highest price since mid-March, and a gain of $3,80 since last night's London close.

This gives much cause for satisfaction. A month ago the gold price was around $330 an ounce, and a year ago around $315 an ounce. So though the improvement in the gold price during the past 12 months has not been spectacular, its cumulative effect has been fairly significant.

All told, South Africa should earn $63 million or R150 million more from gold this month than a year ago.

One reason for gold's unexpected firmness appears to be increased Japanese buying. The Japanese government this year has already taken 80 tons (equal to six weeks' South African production) from the market for the Hirohito commemorative medal.

And ordinary Japanese now are reported also to be buying the metal in worthwhile quantities. The firmness of the yen appears to have encouraged this development. Gold is now selling in Japan for 56 000 yen an ounce, which is 26 percent less than the 75 600 yen it cost a year ago.

At the same time it seems that the heavy Russian gold sales which were forecast after the Chernobyl disaster have not materialised — possibly because of that country's increased earnings from the high platinum price. In New York last night this reached $442 an ounce.

Reports of "go slows" and possible strikes on the gold mines could also be helping the gold price. If so, it reinforces the view that the gold supply demand position must be roughly in equilibrium at around current prices.

The US dollar was quoted at 159,70 yen on the Tokyo foreign exchange market today, down from yesterday's 160,65 close.

Gold eases from 14-week high

79

Cape Times 10/7/86

LONDON. — Gold eased in the afternoon some $2,35 off the 14-week fixing high of $350,35 it touched in the morning, but dealers said it was too early to say that the rally of the last two days is over.

The metal closed at $347,75-$348,25 after an afternoon fixing of $348,10. Its opening price was $349,10-$349,60.

Early trading featured strong physical demand from the Far East and continued speculation that Japan was buying for the coin it plans to mint to mark the Emperor's anniversary.

But there was Swiss selling in mid-morning, and New York operators took profits after starting as buyers.

Some dealers believe that because of over-subscription, Japan may have decided to mint more Emperor Coins than the 10m it has said it will issue. Others were sceptical of this.

Dealers said the buying over the last two days, reported by some to have been channelled through two Swiss banks and a US investment bank, followed a pattern similar to that seen on June 30, when a single purchaser made a strong but brief entry into a quiet market.

But they said yesterday's movements have probably left some operators short, and the next move could be a return to $350.

Strike fears boost gold on world markets

9/7/86 STAR

79

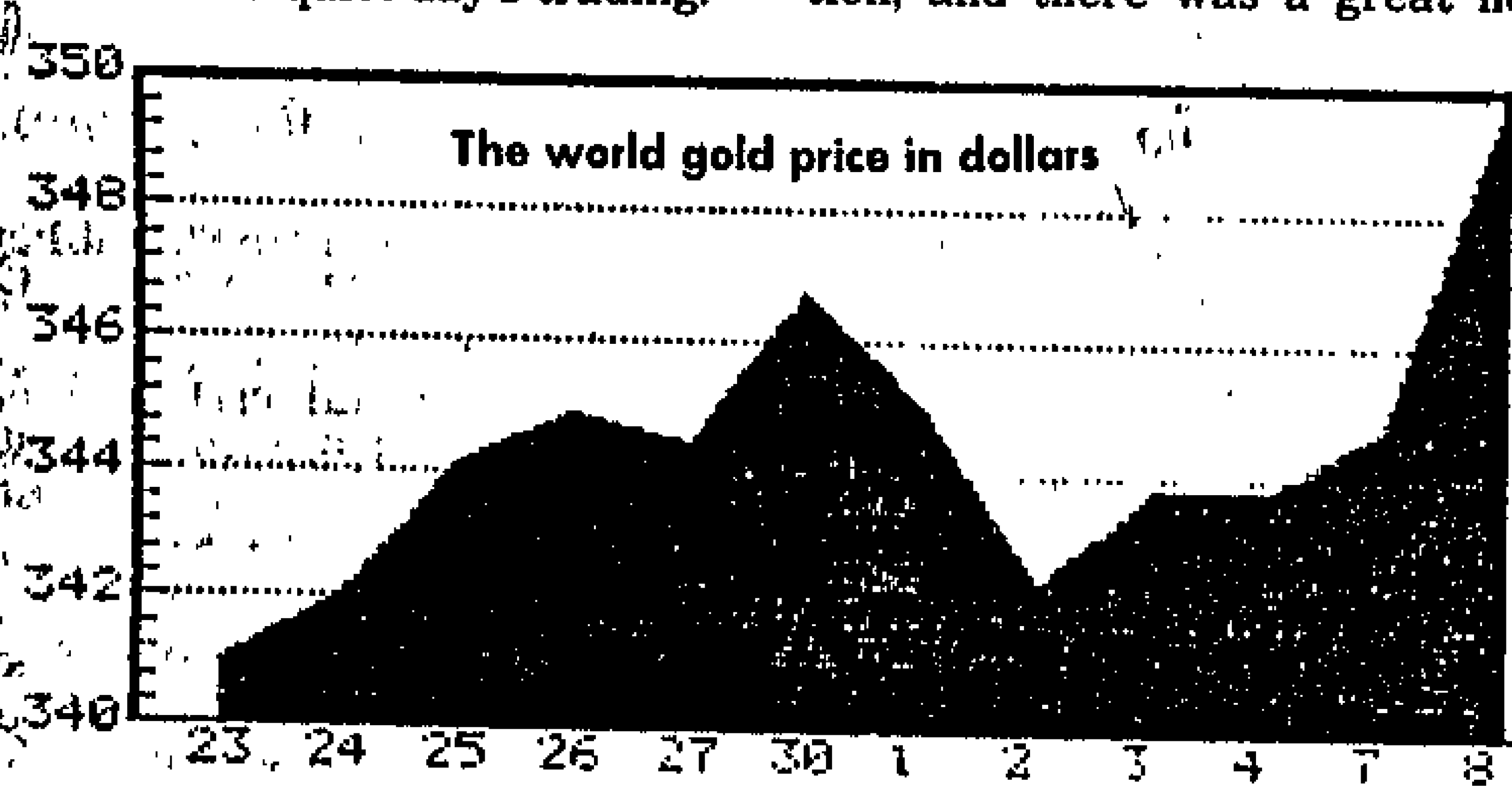
By Financial Staff

Gold bullion blipped out of its stable trading range of just over $340 an ounce, to surge $5 to $349,50 in New York, in a day of hectic trading as labour unrest news in SA filtered through.

Reports of 18 000 strikers — with an estimated 8 000 strikers on Gencor mines — and reports of go-slows on Anglo American and various other mines including De Beers, pushed the price of gold to $347,85 in London after closing the day before at $344,85.

In New York, dealers said that diminishing stockpiles had also made the metal a more favourable hedge, while the London surge had been helped by large purchases from a single source.

Gold shares on the JSE were mixed after a quiet day's trading.



The last time gold "spiked" out of its trading range, which was around June 16, it dropped back just as sharply.


Clive Knobbs

Immediate past president of the Chamber of Mines, Mr Clive Knobbs said this morning that there were no fundamental reasons why the gold price should increase, rather it was the perceived extent of the labour unrest which he thought was unfounded.

He said that there was a lot of downward pressure on gold because of the over supply situation, and there was a great need for an improvement in demand to get the the metal to move out of the narrow trading range of the past year of between $320-$340 an ounce.

Mr Knobbs said that strikes were always a threat, and the market, not the industry takes a gloomy approach to them, but the track record suggests that no serious disruptions of longer than a week should occur.

Wage negotiations are still under dispute, with the Chamber of Mines having implemented an increase of between 17 and 20 percent and two hours less in the working fortnight, while the National Union of Mineworkers (NUM) is asking for 30 percent, among various other demands icluding a large cut in the working hours.

Mr Knobbs said that with the dispute hanging over the industry, it was susceptible to strikes. He added that the Conciliation Board would have to sit in the near future, where the dispute would be negotiated or a deadlock would be reached, and the NUM would have a ballot on whether to strike or not.

He said that the implemented increase had been well received on the mines.

Gold traded at $347,63 in Hong Kong today.

Gold hedging bonus for Rand Mines

15/7/86 STAR

79

By Gareth Costa

Beneficial gold hedging and a low increase in working costs at Rand Mines have resulted in most of its gold producers recording increased profits in the June quarter.

The group had a 23 percent increase in pre-tax profit to R111 million, while after-tax profit was 18 percent up at R83 million.

However, ERPM slipped into the red for the quarter, even after receiving nearly R1 000/kg more for its gold at R25 530/kg. Gold produced by the mine slipped by 90kg to 2 235kg, after a drop in grade to 3,37g/ton from 3,55g/ton.

Analysts say that while this indicates the current position of the mine, most are confident that given time things will improve when the 5g/ton from the Far East Vertical shaft starts coming through. The mine will begin working parts of the new ore body by the end of the year.

They do say, though, that it is imperative that costs are kept down, but this should be possible once the old and inefficient shaft systems are phased out and the gold plants modernised.


Clive Knobbs, head of the gold division.

ERPM recorded a working loss of R8,6 million, but state assistance of R9 million pulled it into the black before taxation with R1,1 million. However, after tax the mine was R1,4 million in the red, equal to 165c a share after capex. Last quarter the loss was 91c a share.

The mine has hedged about a quarter of its production forward for the next three months at a price of R28 000/kg.

Harmony increased production to 7 309kg, while the yield eased marginaly to 3,52g/ton. Analysts were expecting it to move back to around 4g/ton.

The excellent gold price of R26 154/kg received from R23 930/kg the previous quarter offset the R4 higher working cost of R68,53/ton, to record revenue from gold and silver of R191 million, while working profit was R57 million.

A low tax bill due to the end of the financial year and increased capex, saw the mine's pre-tax profits rising to R61,2 million from R47,8 million. After capital expenditure of R43 million, earnings were 68c a share from the 45c last time around.

Blyvooruitzicht achieved good results for the three months, with a vastly increased ore throughput to 589 000 tons, back to previous levels after the first quarter's wildcat strike which saw it drop to 498 000 tons.

The mine produced nearly 600kg more gold even after the grade eased slightly to 6,15g/ton from 6,2g/ton. Costs came down with the increased tonnage, falling R6 to R84/ton milled.

Working profits were R43,6 million, while the bottom line of after-tax profit was R18 million, up from R14 million Earnings after capital expenditure were 57c a share, up from 39c.

Durban Deep recorded a "pleasing" after tax profit of R5,2 million, while working costs were down slightly at R73,47/ton from R73,86/ton.

Beatrix more than doubles taxed income

17/7/86 BW0141

79

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ADAM PAYNE

BEATRIX was the outstanding performer of the Gencor gold mines in the June quarter.

It more than doubled taxed income to R12,9m (R5,5m) with higher tonnage and improved yield.

It received the highest price in the group at R25 310/kg.

The average price received was R24 128/kg, which was higher than the GFSA average of R23 743/kg and JCI's R23 678, but lower than Anglovaal's R26 480 and Rand Mines' R25 805.

The group's total income after tax rose R19%. Capital expenditure was 63% higher, with the result that total profit after tax and capex was down 0,9% compared with March.

Reports from the mines were:

Buffels: Attributable income rose 15% to R34,2m, in spite of lower yield at 8,1g/t (8,6 g/t).

Higher tonnage milled resulted in slightly more gold being produced.

The mine is still experiencing problems in the Strathmore area, where the replacement of working faces at the previously planned rate continues to be restricted by severe faulting.

While this situation persists the production rate will continue to be adversely affected.

Beatrix: [continued] the mining performance, although yield was down. Heavier capex hit earnings a share at 78c (107c).

The continued effects of the closure of high-grade areas, after a seismic event in February, were reflected in the lower yield at 4,5g/t (4,9g/t).

Estimated capex for the remainder of the financial year to December totals R20,7m (R18,2m first six months).

Stilfontein: The mine's performance from gold mining was down with a profit of R5,6m (R7m), but a R4,8m dividend from Chemwes increased profit to R10,4m (R7m).

Chemwes' income rose to R3,9m (R2,8m) in the quarter.

Winkelhaak: The mine raised its taxed profit by 32% to R23,2m with improved yield and a slightly higher tonnage.

A reduction in tax because of higher capex helped the result. Grade improved in development.

Kinross: Results were down with lower tonnage and a lower gold price received.

[redacted]

Gencor	Tons Milled 000	Yield	Cost R/ton	Cost $/oz	Rev $/oz	Rev R/Kg	Cost R/Kg	Net Profits R'000	Net Profit after Capex R'000	EPS After Capex cents
Buffelsfontein	751	8,1	112	195	346	24 505	13 814	34 189	24 168	220
March	704	8,6	117,67	194	348	24 631	13 747	29 763	22 496	205
Beatrix	511	5,7	78,95	188	342	25 310	13 892	12 906	6 906	—
March	448	5,4	79,82	212	335	23 281	14 746	5 511	4 364	—
Stilfontein	426	5,3	104,30	273	338	24 363	19 712	10 391	8 325	64
March	417	5,4	100,25	267	340	23 450	18 416	7 028	5 108	39
West Rand Cons	520	1,9	44,24	333	351	24 138	22 984	1 733	953	22
March	510	2,0	42,75	319	345	23 520	21 805	1 700	1 190	28
Kinross	525	6,1	67,74	161	345	23 799	11 187	17 038	12 047	66,9
March	535	6,2	61,28	136	337	24 587	9 947	19 360	15 331	85,0
Bracken	225	3,4	57,56	243	347	23 486	16 952	2 828	2 572	18,4
March	237	3,4	52,75	207	338	24 914	15 512	3 080	2 932	20,9
Leslie	350	2,4	48,51	279	346	23 903	19 973	2 257	2 142	13,4
March	346	2,6	46,72	245	337	24 392	17 961	2 632	2 509	15,7
St Helena	580	4,5	71,49	219	341	24 598	15 888	18 668	7 516	78
March	580	4,9	64,84	187	337	23 834	13 234	17 399	10 288	107
Unisel	348	6,9	57,97	115	341	24 455	8 402	15 828	12 614	45
March	335	7,1	56,55	112	337	23 640	7 957	14 644	12 377	44
Winkels	602	5,8	79,19	148	346	23 714	10 325	23 242	12 673	104
March	567	5,6	81,12	140	339	24 294	10 116	17 584	13 405	110
Grootvlei	445	3,1	60,56	278	344	24 027	19 713	4 149	2 987	26
March	440	3,4	59,14	245	340	24 338	17 561	6 144	3 964	35
Marievale	86	2,9	60,08	296	343	23 248	20 423	748	573	12,7
March	88	2,9	66,90	318	340	25 029	23 454	457	383	9

Estimated capex for the year to June 1987 is R25,8m (R32m).

Available ore reserves at June 30 totalled R4,3m tons at a grade of 10,02g/t, calculated at a gold price of R24 000/kg.

Beatrix: Grade and milling improved, resulting in a 20% improvement in gold production.

Capex rose to R6m (R1,1m). The estimated capex for the year to next June is R23,8m.

Available ore reserves at June 30 totalled 1,970-million tons averaging 8,9g/t.

St Helena: There was little change in

Bracken: The gold price received was lower after hedging operations.

Tonnage was down, but lower tax helped the results which were virtually unchanged.

Marievale: An excellent reduction in working costs resulted in the after-tax profit being raised.

A lower gold price was received after forward sales.

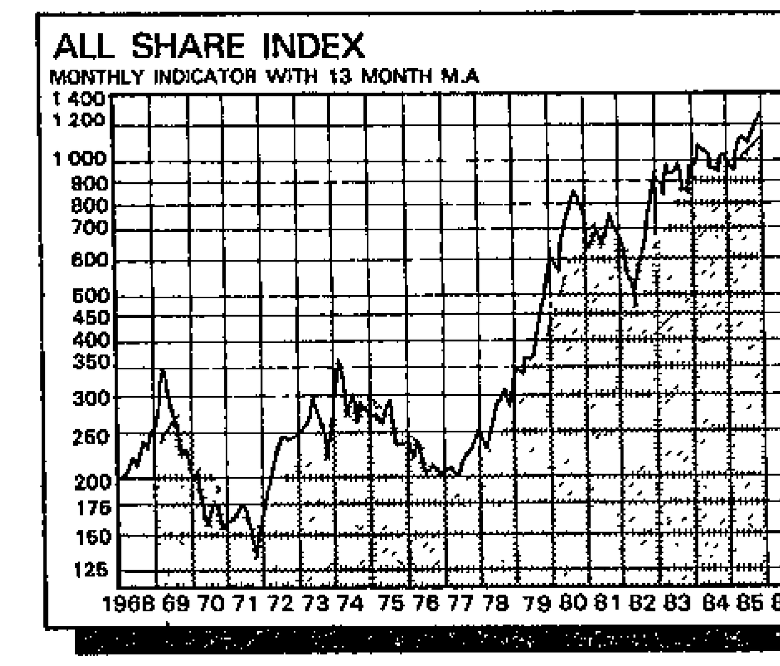
Grootvlei: Tonnage and yield were lower, resulting in net profit being down 33% at R4,1m.

West Rand Cons: Although working costs were higher, the final result was unchanged with a higher gold price and a tax credit.

Leslie: Yield and gold price received were down, but lower tax helped the end result. Net profit was down 15%.

Bus Day 26/3/86 (79)

Investor attitudes to gold shares



PIERRE GOLDIE, investment analyst, Board of Executors

A FEW years after the start of gold mining in Johannesburg, general opinion was that by the mid-1890s Johannesburg would be a ghost town. Reserves were finite and deep-level mining was a vague notion.

But in 1894 Karl Schmeiser, a mining expert from Germany, published a comprehensive study of the Transvaal gold fields. His findings provided an authoritative appreciation of the long-term potential of the gold fields, in particular the effect of deep-level mining on the life of mines. Not surprisingly, a major share boom ensued.

Having survived a long period of a fixed bullion price ($35 per ounce), helped by increasingly sophisticated mining methods and state aid in some cases, we now turn our attention to investor attitudes to gold and gold shares from 1970 onwards.

As recently as 10 years ago, few institutions regarded direct investment in the shares of gold mines as acceptable for their insurance and pension funds.

A gold mine was "a hole in the ground" whose output — the yellow metal — was subject to price determinants which were largely unresearched and decidedly irrational.

Gold was a barbaric relic of the darker periods of history which nevertheless still enjoyed an honorary status amidst a widening range of sophisticated financial instruments.

In 1973, bullion was freed from its fixed price — and the gold price began to adjust to a long period of accumulated inflations.

Gold shares (see chart, right) anticipated this by a year and by 1974 they had appreciated about five-fold. There was a sharp downward reaction thereafter, with gold shares almost one-quarter of their 1974 peak.

A major inflationary spiral in the late Seventies sent gold and gold shares rising sharply once more.

Institutions began a progressively closer examination of these "holes in the ground". Mining analysts increased in number, boasting impressive degrees in geology, finance and business administration.

One-handed economists joined investment teams, confidently projecting international inflation rates and from these the future course of the gold price — namely, ever-upwards.

Even the more mystical investment letters, predicting gold prices of $3 000 per ounce, received serious attention.

Despite much initial scepticism, so-called structural inflation and Opec's power crumbled in the face of the financial discipline of the major Western economies — and with it the gold price.

From the end of 1980 to mid-1982, gold shares halved in value and pessimism was at its worst.

Suddenly — in mid-1982 — the international debt crisis emerged. Economists, who by this stage had grown another hand, found convincing reasons why the major economies should reflate to avert a worsening crisis among the debtor nations.

Of course, this would have accelerated inflation and with it the gold price. However, the debtor countries survived, but bullion did not, declining steadily from $500 to just under $300.

Gold shares fell and were truly holes in the ground — and speculative ones at that.

Anyone who sold gold shares in early 1984, expecting the gold price to fall, was quite right — it fell from $381 to $308 by the end of 1984.

But gold shares were considerably higher in value in rand terms by the end of the year.

The rand exchange rate fell sharply right to the end of 1985. As a result, gold mines received far more rands for their gold sales than before, rand profits boomed and so did share prices, surviving large-scale selling by overseas investors alarmed by adverse political news.

The first two months of 1986 have already seen far greater volatility in the bullion price.

In January the price surged to $380 before retreating to the $330 level. Significantly, the price appears far more sensitive to political events (Libya/US) than before (the Falklands War had little effect on bullion).

Already, commentators are repeating all the old arguments favouring a new bull trend (inflation, debt crisis, political tensions). But it seems too early to argue that a new bull trend has commenced.

Perhaps the next major move will have its roots in major currency instability. In the meantime, a volatile oil price is adding uncertainty to the bullion market.

PERFORMANCE OF GOLD SHARES

1961 to 1985	Average One-Year Return %	Number of Years: Positive	Number of Years: Negative	Range of Returns %	Standard Deviation of Return %
All Gold Index	23,1	18	7	−38,4 to 113,0	38,9
Industrial and Financial	21,5	20	5	−40,4 to 71,5	26,3

PROFILE OF GOLD INVESTORS

	THE GOLD BUG	THE GOLD CYNIC
Philosophy	Gold has got to go up, it always does	Gold is like a casino; there is no logical explanation for its gyrations.
Stock Phrases	Bull market, next leg, Eliot wave cycle.	Roller coaster, unpredictable, a gamble.
Dress Psyche	Flashy, extrovert. Intuitive thinker, 'right brain'-dominated.	Conservative. Rational, logical, 'left brain'-dominated
Personality	Childlike, trusting, optimistic.	Suspicious, cautious, serious.

Despite major fluctuations in the prices of gold shares, returns over the past 25 years have been remarkably good, exceeding the average one-year returns on the Industrial and Financial Index by 1,6%.

Volatility has been considerably greater, as measured by a much higher standard deviation (38,9% against 26,3%) and gold shares have enjoyed an 18-to-7 positive/negative ratio over the 25-year period versus a 20-to-5 positive/negative for industrial and financial shares.

Even optimists must agree that the progress of civilisation will not be without the occasional crisis — be it economic, political or social.

These crises have a positive effect on bullion, and gold shares represent a healthy insurance policy against these events.

Cynics will not be able to withstand the volatility of gold shares and will constantly suspect the risk/reward principle (i.e., higher returns for higher risk).

This is understandable, but the Board of Executors believes that to avoid investment in the mining houses is a serious omission.

We prefer to recommend long-life mines, ideally with expanding production, to investors who are happy with direct gold investments. These mines have generally out-performed the shorter-life, high-cost mines.

It is difficult to reconcile the finite lives of gold mines with their superior share price performance to industrial and financial shares over the past 25 years.

The gold share market has proved to be a market of surprises. Nevertheless, the positive surprises have outweighed the negative influences, leaving gold shares ahead of industrials by the end of 1985.

It is worth recalling the "ghost city" fears of the early days of mining. With increasingly sophisticated exploration and mining methods, perhaps investors are not fully appreciating the wealth of the country's gold reserves.

Investor sophistication has yet to increase. Those that made the most money out of gold shares are those who endured the major cycles and who generally stayed with the long-life, quality mines.

18/7/86 79

BUS DAY

Western Deep profit up by 38%

Investment staff

WESTERN Deep Levels was the outstanding performer among Anglo American's Transvaal gold mines in the June quarter.

Its profit after tax and capex rose 38% to R41,9m (R30,2m), with increased tonnage, a lower yield but a higher gold price at R24 598/kg (R24 460).

Its results were aided by considerably lower tax at R27,3m (R50,9m) due to higher capex.

Total profits earned by the Transvaal mines improved slightly. The gold price received was 2% lower.

Provision for tax fell 27% to R193,3m, because of the lower pre-tax profits and higher capex which increased by R13,2m to R157,9m.

Tons milled increased by 2% to 4,7-million.

Average grade fell by 0,14g/t to 6,7g/t, resulting in a small drop in gold output.

Although total working costs increased by 4,6% because of the increased mining activity and escalation, costs in rands-a-ton milled increased by 2,4% to R75,20.

Reports from the mines:

Vaal Reefs: A 31% drop in tax to R116,2m, and an expected doubling in capital spending to R61,9m, resulted in available profit increasing by 19,5% to R102,3m.

Included in profit is the dividend from Southvaal of R24,7m, and an increase of R20,1m in uranium profit to R41,9m.

Total working costs increased by 4%.

In the South lease area tons milled increased by 4% to 1,135-million tons, and gold production rose by 2% to 10 184kg.

Total working costs were 15% higher at R94,3m, largely because of increased mining activity and additional, non-recurring costs arising from labour unrest reported in the March quarter.

Gold production in the Afrikander lease area increased by 9% to 292kg, because of an increase in tons milled and a slightly improved yield.

Although no capital expenditure was forecast for the year, an amount of R1,3m has been spent — mainly on exploration development — to take advantage of the higher than forecast gold price.

Western Deep Levels: The new No 1 Shaft and plant were commissioned with 114 000 tons of ore being hoisted. Area mined increased by 16%.

Recovered grade throughout the mine dropped by 9,6% because of lower grades of dump material treated at No 3 plant, and normal lock-up of gold in the new No 1 plant.

This absorbtion is expected to continue at a diminishing rate.

Gold production fell 3% to 9 203kg.

Working costs were 4% higher mainly because of increased stoping activity and cost escalation.

Elandsrand: Available profit increased by 17% to R30,7m. Operations were at the expected higher rate, with tons milled rising by 8% to 499 000t.

Grade was higher resulting in increased gold production.

Ergo: Available profit increased 19% to R8,7m, mainly because of a drop in capex from R35,4m to R9,5m.

Because of the swing in capex, tax increased by R12,3m from a credit balance of R6,8m to R5,5m debit.

In spite of a 13% higher slimes treatment rate at 5,4-million tons, gold production at Ergo division dropped by 231kg to 1 595kg because of expected lower head grades and an increase in gold-in-process inventory.

Gold production at Simmergo division increased 17% to 494kg.

Anglo American	Tons milled 000	Yield	Cost R/Ton	Cost $/oz*	Rev $/oz*	Rev R/Kg	Cost R/Kg	Net profits 000	Profits after capex 000	EPS after capex cents
Vaal Reefs	2 881	7,21	76,43	147,5	342	24 661	10 607	165 542	102 122	538
March	2 908	7,23	72,49	146	353	25 282	10 021	112 308	85 591	450
Western Deep	1 359	6,77	74,62	153	341	24 598	11 020	104 934	41 867	154
March	1 270	7,49	76,48	149	344	24 460	10 215	90 285	30 236	111
Elandsrand	499	6,18	69,29	156	344	24 687	11 213	42 975	30 693	32
March	462	5,9	70,65	175	346	24 790	11 970	38 607	26 180	27
SA Lands	632	0,71	8,61	167	341	24 073	12 042	1 238	1 378	15
March	646	0,68	8,8	189	341	24 179	12 896	419	1 388	15
Freegold	5 594	4,88	74,81	212,9	342	24 571	15 316	172 277	66 536	57
March	5 293	5,07	76,58	210	341	24 351	15 094	189 849	82 754	71

* Standard Bank average exchange rate April-June 86 $0,4471
Jan-March 86 $0,47

Freegold profit dip

CHERILYN IRETON

PROFITS of Anglo American's Free State gold mines, which merged to form Freegold in February, dropped by 10% to R172,3m (R189,8m) in the June quarter.

Although the rand gold price received strengthened to R24 571/kg (R24 351), revenue from gold sales fell by R23,5m because of the timing of gold dispatches.

Capex decreased marginally to R108,3m (R112,2m).

Gold production for the quarter was up 1,7% to 27 324kg because of a 5,8% increase in the area mined.

Freegold's north region achieved an increase in gold production to 13 933kg (13 919kg). This resulted largely from an increase in the area mined which rose by 5,4% to 568 000m² (539 000m²) which more than compensated for a reduction in grade to 5,10g/t (5,23g/t).

The small increase in gold production failed to raise profit with revenue lower and costs higher. Profit fell to R111,9m (R150,3m).

Capex decreased by 17% to R22,9m (R27,6m).

The south region achieved an increase in production of 3,5% to 13 391kg (12 937kg). This was the result of an increase in area mined of 6,2%.

Grade, however, declined to 4,68g/t (4,91g/t) reflecting the increase in marginal ore being mined in the light of an improved gold price.

The 4,7% fall in grade was also due to the lock-up of gold in the new President Brand gold plant. This absorption of gold is expected to continue in the current quarter at a diminishing rate.

Although revenue was higher at R329,6m, costs rose by 5% leaving profit marginally up at R122,9m.

Capex in the south was little changed and included R31,5m on Erfdeel.

Orders placed and outstanding on the group's capital contracts at June 30 totalled R173,1m.

The Joint Metallurgical Scheme reported increased revenue of R42,9m (R29,2m) with profit rising strongly to R12,9m (R7,3m).

The improvement resulted largely from the rescheduling of uranium sales referred to in the March quarterly report.

Anglo mines' interims higher

LIZ ROUSE

ANGLO American's Transvaal mines have all declared higher interim dividends, in line with analysts' estimates.

Vaal Reefs' interim payment has been raised by 100c to 900c and Western Deep Levels' interim has been lifted to 255c from 220c.

Elandsrand is paying an interim of 55c, up from 40c, with Sallies' interim up from 20c to 27,5c.

Mercury - 21/07/86

Gold shares boom predicted

Mercury Correspondent

JOHANNESBURG—The surge in the gold price to \$355,50/\$356 in New York over the weekend could herald a run on gold shares similar to the platinum boom.

The combination of a higher dollar price — convincingly above the \$350 barrier — and a weak financial rand acting as protection against foreign profit-taking, could warm up the gold board this week, say brokers.

A conjunction of stars — gold remaining at \$347 in past weeks, indicating a breakthrough on charts; the coming U S Congress debate on the national debt (the U S is technically in default); Bank America's shock losses, the Bank of Oklahoma's collapse, bringing the failure of U S savings and trusts institutions to more than 40 this year; plus the debt repayment problems of Mexico and Venezuela, are all bullish for gold.

In the shorter term, fears of production disruption at gold mines point to a gold price rise.

Brokers have in past weeks persistently predicted a gold breakthrough. A gold price of \$360 could see the rand strengthening to \$0,40, easing SA's import bill of strategic products such as oil.

Oil imports were said to have caused last week's rand slump.

The run in diamonds, platinums and mining houses in the past week could well signal a similar run on gold shares.

But the strength of the industrial market in the face of a faltering economy came into question on Friday. Experts were calling the market overheated as yields narrowed dramatically.

De Beers stood at a yield of 1,8%. Such yields were seen in the late 1960s boom and analysts were beginning to distrust the JSE's run when Wall Street was faltering.

New highs in minings and selected rand-hedge stocks were achieved on relatively low turnover.

The JSE's total turnover in ordinary shares, at R169,4 million, showed only a small percentage gain on low volume trade in past weeks.

Dealings in industrials perked up at nearly R70 million, but mining board volume was relatively weak at R99,4 million.

New gold price boom?

3/7/86 RAND DAILY

LIZ ROUSE

A WEEKEND surge in the gold price through the $350 barrier in New York and Hong Kong presages a run in gold shares and a massive jump in the Krugerrand price.

Brokers said the Krugerrand, clamped into a 6 000 coins-a-week issue to dealers by Intergold, should show a massive jump today.

Based on a dollar price of gold of $355/$356 in New York and a $353,90/$354,40 in Hong Kong on Saturday, and an only slightly firmer rand of about $0,39, the one-ounce coin's rise could far outstrip the gain of R60 when premiums were lifted in March.

As the gold price jump of more than $6 in Hong Kong alone should strengthen the rand, brokers were unwilling to pinpoint the extent of the Krugerrand rise.

Dealers reported massive Krugerrand trade in the past three weeks by banks, such as Investec Bank which concentrates on wholesale deals. Heavy institutional buying of Krugerrands appears to have anticipated the clamp on local sales.

Krugerrand dealings in the JSE retail market have been running between R3m-R4m a week in the past month, indicating that smaller investors have also laid in stocks.

Brokers said the JSE deals were, by comparison, small compared with wholesale trade by banks. Investec alone could well double the amount of coins bought.

Analysts questioned the timing of the cut in Krugerrand supplies to banks when gold seemed set to break through $350.

The surge in the gold price was attributed to a number of bullish factors for the metal.

Gold could well be set for a run similar to that of platinum, whose price has soared on an imbalance beween demand and supply and fears of production cuts in SA's large producers, say analysts.

A gold price of $360 could see a rand at $0,40 and justify the run on the JSE last week — questioned by conservatives as unjustified on economic basics.

● See Pages 3 and 6

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Clamp on private buying of K'rands

WE Post 19/7/86

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Weekend Post Correspondent

JOHANNESBURG — Monetary authorities have clamped down on the purchase of Krugerrands as a private investment by South Africans because the Government "needs all the gold it can lay its hands on" to bolster the country's depleted foreign currency reserves.

A statement from the International Gold Corporation, the official marketing arm for the Chamber of Mines, has placed a weekly limit of 6 000 ounces of gold that may be sold in this form from Monday.

Sources close to the Reserve Bank told The Star newspaper today: "While there is no objection to the holding of gold by individuals, the increasing demand has meant there is not enough gold remaining in the State's coffers for acquiring foreign currency."

Demand for Krugerrands, as a hedge against inflation and because of the weak state of the rand, has skyrocketed recently.

The demand has pushed the price of the gold coins through the R1 000 mark — double the level at the beginning of 1985.

And the volume of coins traded has soared above the 10 000 ounces a week mark recently.

Attempts to slow sales by imposing a premium on coins sold locally failed to stem the demand.

High gold price helps West Wits

21/7/86 (19) BUSDAY

CHERILYN IRETON

WEST Wits was the only mine in the Johannesburg Mining & Finance Corporation group to improve its profits in the June quarter.

Egoli's earnings a share fell to 2c and taxed profits tumbled to R706 414, from the March quarter's level of R11 872 093.

March quarter results were distorted by several non-recurring items — including a R9,3m surplus on the realisation of assets and R1,6m from the sale of a sand dump.

In the June quarter tonnages increased to 182 789t (119 224t), with production, costs/kg and the average price of gold received all up on the previous quarter.

However, yield fell from 1,04g/t to 0,82g/t because of lower grade material being treated in the GGMA Vlei area. Lower grade was also recovered from the sand dump being treated at Sallies mine.

Johannesburg Mining & Finance Corporation is satisfied with Egoli's results.

Said director Tony Netto: "Although operating income is down by about R100 000, we are happy that, with higher volumes of throughput, we will catch up in the next few months."

Capex rose to R57 463 because of expenditure on a Leach plant.

West Wits was saved by the higher gold price of R26 551 (R22 641) received, which pushed up working profits to R5 576 (R4 749) a kilogram of gold produced.

Taxed profits rose to R1,4m

Waverley's taxed profits dropped to R263 130 (R350 705) because of problems with high concentrates of pyritic rock.

● See Page 9

BUSDAY 79 22/7/86

Quarterlies unexciting

ADAM PAYNE

QUARTERLY results from gold mines showed some good performances but were generally unexciting.

However, the interim dividends from Anglo's Transvaal mines, compared with a year ago, were excellent.

Beatrix, Western Deep Levels and Elandrand were among the outstanding producers, but Buffelsfontein, among the big mines, gave cause for concern.

Costs generally were high because pay increases were granted in May for white mineworkers and in June for officials.

Pay rises for blacks were granted from July 1. The full effects of all these pay rises will be felt in the current quarter.

The gold price received was only slightly higher than in the March quarter. In some mines the price was slightly lower because of the timing of deliveries.

The gold price averaged about R767/oz after the previous quarter's R747. At the end of last week it was almost R900.

Provided they hold, the effect of cost increases, which were heavy in June and will be heavier in the current quarter, should be countered.

Freegold, which was launched in February, was disappointing financially, but mining operations were impressive, with higher tonnage and area mined.

The group could have been affected by labour unrest in recent months, although this was not mentioned in the report.

The lower grade in the Free State was partly due to mining at lower pay limits because of the high gold price and was partly ascribable to the loss of gold in the new President Brand plant.

A similar loss of gold occurred, as it always does in a new plant, in the Western Deep Levels newly commissioned plant at No 1 Shaft.

Elandsrand's tonnage was back to normal after being down because of labour problems. The mine was the only Anglo producer with higher grade.

It is apparently moving into higher grade areas which are found towards the eastern and western boundaries. The central area is lower grade.

In the Anglovaal group, one of the best performers was Hartebeestfontein where the ore reserve was well maintained and grade improved. The mine is performing well, as is Loraine where grade and profit improved.

Loraine's good performance suggests that a satisfactory final dividend for the year to September will be declared.

In the Johnnies group, the feature was the report on mechanisation underground at Randfontein. Similar mechanisation has been introduced at Western Deep Levels No 1 Shaft and will be employed at the developing Joel mine.

Randfontein has cancelled its forward sales contracts. Western Areas still has forward exchange and sales contracts.

Western Areas is insuring its position as a low-grade producer, but so far has done so at a cost because hedging has resulted in receiving a lower-than-average price.

Gencor's results included a disappointing performance from Kinross which for three successive quarters has reported lower milling tonnages and lower yield.

Since it is a good mine, too much attention should not be attached to recent performance.

Buffelsfontein again reported problems in getting working face in the Strathmore area because of heavy faulting. Probably because of this the yield was lower.

Analysts consider the faulting could have lowered the mine's long-term reserves. In their projections, some have cut its life from 20 to 12 years.

Should the mine get good values in deep drilling in the Strathmore area, exploitation of the reefs would be extremely costly. The present outlook is not encouraging.

23/7/86

Bus Day

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Sub Nigel prepares for a listing on JSE

BRIAN ZLOTNICK

THE shares of Sub Nigel, a gold mine near Nigel, are to be listed on the JSE on Wednesday August 20 after a private placing of 5-million shares at 180c each.

They are being placed through sponsoring brokers, Ivor Jones and Simpson Frater, a parcel with Sub Nigel's associates and 1-million with London brokers, James Capel.

According to the prospectus published in today's edition of *Business Day* the issue is not being underwritten.

In total there will be 22,1-million shares initially listed and a further 4-million — currently 15% convertible debentures that were placed in October with James Capel — within the next two years.

Rhombus, the manager of Sub Nigel, which owns just over 13-million shares, is controlled by MD Les Holmes (90% stake) and financial director Rob Still (10%).

The balance of the Sub Nigel shares, 4,1-million, are owned by former Rhombus shareholders.

For the general investor, among some of the critical questions are what price he should be prepared to pay stags and will there be a proper market for the shares.

Still says he expects Sub Nigel to have at least 600 shareholders after the placing and estimates that about 2,5-million shares will be traded within the first few months of its listing and later another 2,5-million shares to come onto the market from former Rhombus shareholders.

Sub Nigel already has an infrastructure in place as it was a major producer until it was closed in 1969 and is expected to swing into full production by 1990.

In 1990 the mine is expected to have available for distribution, at a gold price of R26 000/kg, and an exchange rate of $0,435 to R1, about R8,4m or 40c each year thereafter for another 14 years.

This compares with a current gold price of about R28 500/kg and an exchange rate of $0,40 to R1.

Even so the mine is not that highly geared to the gold price with full production at 480 000 tons per annum, gold produced 2 162kg and costs amounting to R10 500/kg or R52 per ton milled (432 000 tons milled).

Total ore reserves are estimated at 15Mt at an average in situ grade of 5,6g/t.

However, 9Mt are classified as possible so erring on the side of being conservative the mine is expected to only have a life of 14 years from 1990 onwards.

To reach full capacity capex is put at R24m in current money terms.

Profits and money available for distribution will rise sharply from the R567 000 in the nine months to March 1986, as the mine moves towards full production.

Some investors might grumble that Rhombus, which to date has only received R250 000 in management fees, is to be paid for its services 2% of annual revenue received by Sub Nigel from the sale of gold and silver and 4% of gross capex.

In 1990, in today's money terms, Sub Nigel's revenue is estimated to be at least R50m with Rhombus receiving R1m per annum, and furthermore Rhombus will receive a minimum of R60 000 per month from April 1 of this year.

The management contract is less onerous than on most other mines but seems to compare less favourably with Southgo, an adjacent mine whose shares are currently on offer.

More to the point is what is Sub Nigel's debut price expected to be and around what price should investors be prepared to pay for shares offloaded by stags.

Using a paradigm based on expected dividends, a conservative mine life of 14 years from 1990, a gold price of R26 000/kg and working costs in constant rands, and a "real" discount rate of 8% — equal to a discount rate of 25% — the shares are presently worth about R3 each.

This rough guide suggests that the shares could hit the market at about 225c and investors probably should not rush out and buy the stock at a price of more than 250c.

Of course, the paradigm does not take into account the fact that this low cost producer's life might extend well beyond the year 2004 and that the gold price will hold at present levels, in today's money terms.

Gold shares on balance are probably now discounting a gold price of about R750 an ounce rather than the current R880 even though the JSE gold index is at an all-time high.

Krugerrand prices set to soar

22/7/86 BUS DAY

LIZ ROUSE

PRICES of Krugerrands, a favourite hedge of South Africans against an ailing currency, are expected to rise sharply this week.

The latest clamp on Krugerrand sales by Intergold is expected to cause 1oz coins to rise well above R1 000 each this week — some dealers say as high as R1 248 — in initial reaction to the cutdown in supplies to banks.

Soaring demand for the gold coins — dealings on the JSE alone have been running between R3m and R4m a week in past months — has prompted Intergold, marketing arm of the Chamber of Mines, to limit issue of new coins to dealers to 6 000 a week on a tender basis.

Estimated volume of coins traded in June/July is more than 10 000 coins a week. Intergold's Don Mackay Coghill has confirmed that weekly demand is now equivalent to monthly supply. The quota for local sales is 300 000 a year.

Institutions and pension funds are said to have stocked up with Krugerrands as an effective hedge against a falling rand or possible decline in gold share prices.

Individual investors have also turned to coins.

The Krugerrand market has offered hefty capital gains for local investors this year — the price has almost doubled since January. And speculators have reaped short-term profits when the gold price has jumped on fears that production on the mines would be disrupted, and the rand declined.

Intergold's first attempt in March this year to dampen demand (in consultation with the authorities) failed in spite of hefty rises in premiums.

The premium on 1oz coins was quadrupled to 12%, the half-ounce coin's premium went up to 14% (5%), the quarter-ounce coin's to 16% (7%) and the one-tenth-ounce coin's to 18% (9%).

Initially the coins' prices rose sharply, but then settled down in line with gold price movements. Holders of Krugerrands have seen their one-ounce coins increase in value from about R800 at the beginning in April to more than R1 000 — a 25% appreciation — as the rand plunged and the gold price remained steady in the $340-$350 range.

Another rise in the premium would only spark off another bout of speculative dealings. Warnings that profits on large individual sales would be taxable have also failed to stem demand.

Reason for the clamp on coins available to dealers — about 18 banks — is the need to sell the maximum amount of gold to earn dollars. Minting gold coins means losing foreign exchange earnings.

Intergold: KR agents must pay in rands

23/7/8_ BUS DAY (79)

ALAN SENDZUL

INTERGOLD has again changed the pricing method to authorised Krugerrand (KR) agents for the purchase of new coins.

SA agents who previously had to pay in dollars must now pay in rands.

The about-face comes after Intergold explained then that this was in line with international payment procedures.

The 18 agents — consisting of banks — previously paid dollars which they had to buy into Intergold's New York account and these were then repatriated within a week.

Now, prospective buyers of this week's tender for 6 000oz of Krugerrand coins will bid in rands, leaving the conversion of the London dollar gold fix up to Intergold.

Bids for the first gold coin tender must be lodged at these agents before 11am on Friday.

The floor price will be set by the average of Thursday's morning and afternoon London fixing, plus a 3% premium in the case of 1oz coins.

The premium for ½oz coins is 5% of the rand gold price, 7% for ¼oz coins and 9% for 1/10oz coins.

The coins will go to the bidder who submits the highest price.

The results will be relayed on the Reuter monitor at 4pm and the amounts of each coin category, as well as the spread of successful bids, will be displayed.

Gold shares tumble on JSE and rand falls below $0,40

STAR 79 24/7/86

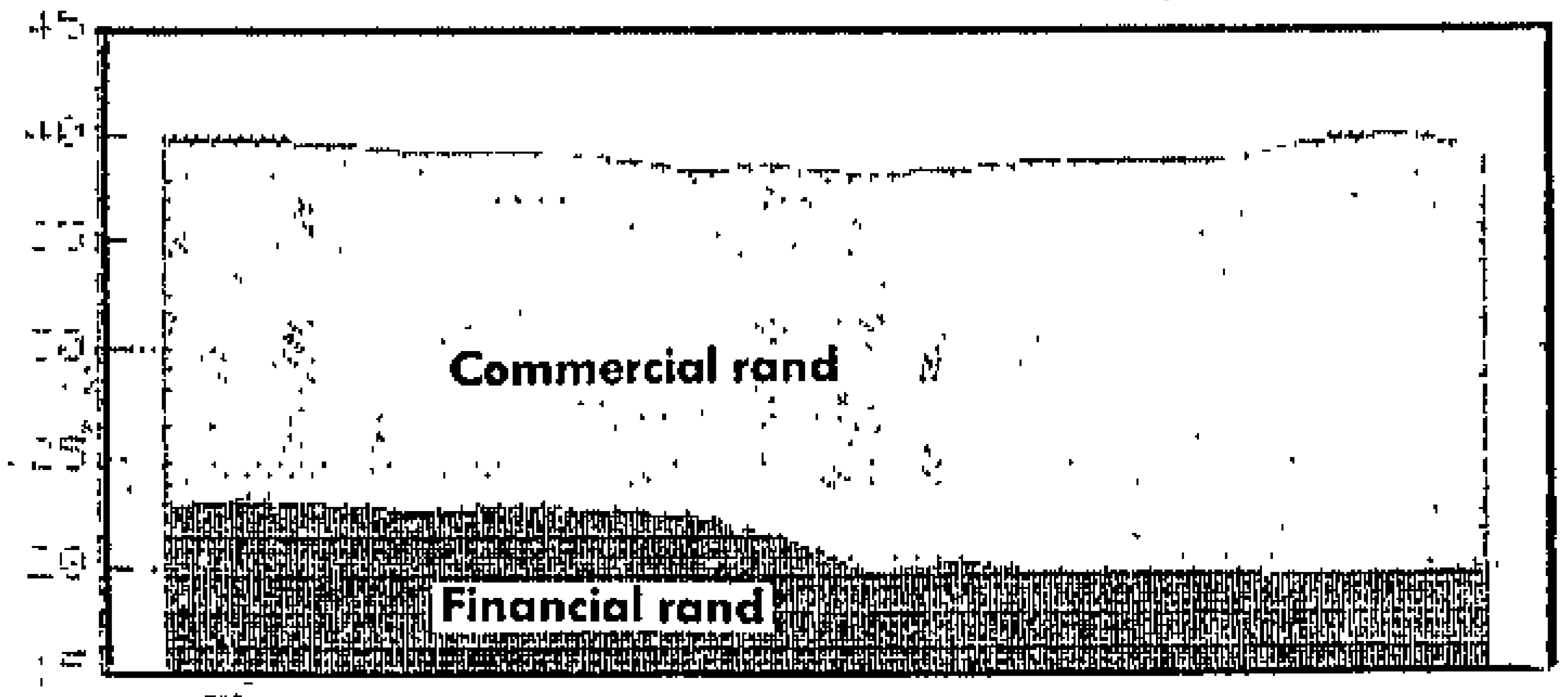
By Financial Staff

A firmer dollar and weaker gold price pushed a vulnerable rand to below the 40 US cent level once again, with foreign exchange dealers reporting that month-end sales of rands by importers could push it even further down.

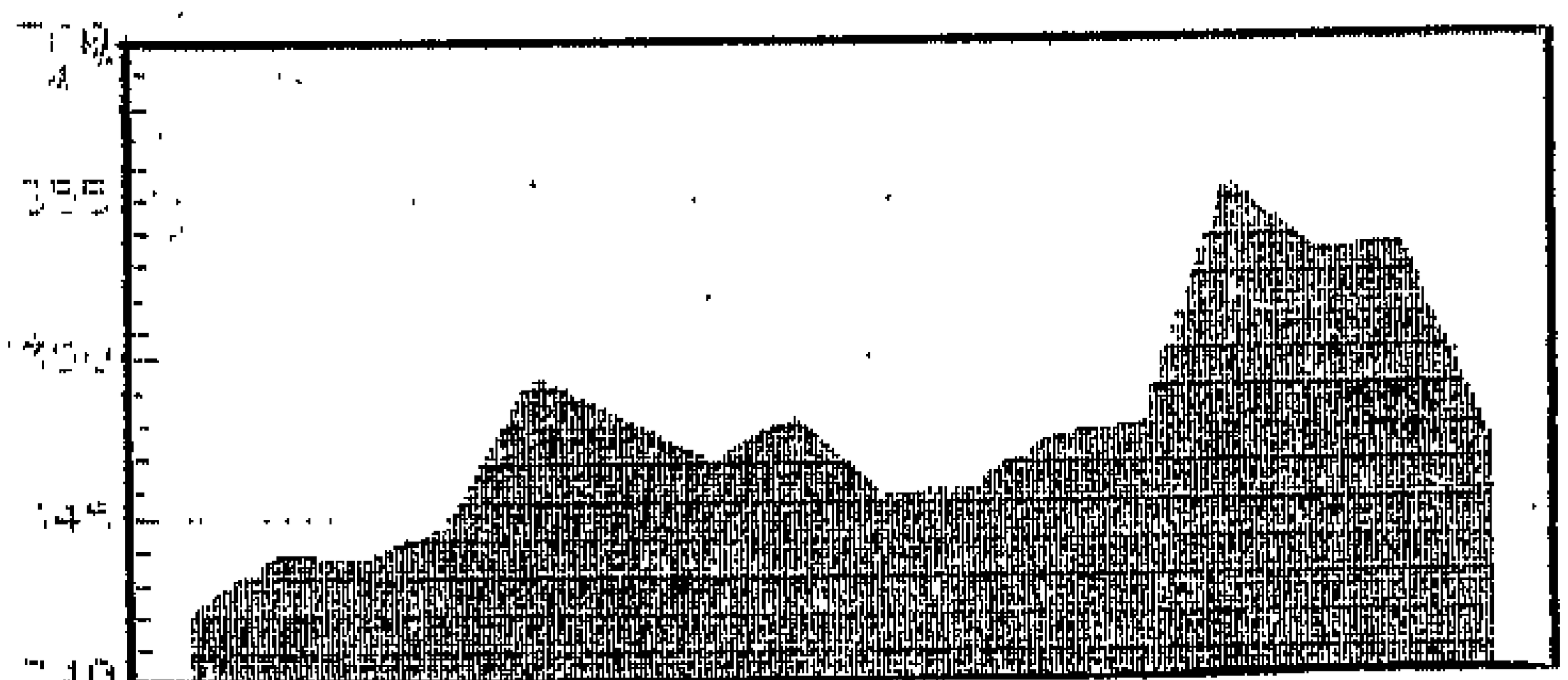
On the JSE gold shares took a poundingas the market reacted to various pronouncements by Reagan and Shultz and Volker's hint that the dollar had dropped far enough.

The dollar firmed amid reaction to better-than-expected US economic statistics, with the Commerce Department confounding market forecasts of a decline in orders of durable goods by reporting a 2,1 percent rise in June orders.

A pickup in economic growth could bring higher interest rates, which make dollar-denominated investments more attractive. Also supporting the dollar was a report from the Labour Department that US Consumer prices surged by 0,5 percent in June. Higher inflation also might bring higher interest rates.



The rand has stuck around 40 US cents this month.


The world gold price in July

STRONG PLEA

Reaction in the foreign exchange markets to remarks by Federal Reserve Chairman Paul Volcker was mixed.

Volcker, in his mid-year report to Congress, issued a strong plea for Japan and Western Europe to do more to keep the worldwide economic recovery alive and relieve pressure on a US economy he said faced growing imbalances and strains.

The stronger dollar immediately affected gold and yesterday in New York the metal fell $4,95 to $348 an ounce, after touching $345 shortly after Mr Volcker's speech to the Senate Banking committee caused the surge in the dollar.

In Hong Kong this morning gold opened even lower at $347 as the gold bulls retreated from the market.

The rand traded for most of the day just above the 40 US cent level with a bit of Reserve Bank support, as importers did their month-end purchasing of dollars, but it fell back late in the afternoon to 39,50 US cents.

The financial rand fell to 19,88 after firming earlier in the day to 20,75 US cents, from the previous day's close of 19,50 US cents.

That is now history. What of this year?

The first point to note is that, while June gold sales revenues were up on March, antimony sales fell. To some extent this no doubt reflects timing differences on sales shipments. Total sales revenue was some R400 000 up on March. With the weak rand, revenue should at least be maintained. So too could pre-tax profit, given that costs are being fairly well held down.

If the rand is one imponderable, the other remains capex. The June quarterly report cites capital commitments of only R188 000, but this is a meaningless figure. Of the R14,5m commitments mentioned in the last annual report (largely on the Monarch shaft), some R5m remains; allow for other lesser items, and we could be looking at a total this year around R6,5m. That would equate to a tax charge around R2m, and leave R2,5m available for dividends — exactly what a repetition of 60c would cost.

One must, of course, beware of such glib projections, especially for a company with as much power to surprise as Cons Murch. But they do confirm that, in framing last year's dividend policy, the board may have had in mind what could be paid this year after the capex hump was passed.

It seems to me that unchanged payment of 60c is the best estimate that can be made at this stage. That would yield 6,5% at the current 920c. I have been consistently bearish of the stock — justifiably, as it has fallen 25% this year — but if the rand stays weak, it could soon regain interest as a speculative currency hedge.

Michael Coulson

FIN MAIL 25/7/86

JUNE QUARTERLIES

A new scenario?

The June quarter reports have been published at a time when mining analysts are mulling over the potential effects of an emerging scenario of higher dollar gold prices, a steady rand, and lower inflation.

If this situation lasts, as is to be hoped, a number of marginal gold producers will have to be re-evaluated. Investors have been advised to avoid these mines previously, as rising cost structures have bumped against revenues depressed by a combination of a static dollar gold price and stronger rand.

Gold at \$355/oz and the rand at US40c mean a gold price of R28 500/kg compared with mine revenues in the June quarter ranging between about R24 000/kg-R25 000/kg.

The quarter was marked also by a number of hefty working cost increases; with worse to come in September, when the full effect of recent wage increases to white and black mineworkers will be felt. In June, most mines reflected only one month of black wage increases, with effect from June 1, and about two months of white wage increases awarded during May.

Quarter on quarter, cost increases ranged up to 14%, while year-on-year figures for some in the Gold Fields of South Africa (GFSA) stable went over 20% — severe for a house with a good record of controlling costs.

Some investors have been assessing gold shares on the basis of a 20% annual escalation in working costs. On this basis, those to buy are heavily taxed, bluechip mines such as Vaal Reefs, Driefontein and Kloof.

The advantage of paying tax at 70%-plus is that the Receiver of Revenue pays for the same proportion of cost increases when these are offset against revenue. Not so a marginal producer working on a hand-to-mouth basis, paying between zero and about 15% tax. Cost increases on these mines hit the bottom line hard.

The latest inflation figures show a drop to 16,7% for the 12 months to June, from 17,5% for the 12 months to May, in turn down from the April figure. If that trend is maintained, cost pressures on mines must ease, and a number of mines previously largely ignored

GOLD QUARTERLIES

	Gold											Uranium				Profit	
	Produced kg		Cost R/kg	\$/oz*†		Revenue R/kg	\$/oz†	Milled 000 t*		Recovery g/t*		Milled 000 t*		Recovery kg/t*		Gold R'000	Uranium & other R'000
ANGLO AMERICAN																	
Elandsrand	3 084	(2 727)	11 211	157	(175)	24 687	344	499	(462)	6,2	(5,9)					39 901	3 074
Ergo	2 089	(2 249)				24 209	339	5 974	(5 275)	0,4	(0,4)	5 974	(5 275)	0,07	(0,08)	22 506	
Freegold	27 324	(26 856)	15 316	214	(221)	24 571	342	5 594	(5 293)	4,9	(5,1)					234 808	18 212
Vaal Reefs	20 761	(21 036)	10 607	149	(147)	24 661	342	2 881	(2 908)	7,2	(7,3)	2 328	(2 276)	0,21	(0,22)	273 312	94 775
Western Deep	9 203	(9 508)	11 020	154	(149)	24 598	341	1 359	(1 270)	6,8	(7,5)					126 342	5 877
ANGLOVAAL																	
ET Cons	807,39	(848,56)	11 457	160	(149)	26 827	376	84	(90)	9,6	(9,5)					12 410	1 306
Hartebeestfontein	7 560,41	(7 505,00)	9 934	139	(139)	26 132	366	773	(790)	9,8	(9,5)	773	(790)	0,15	(0,14)	122 465	14 809
Loraine	2 267,88	(2 105,52)	17 081	239	(259)	26 758	375	398	(390)	5,7	(5,4)					21 945	2 773
GENCOR																	
Bracken	764	(806)	16 952	237	(227)	23 486	347	225	(237)	3,4	(3,4)					5 532	916
Buffelsfontein	6 089	(6 026)	13 814	193	(201)	24 505	346	751	(704)	8,1	(8,6)	751	(704)	0,18	(0,23)	64 897	11 682
Grootvlei	1 367	(1 482)	19 713	276	(257)	24 027	344	445	(440)	3,1	(3,4)					6 380	272
Kinross	3 179	(3 296)	11 187	157	(145)	23 799	345	525	(535)	6,1	(6,2)					40 556	2 533
Leslie	850	(900)	19 973	280	(263)	23 903	346	350	(346)	2,4	(2,6)					4 067	353
Marievale	253	(251)	20 423	286	(343)	23 248	343	86	(88)	2,9	(2,9)					819	67
St Helena	2 610	(2 842)	15 888	222	(194)	24 598	341	580	(580)	4,5	(4,9)					23 124	3 969
Stilfontein	2 254	(2 270)	19 712	276	(269)	24 363	338	426	(417)	5,3	(5,4)	558	(546)	0,11	(0,11)	10 618	−1 370
Unisel	2 401	(2 381)	8 402	118	(116)	24 455	341	348	(335)	6,9	(7,1)					39 716	488
WR Cons	1 001	(1 000)	22 984	322	(319)	24 138	351	520	(510)	1,9	(2,0)					1 208	406
Winkelhaak	3 462	(3 203)	10 325	146	(148)	23 714	346	602	(567)	5,8	(6,6)					47 671	2 326
GFSA																	
Deelkraal	1 912,5	(1 912,5)	15 222	213	(212)	23 035	322	375	(375)	5,1	(5,1)					15 022	3 195
Doornfontein	2 195,2	(2 220,4)	17 411	244	(240)	23 722	332	366	(366)	6,0	(6,1)					13 927	3 447
Drie Cons	14 686,0	(14 835,0)	8 882	124	(117)	24 115	338	1 425	(1 425)	10,4	(10,4)	223	(186)	0,10	(0,10)	223 714	3 830
Kloof	7 023,0	(7 020,0)	8 241	115	(111)	23 342	327	540	(540)	13,0	(13,0)					106 374	11 542
Libanon	2 435,6	(2 305,5)	13 705	192	(199)	23 130	324	435	(435)	5,6	(5,3)					23 032	3 851
Venterspost	1 442,7	(1 315,5)	21 807	305	(336)	24 168	338	390	(390)	3,7	(3,4)					3 456	1 509
Vlakfontein	255,6	(252,0)	12 727	178	(198)	24 493	343	210	(210)	1,2	(1,2)					868	699
JCI																	
Randfontein	7 005	(6 456)	11 933	167	(175)	22 462	314	1 592	(1 614)	4,4	(4,0)	822	(801)	0,18	(0,19)	74 950	1 330
Western Areas	4 150	(4 028)	21 303	298	(293)	24 895	348	988	(959)	4,2	(4,2)	182	(162)	0,37	(0,43)	16 113	8 713
RAND MINES																	
Blyvoor	3 622,0	(3 087,6)	13 660	191	(212)	25 700	360	589	(498)	6,2	(6,2)					43 613	−1 418
Durban Deep	1 938,4	(1 884,2)	22 817	319	(334)	25 005	350	602	(583)	3,2	(3,2)					4 241	971
ERPM	2 235,7	(2 325,3)	29 379	411	(403)	25 530	357	664	(656)	3,4	(3,6)					−8 606	‡9 677
Harmony	7 309	(7 184)				26 154	366	2 076	(2 017)	3,5	(3,6)	1 377	(1 386)	0,07	(0,08)	62 712	
INDEPENDENT																	
Cons Modder	802,5	(813,5)	10 992	150	(149)	25 039	342	152	(153)	5,3	(5,3)					11 280	845
South Rood	347,7	(357,9)	15 738	228	(195)	23 569	341	84	(84)	4,1	(4,2)					2 723	368

* Figures in parentheses refer to previous quarter. † Calculated at R1=US\$0,45c when dollar figure not given by mine.
§ Deliveries to Joint Metallurgical Scheme.
‡ Includes State Assistance.

as investments could be worth a careful look.

One is Anglovaal's **Loraine**, which reported an excellent quarter. Grade rising to 5,7 g/t from 5,4 g/t in March, coupled with a slight increase in throughput, pushed up gold production to 2 267 kg (March: 2 105 kg).

The mine started paying tax in the December quarter. For the nine months to June 30 its tax bill is R24,7m, an example of the benefits of the State Assistance programme, without which the mine could have been forced to close. The programme has now been scrapped, and replaced with an ad hoc arrangement where mines can apply for financial help provided they make out a good enough case to the Department of Mineral and Energy Affairs and the Receiver of Revenue.

Hartebeestfontein, Anglovaal's major producer, is feeling the capex pinch stemming from its new 120 000 t a month gold recovery plant. The cost, estimated at some R135m, is being met from internal funds, with Harties holding back earnings. For the year to June it held back R16m (14,3c a share).

Both these mines, as well as Anglovaal's other producers, **Eastern Transvaal Consolidated** and **Village Main**, have closed out all forward exchange and gold hedging contracts. This has been forced by the Reserve Bank's decision to stop mines receiving dollars directly. Rand Mines producers have also wound down their hedging programme, but JCI's **Western Areas** continues to hedge the bulk of gold sales.

In the Golden Dumps stable, **Consolidated Modderfontein** has published significant development results showing that the rich Black Reef, mined extensively from NEP Shaft, has also been picked up at the new No 1 Circular shaft. The results show Black Reef at 7,9 g/t over a channel width of 117 cm to give 924 cm.g/t; not yet as good as at NEP shaft (1 525 cm.g/t in March), but still encouraging. The mine also paid tax for the first time: R245 000 for non-mining tax and lease payments. It should begin to pay mining tax this year.

At **South Roodepoort**, working costs jumped 14%, mainly reflecting wage increases. Golden Dumps is not a member of the Chamber of Mines, and introduced wage increases with effect from May ranging from 30% for novice mineworkers to 13,5% for management.

In the Gencor group, **Buffelsfontein** appears to be getting into deeper trouble, with geological problems at the Strathmore shaft severely affecting ore reserves. Grade dropped to 8,1 g/t (8,6 g/t) and underground production fell to 176 000 centares (194 000 centares) although mill throughput increased. A number of mining analysts have cut life-of-mine forecasts on Buffels from 20 years to 12 years, because of the Strathmore shaft problems.

Beatrix, however, is looking better and better, grade rising to 5,7 g/t from 5,4 g/t, and mill throughput rising steadily to reach 511 000 t (448 000 t).

Grootvlei disappointed with a drop in grade to 3,1 g/t (3,4 g/t), but is getting some financial relief for dewatering operations, which benefit the whole East Rand basin. Ergo paid Grootvlei R934 000 (R785 000) for water from the pumping operations at SA Land No 1 shaft, which Grootvlei funds.

Kinross also disappointed with its third successive grade drop to 6,1 g/t, from 6,5 g/t in December, as well as a slight drop in mill throughput.

Stilfontein received R4,8m — 46% of total taxed income of R10,4m — via an interim dividend from its 80%-held subsidiary, Chemwes uranium treatment plant. This source of income was expected to drop because of lower uranium sales, but the quarterly report notes the main customer has agreed not to defer deliveries for the time being.

At Rand Mines, a solid performance came from **Durban Roodepoort Deep**, another to watch in a lower inflation-higher gold price scenario. The mine had only a marginal slip in grade to 3,22 g/t (3,23 g/t) and increased mill production to 602 000 t (583 000 t), which gave gold production a nice push to 1 938,4 kg (1 884,2 kg).

East Rand Proprietary Mines (ERPM), on the other hand, battled with a heavy grade dip to 3,37 g/t (3,56 g/t) because of increased seismic activity in the K shaft area. Murphy's Law (anything that can go wrong will) is relevant to ERPM, as the highest grade area (K shaft) also gets the most rockbursts.

Operations at **Blyvooruitzicht** got back to normal after a one-week wildcat strike in March, which cost 44 000 t lost production. Mill throughput was 589 000 t (498 000 t) — the best since September 1984.

Harmony more than offset a slight drop in grade to 3,52 g/t (3,56 g/t) by increasing production to 2,076m tons milled (2,017m).

At Anglo's **Freegold** — the world's largest gold mine — there was an all-round operating improvement, with an increase in area mined and tonnage milled, but overall grade took a dip to 4,88 g/t (5,07 g/t). The new President Brand gold plant is suffering a problem common to all new plant — a lock-up of gold. The problem is expected to continue this quarter, at a diminishing rate.

Turning to Anglo's Transvaal mines, **Western Deep Levels** also suffered from lock-up in the new No 1 shaft gold plant, and overall yield dropped to 6,77 g/t from 7,49 g/t.

Elandsrand showed a further improvement

GOLD EARNINGS

	Year end	*EPS(c) Mar	*EPS(c) Jun	**Accumulated Earnings	(c) +Declared
ANGLO AMERICAN					
Elandsrand	Dec	23,8	26,7	50,5	55
Ergo	March	(0,8)	17,4	17,4	—
Freegold	Sep	66,8	55,0	217,8	160
Vaal Reefs	Dec	441,5	545,2	986,7	900
Western Deep	Dec	92,2	130,7	222,9	255
ANGLOVAAL					
ET Cons	June	64,7	42,8	281,2	250
Hartebeestfontein	June	32,1	32,3	125,1	110
Loraine	Sep	32,8	65,8	166,1	—
GENCOR					
Bracken	Sep	20,9	18,4	68,1	50
Buffelsfontein	June	204,5	219,7	1017,0	1000
Grootvlei	Dec	34,7	26,1	60,8	60
Kinross	Sep	85,2	66,9	267,4	190
Leslie	Sep	15,7	13,4	49,9	30
Marievale	Dec	8,5	12,7	21,2	25
St Helena	Dec	106,9	78,1	185,0	160
Stilfontein	Dec	39,1	63,7	102,8	115
Unisel	Sep	44,2	45,1	144,0	90
WR Cons	Dec	28,0	22,4	50,4	30
Winkelhaak	Sep	110,1	104,1	359,4	245
GFSA					
Deelkraal	June	20,1	7,9	57,7	55
Doornfontein	June	69,2	29,8	272,9	255
Drie Cons	June	77,0	70,0	345,0	335
Kloof	June	29,4	18,0	115,4	125
Libanon	June	119,3	109,7	471,7	415
Venterspost	June	47,3	67,8	232,6	200
Vlakfontein	June	15,4	13,8	66,4	60
JCI					
Randfontein	June	234,8	240,0	1363,5	1700
Western Areas	June	9,5	1,9	41,8	40
RAND MINES					
Blyvoor	June	38,7	57,1	203,0	200
Durban Deep	Dec	(5,0)	86,6	81,7	—
ERPM	Dec	(91,3)	(165,2)	(256,6)	—
Harmony	June	44,9	67,7	266	—
INDEPENDENT					
Cons Modder	June	26,4	19,9	130,8	125
South Rood	June	80,3	60,4	315,2	60

* = Earnings after tax and capital expenditure. ** = Distributable earnings for the mine's financial year to date. + = Total dividends declared to date.

STOCK MARKET F IN MAIL (79) (88) 25/7/86

Gold to the rescue again?

Could SA be saved again by the gold price? It is unlikely, if the investment community is correct, although the gold price shot from $347,90/oz on Friday to $353,95 on Monday on renewed fears about Third World debt and the obvious inability of debtor countries to repay; added to increased demand from the US, Canada and Japan for coin manufacture and higher industrial demand, following high growth in OECD countries.

Most observers are, however, cautious. Roy McAlpine, MD of Liberty Asset Management, says there is no reason to expect gold to "burst upwards" and a broker points out: "We have seen the gold price come back from these levels several times."

Many in the investment community consider the breach of the $350 level significant, although Dave Foord of private portfolio manager, Foord and Meintjes, thinks that a rise above $360 would be more important, heralding a run to the $400 level "before settling at $360 to $380."

Not only technical factors indicate that gold is on the move again. Other bullish fundamentals are the large US budget deficit; possible attempts to remedy expected lower growth in OECD countries; the deteriorating international monetary situation, and foreign investor fears of labour unrest on SA mines.

The opposite view is based on low overseas inflation and, as McAlpine cautions, "the rise in the dollar price of gold could be reflecting the decline in the currency in which it is measured."

For the SA investor, there are other considerations. The only direct entry is coins. Local supply of new Krugerrands is being limited (see *Economy*), with a resultant sharp price increase. The main vehicle for gold investment is shares; seven gold shares and three mining houses hit new highs on Monday. However, there are other considerations with shares.

The big difference in the behaviour of the All Gold index and the rand gold price is due to the gearing effect on gold mine profits, which have risen much faster than the gold price. This has not, however, been enough to attract foreign investors.

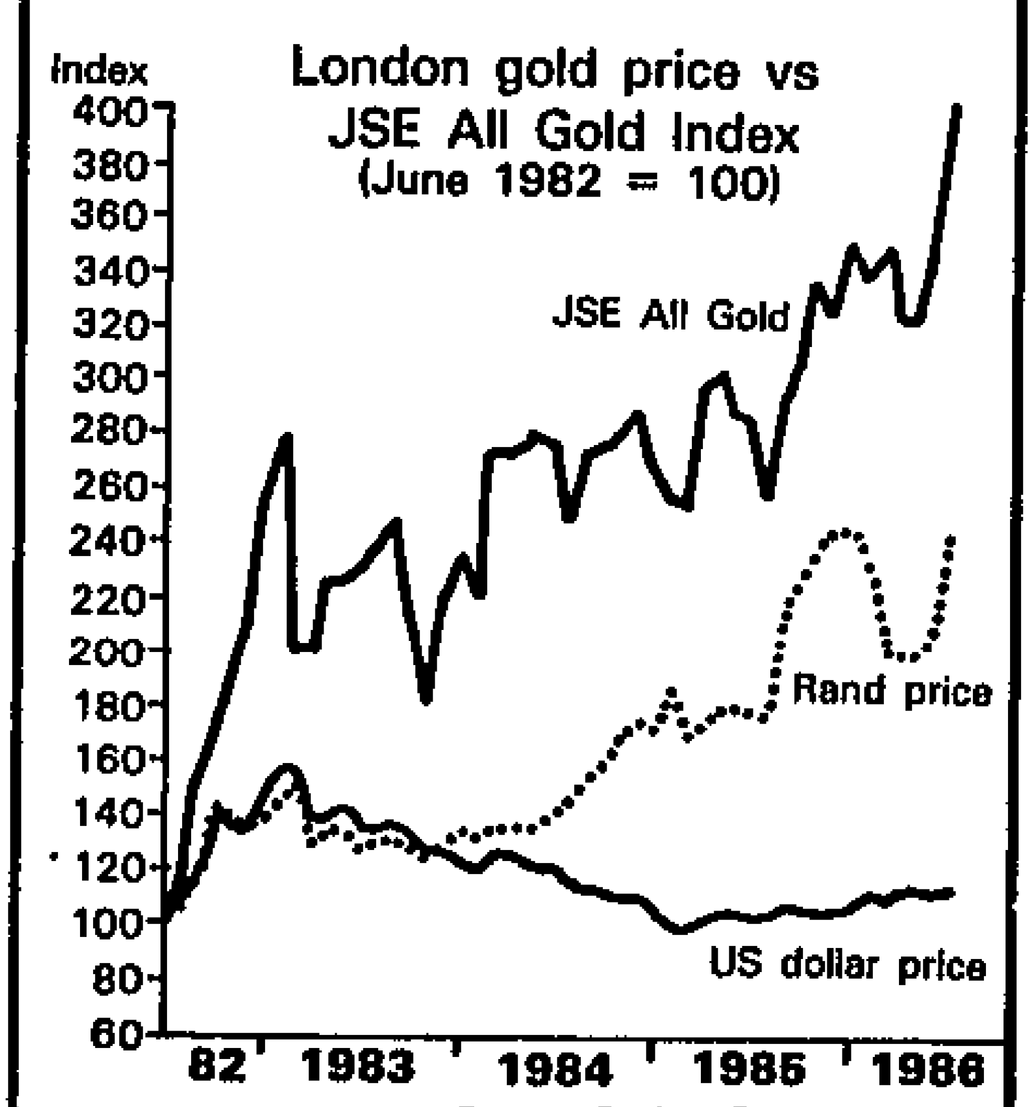
"Gold share prices are dominated by what overseas investors do," says McAlpine. Most analysts consider that foreign investors' attitudes are determined by political factors. Kevin Carter, senior portfolio manager with Old Mutual, points out that the rest of the world thinks that SA gold shares are risky — "they have been falling in dollar terms for some time." A broker puts it more strongly: "In dollars, they are a disaster."

Obviously, foreign sales of South African equities affect the financial rand (finrand). At a record discount (currently 51%) to the commercial rand, a number of observers agree with Foord that "it could rise and cause a sharp setback to gold and mining financial shares."

This must place a question mark over rand hedges. Here, too, views differ. McAlpine feels "rand hedges and bluechips will still be bought," but Carter argues that they must be assessed on fundamentals, and Foord says investors could take some profits.

Mining houses are also affected by rand commodity prices. "The discount on net asset value is pretty narrow in historic terms," says Carter. "Investors expect mineral rights

Up and away



Source: Sanlam Economics Dept

to be used in the near future and there is some substance to this if the high rand price of commodities continues." A broker points out that Anglo American spent a lot of money in earlier years and this is coming through in increased production.

Platinum counters have at least one broker worried, who feels the price has been driven up by speculative demand. "If perception changes, the price could fall very flat." There are, however, differing views on De Beers. An investment manager expects improved EPS and a broker points out that the stockpile is being reduced, but another broker feels it has had a sharp rise and is "scared of it now."

The outlook for industrials brings even more divergent views. McAlpine is confident that better quality counters are on everyone's buying list, but stockbroker Richard Jesse, of Martin & Co, anticipates that the shares which will run may not yet be listed. He also sees the number of DCM listings increasing and keeping private investors' interest in the market alive.

Doubt is based on the level of industrial yields. "The dividend index on industrials has shown no growth in real terms since October 1982," points out a broker. Says Carter: "Earnings and dividend growth could be pretty good, but the resulting yields may still not prove attractive by historical standards and there could be a period of consolidation for a couple of years."

There is, however, general acceptance that the lower level of interest rates should improve profits. Jesse says EPS should show a good improvement from a low base for this reason and because pre-interest margins should rise.

The weight of funds theory — that institutions and other investors have such large cash inflows and so few avenues for investment that prices of shares must rise for this reason alone — is accepted by most of the investment community, as are the need to protect capital from the ravages of inflation and the lack of alternatives to the JSE.

This is no time to pile in indiscriminately. Everyone agrees that this is the time to be selective. Isn't it always? *Pat Kenney*

25/7/86

AECI F IN MAIL (83)

Explosive effect

For a capital-intensive business, volumes are the key to profit growth. The six months to end-June did not produce wildly exciting market growth, yet the 2% volume increase was enough to boost EPS 36% to 45c (33c). Most encouraging for investors is that for the first time in five years the dividend has been increased. Declining profits have seen cover chopped to 1,3 over the past two years. Unsurprisingly, the increase in interim payment to 25c (24c) is nominal.

Prospects for the rest of the year are promising. "Earnings for the second half-year should exceed those of the first six months," say management, provided the rand and labour situation remain stable. So full-year earnings should be at least 90c. As the bulk of earnings traditionally falls into the second half, 100c may be more realistic.

As a result of better volumes, margins improved to 10,8% (9,8%). MD Mike Sander says the plants ran reasonably well, with capacity utilisation in the plastics, chlor-alkali, paints and fibre divisions close on 100%. In other areas, utilisation was steady at 70%.

Demand was particularly strong in the

THE ECONOMY

Don't count on gold to dig us out the morass

By ALEXANDER CAMARGUE

IN an interesting week that saw the gold price rise, the release of favourable June trade figures, new JSE highs, a drop in interest rates and the inflation rate and a rise in the rand, a major business newspaper saw fit to proclaim in a front-page headline "Signs point to an uplift in economy".

Before being seduced by the "prepare for thy boom" syndrome, one should note that the figures are more revealing when located in a different perspective.

One reason for the rise in the gold price to over $350 is instability in South Africa. But apart from this, as one commentator remarked, "even if gold were to hover around $355 instead of $345, it would boost South Africa's forex earnings by a fraction more than R4-m a week".

Noting this is better than nothing, this commentator added that "for a country with $22-billion of foreign debt and creditors who appear to be getting more and more uneasy, it is hardly the starting gun for a new domestic upswing. Capital outflow pressures are so great that gold will need to get at least into the $370-$390 range to make a major direct impact."

Gold is not only unlikely to rise to these levels in the near future, but relying on a gold fluke to dig the economy out of its mess is dicey.

The same applies with the June trade figures. In June, imports amounted to R2,1-billion (down from its R2,8-billion high in January) and exports R3,3-billion.

In the first half of the year, South Africa experienced a favourable trade balance of R6,1-billion, compared to R5,35-billion in the first half of 1985 (R16,57-billion and R11,1-billion).

It now looks as though the overall current account surplus for the first half of 1986 was just under R3-billion.

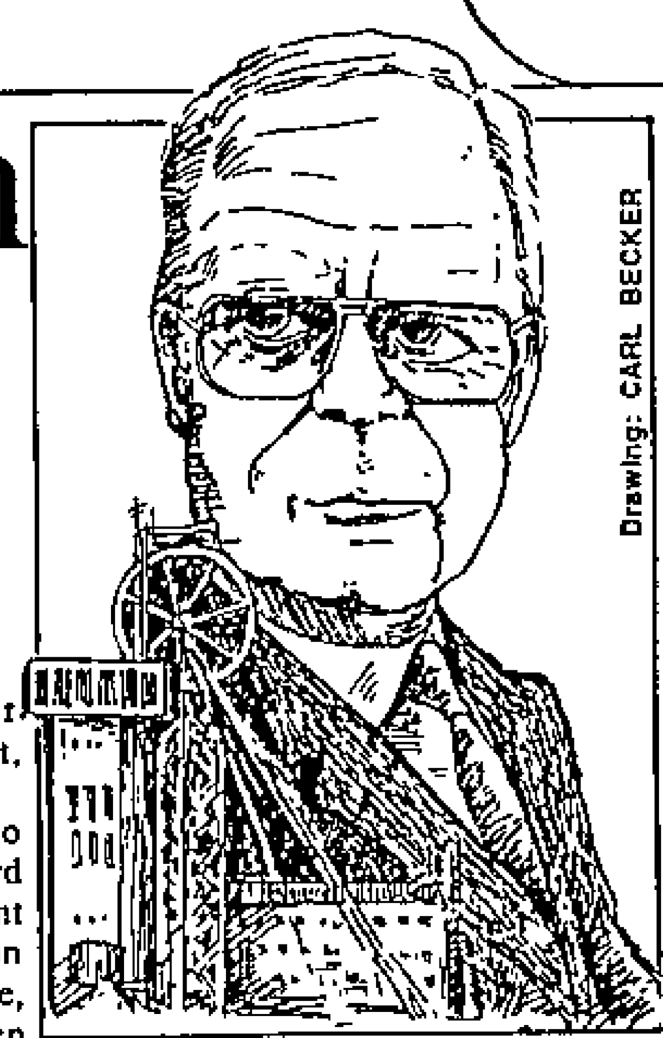
All this is great if such reserves are ploughed back towards developing the economy. As we all know, most of the surplus is used to repay foreign debt

It is also worth noting that while positive, lower imports and higher exports on their own are not a sign of strength as they are largely a result of a lower rand, weak local economy and buoyant international economy

Looking at the rise in the JSE, it merely reflects the lack of structural investments (funds are rather channelled into the stock market, boosting prices)

Lower interest rates are also welcome but consumers are so hard strung and investors so unconfident that lower rates will hardly impact on economic growth They, in any case, fell this week on negative news when it was officially announced that the economy was so sluggish that a lowering of the Reserve Bank's interest rates to the market (through the discount houses) was hinted at — and likely to happen, probably before the month is out

Although inflation was down to 16,9 percent in June from 17,5 percent in May, it is still way above that of South Africa's main trading partners (Germany has experienced a price decline over the last year) and extraordinarily high for an economy in recession The prospects of South African inflation coming down to the levels of its main trading partners in the foreseeable future are virtually nil, with most economists forecasting 15 percent by the year end



Drawing: CARL BECKER

Gerhard de Kock

This itself is inflationary as it impacts on the rand, making imports more expensive

South African inflation is deeply structural, not only because of the weak rand but while workers and employers are hard hit they will fight tooth and nail not only to maintain real wages and price levels but to make up lost ground. This competitiveness promotes inflationary expectations, probably the greatest danger for inflation

Finally, even though the rand rose to over US40c, it is far from strong and is in large part due to a weaker dollar (It is still near record lows against the Yen and DM) Joy at this rate only reflects the degree of distortion that has crept into our psyche

Also last week came the release of the June money supply figures — which only grew an estimated 9,27 percent, well below the money supply growth target range of 16-20 percent and which sorely reflects the pathetic demand for credit

The South African authorities can only look with envy at the problems that most other central banks are having in controlling money supply

Accompanying the money supply figures, was a statement from the Reserve Bank Governor, Gerhard de Kock, finally admitting that the economy would not grow by the officially expected 3 percent this year, but by a more modest 1,5 to 2 percent. This, as a number of commentators noted, is still too optimistic

Even the cautious Financial Mail said "any growth this year will be off a very low base and revolves largely on the expectation that the decline in inventories will continue to slow. Such growth does not generate jobs nor develop the economy"

They quote economist Louis Geldenhuys saying, "even if there is positive growth in 1986, we might as well consider the economy not to have grown".

In gauging the present stage of the economic cycle, hopes are that within the long-term decline, a mild "upswing" will begin in the second half of 1986 However, even if this materialises, it is doubtful whether it will bring significant and sustainable relief

The economy, simply, is in poor shape It now appears there was virtually no growth in the second quarter This after a decline in the first quarter

The depressing growth record is unlikely to be more rosy for the rest of the year As the Weekly Mail has stated often enough, structural problems are too serious, the damage done too daunting, and the present climate too uncertain to talk about any significant and sustainable economic recovery

Monetary or fiscal fine-tuning will at best provide short-term relief for some The only solution is the least likely' major political restucturing

The World Bank passes the empty hat

By DANIEL NELSON

WHEN the World Bank closes its books at the end of its current financial year, it will have made net transfers to developing countries amounting to zero.

Yes, the world's premier agency for promoting assistance to the Third World is receiving as much in repayments and interest from the countries it is designed to help as it is disbursing in new loans.

But that is not all The International Monetary Fund (IMF), the guardian of the financial order of the non-communist world, is probably receiving $4-billion (R10-billion) more from developing countries this year than it is putting in.

Says Richard Feinberg, vice-president of the Washington-based Overseas Development Council: "We are facing the potentially disastrous scenario of the World Bank and the IMF becoming a 'drain' on the resources of the developing countries."

And as confirmation for the superstitious who believe disasters [illegible]

reassuringly neutral term with which to describe these trends. "reverse resource transfers" sounds innocuous, until you realise it means that the poor are paying money to the rich

And if current policies continue to be applied, the poor world will continue to subsidise the rich world for at least another decade

There is no need to wait for a Bob Geldof to point out a system that produces such results is crazy

Hopes of reform are held up, however, by the complacency of Washington, Bonn and London. From there, the view is of a debt crisis averted (now it is merely a "problem"), inflation brought under control, expectations of faster rates of economic growth in the next two years.

This optimism is dangerously short-sighted for a variety of reasons, including the continuing fragility of the financial system, persistently high [illegible]

recommendations.

Now this consensus has been challenged by the independent United Nations Committee for Development Planning, chaired by Commonwealth Secretary-General Shridath Ramphal.

The Western approach will not work, says the 24-member committee's tersely argued report, because even if industrialised countries do pick up steam, it will not be enough to pull developing countries out of the trough

And though domestic policy reforms in developing countries are important, it is a "cruel deception" to suggest that IMF-sponsored "adjustment" alone can break the bottleneck

Different regions have different problems, the report stresses

Latin America needs immediate finance to promote structural adjustment to reduce later requirements The large Asian countries require government and institutional finance because dependence on private capital might expose them to a debt crisis which they largely managed to avoid last time around Sub-Saharan Africa needs a significant increase in easy-term loans, debt relief and "a new kind of compact" with donor governments (whose policies, says the committee, including putting the interests of their own domestic contractors above the needs of recipient countries, are to blame for some of Africa's problems)

It all adds up to more money The committee calls for a doubling of the total flow of finance to developing countries by 1990

Without this money and the other reforms suggested in the report, "the short-term crisis will inexorably be transformed into long-term stagnation, rising unemployment and, possibly, default" — Gemini News

27/6/86. WEEKLY M. (42A) 79

Gold shares wait on NUM

FINANCIAL analysts see no chance of South African gold shares regaining this year's high point — 357,0 on January 27 in the Financial Times gold shares index — let alone the 450 of a year ago.

They predict that there is unlikely to be a recovery in the short -term and a further fall would not be unexpected. This is despite a slight recovery from its lowest point this year — 192,3 — reached on June 12.

Investors are wary of putting funds into South African companies because there are no signs that the political situation will be solved peacefully.

For investor confidence to return in the short-term, the analysts said, there needs to be a satisfactory resolution to negotiations between the National Union of Mineworkers (NUM) and the Chamber of Mines.

Another factor influencing investment will be the outcome of the Commonwealth Heads of State meeting on August 3.

Interest rates take a tumble as gold rises

Mercury Correspondent

JOHANNESBURG—Long-term interest rates tumbled yesterday to a 12-month low as investors in the capital market scrambled to buy up available bonds to profit from the changing interest rate pattern.

An extra boost was given to the bullrun as the gold price again thrust through the $350 barrier—the metal rose $6 to an afternoon fix in London of $353,60—after Cuba suspended payments on its short-term commercial debt to Western countries because of a shortage of foreign exchange.

In Johannesburg, the bellwether government bond (RSA 13% 2005) fell 43 points to 15,9% before edging above 16% to close at 16,04%, probably on profit-taking. Other marketable bonds followed the drop with lower yields giving way to strong demand.

Escom loan 160 11% 2009 plummeted to 16,5% from 16,85% on Friday. Sats 7,5% 2008 fell to 16,36% from 16,69%.

Turnover from bond trading on the JSE topped R700m even though buying interest was keen last week when turnover reached R3 500m.

Average

It appears some institutions have been caught too liquid—one reputedly has an average life of its gilt portfolio of less than three years—and are moving into the higher-yielding capital market to get better performance on investment portfolios.

Also, investors are switching to higher-yielding, longer-term gilts because they are wary of the recent peaks reached in the equity market and the accompanying low yields.

Another boost came from the rand which weathered month-end import demand, closing yesterday at $0,39

Rates should continue their downward march if buying pressure persists, the Bank Rate is cut as expected, gold holds above $350 and inflation continues to drop.

Analysts have for some time expected a technical correction in long-term rates 'The gap between long-term and short-term interest has been too extreme.'

Also, the market fears the imposition of controls on the financial markets because of impending sanctions.

At the end of June last year long-term rates stood at 14,8%. Since then they have been rising with mounting bad news on the economic and political front to peak in November last year at 18,34%.

Discount

Abroad attention was focussed on US Federal Reserve chairman Mr Paul Volcker's congressional testimony today, dealers added.

Little impact had come after Bank of Japan governor Mr Satoshi Sumita, at a meeting of central bank branch managers earlier yesterday, reiterated that the bank has no intention of lowering its 3,5% discount rate in the near future, dealers said.

There is also little prospect of an early German discount rate cut, following statements to that effect last Friday by Bundesbank vice-president Mr Helmut Schlesinger, they added

The market awaits the release of US trade data for June tomorrow, June leading indicators on Thursday and July unemployment data on Friday.

79

29/7/86

BUS DAY

29/7/86 (79)

Scramble to buy bonds

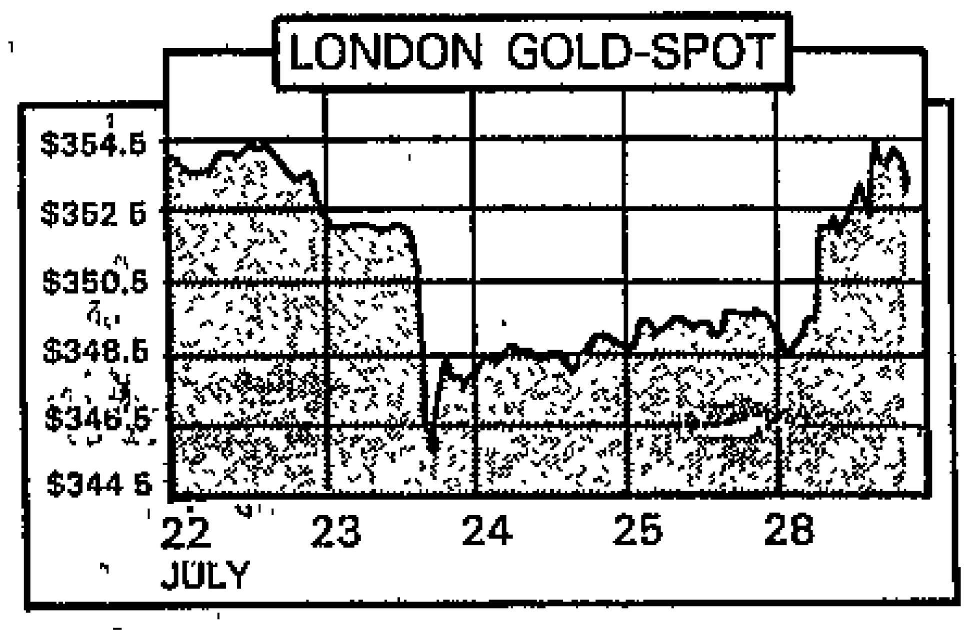
Gilts tumble as gold leaps $350 barrier

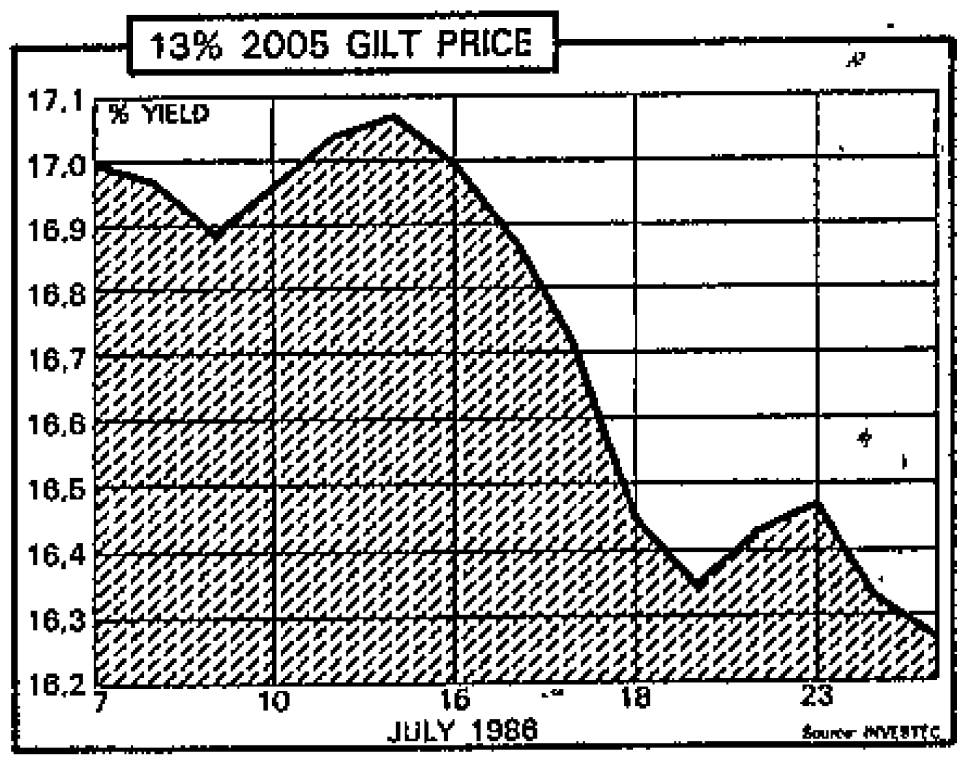
GERALD PROSALENDIS
and ALAN SENDZUL

LONG-TERM rates tumbled yesterday to a 12-month low as investors in the capital market scrambled to buy up available bonds to profit from the changing interest rate pattern.

An extra boost was given to the bull-run as the gold price once again thrust through the $350 barrier — the metal rose $6 to an afternoon fix in London of $353,60 — after Cuba suspended payments on its short-term commercial debt to Western countries because of a shortage of foreign exchange.

In Johannesburg, the bellwether government bond (RSA 13% 2005) fell 43 points to 15,9% before edging above 16% to close at 16,04%, probably on profit-taking. Other marketable bonds followed the drop with lower yields giving way to strong demand.





Escom loan 160 11% 2009 plummeted to 16,5% from 16,85% on Friday; Sats 7,5% 2008 fell to 16,36% from 16,69%.

Turnover from bond trading on the Johannesburg Stock Exchange topped R700m even though buying interest was

● To Page 2

Long-term rates tumble

● From Page 1

keen last week when turnover reached R3,5bn.

It appears some institutions have been caught too liquid — one reputedly has an average life of its gilt portfolio of less than three years — and are moving into the higher-yielding capital market to get better performance on investment portfolios.

Also, investors are switching to higher-yielding, longer-term gilts because they are wary of the recent peaks reached in the equity market and the accompanying low yields.

Another boost came from the rand which weathered month-end import demand, closing yesterday at $0,39.

Rates should continue their downward march if buying pressure persists, the Bank Rate is cut as expected, gold holds above $350 and inflation continues to drop.

Analysts have for some time expected a technical correction in long-term rates. "The gap between long-term and short-term interest has been too extreme."

Also, the market fears the imposition of controls on the financial markets because of impending sanctions.

At the end of June last year long-term rates stood at 14,8%. Since then they have been rising with mounting bad news on the economic and political front to peak in November last year at 18,34%.

Market shrugs off gold flood proposal

30/7/86 SMK 79


Dr Gidlow

By Dr Roger Gidlow

Central banks will not sell gold indiscriminately. That is one interpretation one can derive from events in the gold markets during the past week or so.

During this period the price of gold not only managed to reach the $350-an-ounce mark as fears resurfaced about the stability of the US banking system, but the market has also shrugged off suggestions mooted in certain quarters that the price of the yellow metal should be depressed through official sales in an effort to exert pressure on the South African Government to "dismantle apartheid".

The British journal, *The Economist*, has urged the central banks around the world to flood the market with gold, if necessary, to try and force the South African Government to change its policies.

In an editorial it pointed out that each $10 an ounce drop in the price could cut South Africa's exports by more than $210 million on an annual basis.

Host of questions

Once the price of gold had collapsed, and the dismantling of apartheid has been achieved, the gold could be bought back.

This proposal raises a host of operational issues.

How much gold would be released, and what price fall would be tolerated for purposes of achieving the stated objective? What happens if the necessary reforms are not forthcoming from South Africa?

Would central banks still buy back the gold they have sold, and would they be able to re-acquire gold at the same average price or lower than the overall price received initially when selling from their reserves?

These questions alone illustrate the unprofessional nature of this sales proposal, and raise severe doubts concerning the willingness of central banks to embark on such a sales programme.

Increasing pressure

Through past decades central banks exerted a major impact on the price of gold by in effect pegging the price.

For instance, during the Bretton Woods period, from 1946 to 1973, the official price of gold was fixed, and for most of the period it was pegged at $35 an ounce as a by-product of the buying and selling operations of the major central banks.

During the later years of the system this fixed price of gold came under increasing pressure as the demand for gold rose relative to the supply.

Central banks, and especially the US Treasury, resorted to a series of ad hoc measures to try to keep the price fixed at this level.

This was only partially successful, because in March 1968 a two-tier gold pricing system was instituted, which incorporated an official market in which the price remained fixed, and a private market in which the price was allowed to fluctuate. Central banks, nevertheless, continued to try to manipulate the free market price, and keep it closely in line with the official price.

After a long period of overt control of the price by monetary authorities, a genuine free market for gold began to emerge only in the late 1970s in line with amendments in the articles of the IMF.

There are, therefore, historical precedents for a new phase of manipulation of international gold prices which has been suggested by *The Economist*.

This perspective ignores the historic motivation for central banks intervention in gold markets. In the past the manipulation of prices was based on economic criteria.

Political issue

The new proposal would involve monetary authorities driving down the gold price for political ends. Central banks, however, are most unlikely to favour becoming embroiled in a political issue.

Moreover, other considerations strongly suggest central banks will not become involved in any such operation.

There is only a small coterie of central banks with large gold reserves which potentially could be sold. Yet among this group constraints on gold sales are becoming more visible.

Canada and the US, for instance, are increasing their gold production. The former already markets a gold coin while the US is shortly to follow suit. Domestic pressures to desist from making gold sales could therefore be important in these countries.

Third World debt

The success of any gold sales programme would be jeopardised by the near certainty that some central banks, as well as other investors, would take advantage of low prices to build up their reserves. This is especially likely as investors would anticipate the era of low prices to be temporary.

What is more, any domestic fall in the price of gold would most probably weaken other commodity prices, and so exacerbate problems confronting Third World countries in servicing their foreign debts.

There have been repeated warnings that industrial nations and their banks will face serious problems arising out of defaults on loans if commodity prices remain weak. Many developing nations want the developed nations to co-operate with commodity producers to at least stabilise commodity prices.

Large-scale sales of gold by central banks in industrial nations could exacerbate conflict between consumers and producers of commodities in general.

record highs. unchanged. stimulatory economic

Cape Times 1/8/86 (79)

Gold closes $7 higher

LONDON. — Gold closed with a $7 gain on the day at $359,00-$359,50 or the highest close for six months as a weakened dollar and continued fears over the SA political situation caused heavy professional short-covering.

The main boost came in morning trading here, but the market remained strong, reaching a peak of $360,00-$360,75 after having opened yesterday morning with a $1,5 gain from Wednesday's closing $352,00-$352,25.

Dealers said confirmation from US trade figures of the size of Japanese gold buying also helped underpin the market.

They said some resistance showed when prices tried to break above the $360 level, slipping back to an afternoon fixing of $357,50 or 25c under the morning pricing.

Platinum shared in the same price rise, climbing to its highest level for 38 months and closing at $459-$461 an ounce, following fixings of $456 and $452,25 yesterday afternoon and morning respectively. Wednesday's afternoon fixing was $448,25.

Dealers said that apart from tracking gold higher, platinum was boosted by fears that supplies from SA could be disrupted by any economic sanctions agreed upon by Western nations.

● In Zurich, gold and platinum made strong gains, helped by the dollar's easier tone and steady demand from both professional traders and investors, dealers said.

Trading was active and at times hectic as fairly substantial buy orders kept flowing into the market.

The market was impressed by how steady gold was above $350, a level some dealers had thought would prompt stale liquidation. — Reuter

Kruger rands

JSE Closing

	Buyers	Sellers	Sales
1 oz	1155	—	1165
1/2 oz	555	—	555

Cape Gold Coin Exchange

	Buyers	Sellers
1 oz	1157	1158
1/2 oz	540	560
1/4 oz	270	280
1/10 oz	110	120

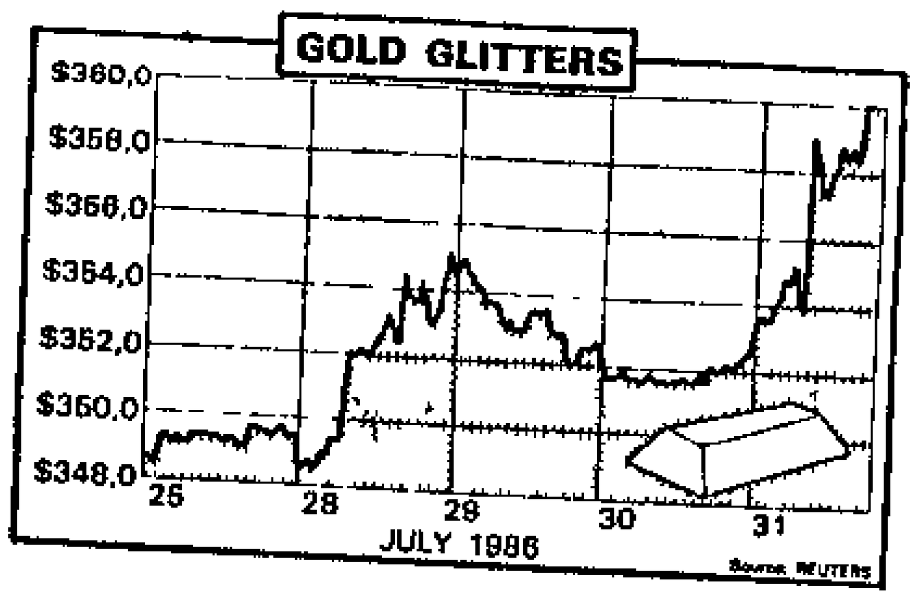
Outlook good for rand

Golds at record level

MERVYN HARRIS

THE GOLD price rise to the $360 level sent gold and other mining shares racing to record levels on Diagonal Street yesterday.

The JSE all gold index surged 44,3 points — one of its biggest-ever, single-day rises — to hit a new peak of 1 386,2. With the industrial and platinum indices also hitting new highs, the JSE overall index was swept 25,8 points higher at a record 1 613,1.



On the back of the higher gold price and amid speculation of a further cut in Bank rate, the bull run in the capital market continued, with yields approaching levels last seen a year ago.

RSA 13% 2005 stock closed at 15,49%, sharply down from yesterday's close of 15,85%. Escom 11% 2009 stock closed at 15,75% (16,29%).

The gold price take-off started at the London morning fixing and continued in New York where follow-through buying lifted it $9 to $361.

Reports suggested German, Swiss and Chinese dealers were major buyers on renewed concern over the weak dollar.

Gold was also boosted by short covering on confirmation of big Japanese pur-

● To Page 2

Gold shares soar to record level

● From Page 1

chases last month and the failure of the Howe mission to SA.

Increasing prospects of sanctions, and the possibility of retaliatory action in the form of withholding platinum exports, helped push the platinum price $4 higher to $452,25.

Diagonal Street opened on a quiet note, with prices barely changed at midday. But as the gold price began to move higher, overseas and local buyers entered the market in force and price of gold and selected mining stocks went through the roof.

Bellwether stock Vaal Reefs led the surge, rising R15 (5,7%) to scale a new peak of R278, with 8 650 shares worth more than R2,4m changing hands in 39 deals.

The higher gold price helped buoy the commercial rand, which firmed to $0,39 ($0,3840). But the financial rand eased to $0,1865, its lowest-ever level, despite strong overseas buying of SA stocks.

A huge overhang of financial rands depressed its price, a dealer said.

79

BUS DAY

Akbuurc 1/8/86

Gold surge boost for SA business

79

By DEREK TOMMEY, Financial Editor

THE prices of gold and platinum, two major South African exports, have surged in overseas markets and look like holding their new levels.

If they do it will boost business activity in South Africa.

In New York last night gold reached $363 an ounce, a gain of $11 since Wednesday, and its highest price since mid-1984. Although gold eased back to $360,55 in London today although expectations are that the metal will start to recover early next week.

The platinum price also rose in New York last night to $465 an ounce, its highest level since mid-1983 and a gain of $8 since Wednesday.

Analysts said the market was concerned that South Africa might reduce gold and platinum output to retaliate against sanctions. South Africa is the biggest free world producer of both metals.

DOWNBEAT NEWS

The weak US stock market and the decline in the dollar also helped gold.

Mr Dave Nelson, an analyst with the commodities firm Dean Witter Futures in New York, said: "Investors were looking for a place to put their money since stock prices were not behaving as well as expected."

Mr George Nickas of the commodities firm Geldermann put gold's strength down to "anticipation that downbeat news from the US leading indicators will increase the flight to hard assets".

From London, Neil Behrmann reports that gold was able to break through a significant resistance barrier of $355 because investors are beginning to see that it is cheap in European and Japanese currency.

The immediate reason for above-average market activity yesterday was a statement by Mr George Shultz, the American Secretary of State, that the dollar would decline further unless Germany, Japan and others cut interest rates to reflate their economies.

LOW YEN PRICE

But the main impetus to the gold market during the past few months has been persistent buying by Japanese traders and investors. Part of the purchases will be minted into 10-million coins to commemorate the anniversary of the Emperor Hirohito's reign. But the low yen price of gold has generated considerable investment interest too.

Japanese gold imports surged to 348 tons in the first six months of this year against 95 tons in the same period the previous year. Bullion dealers estimate that only about 120 tons out of the 348 tons were imported for coin minting. Gold imports for the whole of 1985 were 197 tons.

At the current rate of imports Japanese purchases on the international markets will easily exceed previous estimates of 600 tons — about half of Western supplies.

● The rand rose to 39,75 US cents today after closing at 19,05 last night.

FIN MAIL 1/8/86

SUB NIGEL

Dividend in June

The prospectus indicates that Sub Nigel gold mine intends paying a dividend in June, at the end of its current financial year. Forecasts based on average gold prices over this period of R22 000/kg and R24 000/kg indicate total distributable profit of R2m and R2,6m respectively for this, its first financial year as a listed company; a dividend of about 11,8c a share is forecast, which would absorb R2,6m on the post-issue capital of 22,1m shares.

Based on R24 000/kg, projected profits after tax and capital expenditure are about R9,5m a year at current money values, when full production is reached in 1991. That works out to 36,5c a share on fully diluted issued capital, which will reach 26m shares over the next two years as 1,75m debentures, issued last year to raise R3,5m, convert into 3,9m ordinaries.

Sub Nigel is raising R9m through a private placing of 5m shares at 180c each. The closing date for the placing is August 7.

The adjacent Southgo, whose public offer of shares was 22 times over-subscribed, is forecasting distributable profits of R1,457m for the 10 months to December, R3,325m for the year to December 1987, and R8,19m for 1988. The Southgo prospectus does not specify when dividends will start, but indicates the company intends declaring 80% of the amount available for distribution as a dividend, which raises the possibility of a 3c dividend in December. *Brendan Ryan*

79 CAPE TIMES 2/8/86

Gold closes at $362,25

LONDON. — Gold closed at $362,00-$362,50, the highest closing level since January this year as professional traders bought on hopes of gold maintaining its recent upward momentum.

The main factors behind the strength in gold are the weakness of the dollar, recent Japanese buying of bullion to mint commemorative coinage this year, uncertainty in stock markets, lower interest rates, fears of rising political unrest in SA and nervousness over the US banking system.

Yesterday trading activity was reduced by the absence from the market of Swiss banks which were closed for a national holiday.

This week gold has moved up from just under $350 on Monday to a peak yesterday afternoon of $362,25-$362,75 as market sentiment switched and professional operators looked to an upward move after the market failed to break below $350.

Dealers said trading yesterday morning was fairly active with a few large orders in the London market, possibly reflecting the closure of Swiss banks, sufficient to give the market a buoyant undertone.

Along with Far Eastern selling, some leading traders said at the highest levels institutional holders of gold took profits and this dampened the market ahead of the weekend.

Platinum closed firm at $466,50-$467,50 an ounce, to show a gain of $7,5 on the day, following respective afternoon and morning fixings of $464,25 and $460,45.

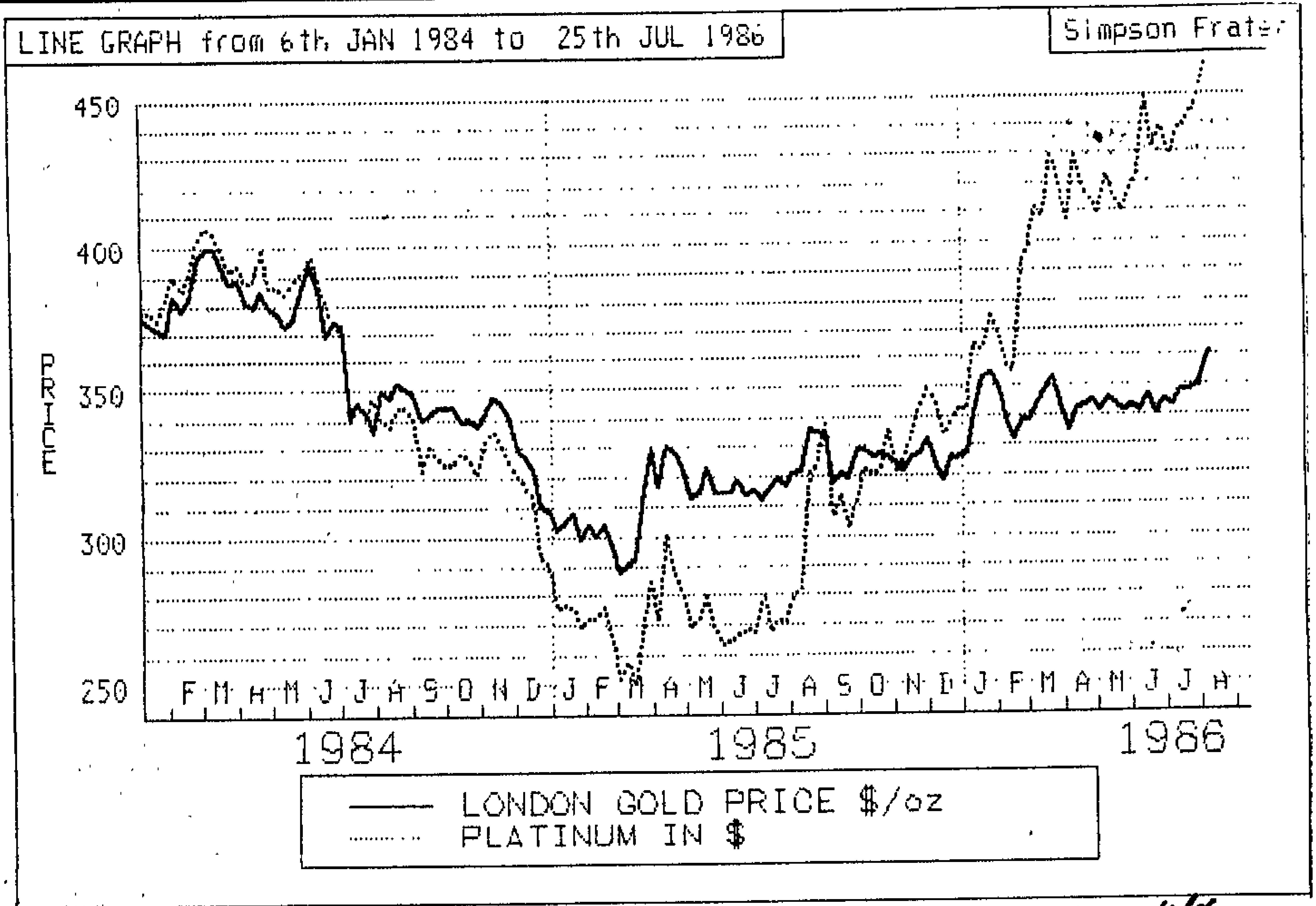
Dealers said the rise in platinum this week was more justified on the basis of the tension in SA but that so far the gain has been mainly on professional-type buying rather than any heavy weight of industrial offtake.

● In New York, gold futures steadied on light bargain hunting demand past midday, after a brisk selloff on news that a Senate panel had approved sanctions against SA and recommended the sale of gold from reserves.

In a nervous market, December gold delivery was off $3 at $366,70 but up from a low of $365.

Analysts said the market reacted swiftly to the gold sales threat, with speculators cashing from two days of gains.

"Traders appear to feel that the US will not sell any gold because of the potential repercussions on the already fragile international banking system," said one analyst. — Reuter



w/e Argus 2/8/86 (79)

Sparkling gold price boost for SA economy

Financial Editor

SOUTH Africa's prosperity in present circumstances is directly dependent on the gold price. Thus this week's rise in the gold price to above $360 an ounce and to its highest level for two years (if one excludes a freak one-day spurt in January) is extremely good news — especially as many brokers believe that gold will hold this level and could rise further.

One of the first areas to benefit from the higher gold price will be the balance of payments and, in turn, the rand.

The higher gold price will increase South Africa's of foreign currency earnings and make it easier to repay foreign debts. This should make the rand a more attractive currency and cause its exchange rate to rise.

Already the rand has risen 1,5 US cents since the gold price started to spurt on Thursday to around 40 US cents and a further rally in the currency seems certain given a maintained gold price.

On the other hand in these days of a floating exchange rate the gold mines do not benefit as much as in the past from a higher dollar gold price. They find that the rise in dollar gold price is usually partially offset by a rise in the rand. The result is that the rand price of gold tends to increase more slowly than the dollar price of the metal.

Nonetheless, gold mining profits should still increase, gold mining taxes to jump and more will also spent on capital works — all of which are good for the economy.

For most of this year the gold price has fluctuacted in a narrow channel between $340 and $350 an ounce. Dealers attribute this to Russian selling whenever the gold price broke above $350 and to central bank buying when it dropped below $340.

By breaking out of this channel to above $360, gold seems to be at the start of a new phase.

Brokers in Cape Town give a number of reasons for the increased buying which has pushed gold above $360. One is that the drop in the dollar has reduced the price of gold in terms of Japanese yen and German mark making it an attractive investment to holders of these currencies.

In Japan the price of gold is now around 55 000 yen. This is about 37 percent less than a year ago and the lowest price in this decade.

In Germany, gold is selling for around Dm750 an ounce against Dm1 000 a year ago, which also makes it an attractive purchase.

However, the Japanese, and probably the Americans, are expected to buy increasingly large amounts of the metal in the coming months as the economic problems of the United States start to stand out more prominently.

America is living beyond its means as is evident from its huge budget deficit and trade deficit, and the longer this continues the tougher and more disruptive the remedial measures will have to be.

The news that the United States trade deficit was still showing no signs of contracting, even though the dollar has fallen by a third against the yen, helped to confirm the believe that the US economy is in difficulty. It was also one of the main reasons for the surge in the gold price this week.

Fears are now being voiced that this year's trade deficit could well exceed last year's $148 billion, even should the dollar be pushed down more against the yen.

A continued huge US trade deficit and a lower dollar will not go down well with Japanese investors who have been financing much of America's trade deficit with their savings. In these uncertain times many are seeing gold as a better investment medium that the US dollar.

Prospects for gold, for the gold mining industry and the South Africa economy, therefore, look more promising than they have for several years.

The price of platinum, another major South African export, has risen strongly recently rising to $460 compared with $270 an ounce this time last year. This has also helped to boost the country's export earnings and to an improvement the balance of payments. However, with platinum production amounting to about 3 million ounces a year, against 22 million ounces a year of gold, gold by far is the more important metal.

JSE's euphoria is in sharp contrast to London gloom

7/8/86 7 9A 1580 STAR

By Gareth Costa and SAPA

Euphoria swept the Johannesburg Stock Exchange yesterday as the all-gold index rocketed 73,2 points to record the biggest one-day rise ever, while in stark contrast the London Stock Exchange (LSE) experienced its biggest one-day fall.

Dealers said the strong performance of platinum, diamond and gold shares was due to the very weak financial and commercial rands, and the still buoyant bullion price of $362 an ounce.

This saw the gold index reach 1 465,9 and the overall index rise 48,9 points to 1 672,3.

The financial rand collapsed to an all time low of 17,75 US cents, while the commercial rand was just above 38 US cents. Foreign exchange dealers report that the financial rand market was heavily oversold, pushing the currency down to current levels.

The LSE suffered its biggest ever one-day fall on Wednesday as almost R15 billion (£4 billion) was wiped off the value of quoted shares.

The FT index of top 30 shares tumbled a record 32,1 to 1 233,7. Its previous biggest one-day fall — in terms of points — was on July 8 this year, when it fell 30,7. On that occasion R20,8 billion (£5,4billion) was wiped off the value of shares.

The index has fallen steadily throughout the summer, pushed down by the effects of a weak pound, high interest rates, a falling oil price and the uncertain political outlook.

CONTRAST

It is now almost 200 points below its all-time high of 1 425,9 achieved on April 3, this year.

Local analysts point out that this is in contrast to the South African situation, where the weak currency bringing in escalated foreign earnings outweighs the political turmoil and looming sanctions that should be sobering the market, but some anaylsts are predicting a fall back to reality.

However, Santamtrust says in its market opinion that when viewed closely, the increases in the JSE over the past twelve months do not seem indicative of the market as whole, and with the exception of a certain companies which recorded good profits, are still limited to the better quality shares.

"In this regard we specifically mean companies which are in the export market and/or which have foreign interests and therefore benefit from the weak rand.

"We do not expect any substantial reaction in the market if sanctions are imposed. Circumstances can, however, change rapidly if the resultant redundancies and accompanying strikes lead to a substantial escalation in local unrest."

In London, the sellingyesterday was described as heavy, with one leading stockbroker commenting: "The traffic is all one way at the moment and it looks as though we have still further to fall."

The New York Stock Exchange was mixed yesterday as traders continued to reassess the outlook for oil prices.

The markets have reacted with some confusion and uncertainty to word of an agreement by the Organisation of Petroleum Exporting Countries (Opec) to cut production for two months in an effort to bolster prices.

At first, the news was taken as a distinct plus for the energy and banking industries, and a possible portent of a new stability in oil prices.

However, many analysts questioned whether, and for how long the various Opec members would stick to commitments to hold back on their oil output.

Another unsettling question for stock traders was the prospective reception investors would give to the Treasury's sale of 10-year notes today and 30-year bonds tomorrow.

...a tidy profit

...cover will come down at the end of the year if growth is maintained. But it will remain conservative as reserves are built up and borrowings further reduced.

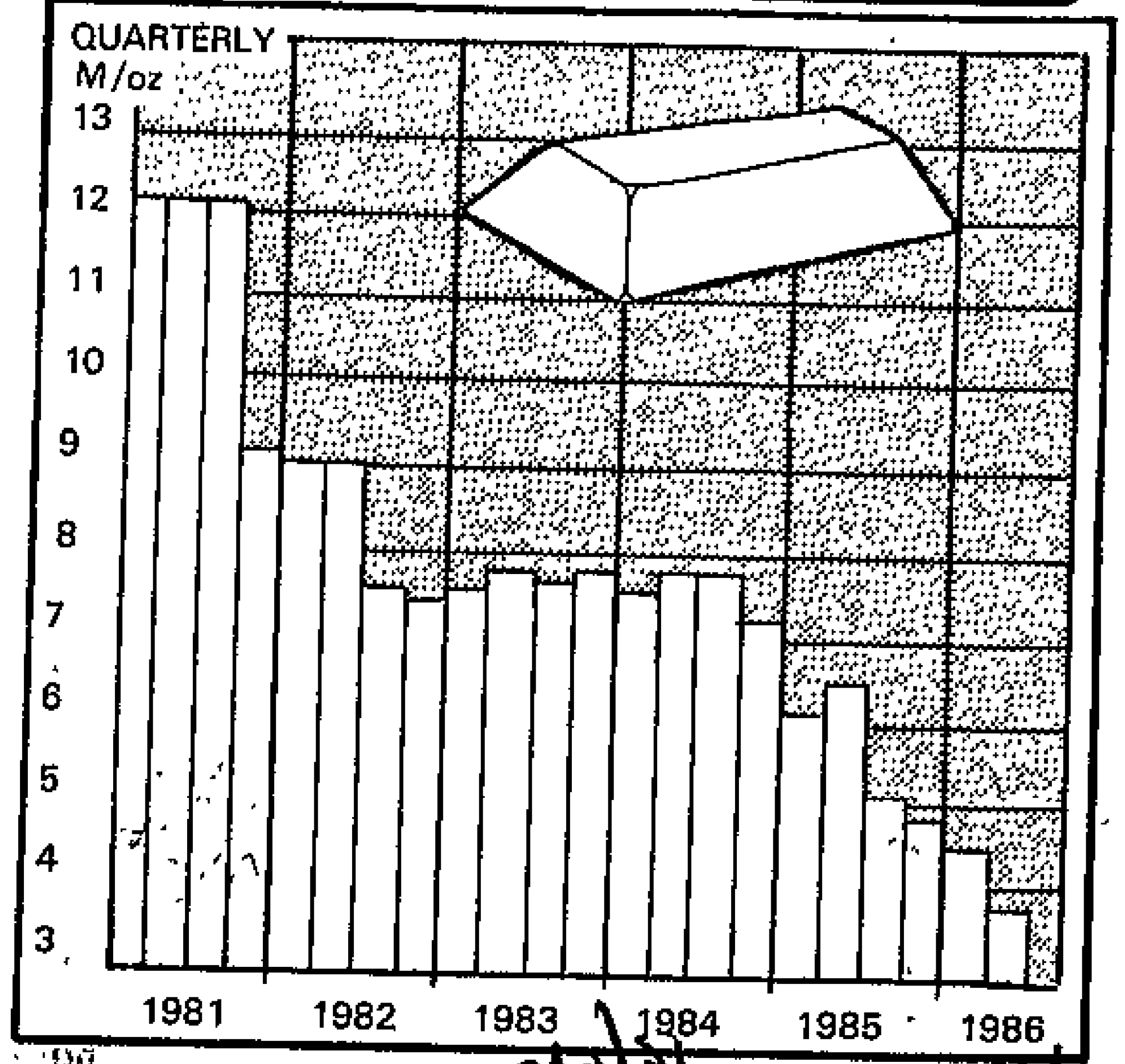
The balance sheet also looked healthier with an R8 million debt reduction to bring gearing down to around 55 percent.

Mr Willis says further consolidation is planned for the immediate future, aiming for better geographical spread and improved technological advances in various packaging disciplines.

U.S. CITIZENSHIP OR

Laser's offer opens

STAR



7/8/86 BUS DAY

Gold stocks dip

79

HAROLD FRIDJHON

THE higher price at which the Reserve Bank's reduced stock of bullion was valued at the end of July gave a misleading bloom to the bank's gold and foreign exchange reserves.

The total reserves were shown at R3,879bn, an increase of R297,3m on the June figure. Gold holdings at R2,985bn reflected a book appreciation of R82,4m but the physical gold stock dropped by about 115 000oz to about 3 674 000oz valued at R812,56/oz compared with R766,15 in the previous month.

In the past 12 months the Bank has sold or swapped about 2 837 39oz of gold to acquire dollars to finance the drain of funds out of the country.

At the end of July the central bank's foreign currency resources rose by R325,6m to R757,4m.

Gold mining getting a chance to show off

3/5DAY 7/8/86

CHERILYN IRETON

THE gold mining industry will show off its achievements in hard-rock and deep-level mining at an international congress to mark its 100 years on the Witwatersrand.

The high-powered Gold 100 conference to be hosted in Johannesburg next month will encompass the technical and financial aspects of gold.

An important focal point will be the SA mining houses' success in deep-mining techniques, according to former Chamber of Mines president George Nisbet.

Other topics to be discussed include the economics and marketing of gold, its industrial use, and its extractive metallurgy.

More than 600 delegates from the international mining and investment community are expected to attend the four-day conference.

Among speakers are London Gold Market chairman Robert Guy, of N M Rothschild and Sons; George Millingstanely of Consolidated Goldfields; Prof Miklos Salamon of the Colorado School of Mines; Minister of Finance Barend Du Plessis; Jack Holmes of Anglo American Corporation; and Prof Nic Wiehahn of Unisa School of Business Leadership.

Joint organisers are the Chamber of Mines, Mintek and the Unisa School of Business Leadership.

Overseas delegates will have a chance to view mining equipment at the Electa Mining show.

The most sophisticated equipment will be on display, along with cheaper, locally manufactured equipment.

"It will be an ideal forum for locally manufactured alternatives," says De Beers Advanced Mining Technology (Amtec) MD Dennis Haywood.

"We know we can produce many types of equipment to the same standard, or better, than imported versions."

$26 jump bolsters rand and boosts financial rand

Gold leaps

ARGUS 11/8/86 79

By TOM HOOD
Financial Staff

GOLD rocketed to $394,50 (R998) an ounce at the official fixing in London today, up almost $26 from Friday's afternoon fixing.

The rise bolstered the rand, which improved to 39,55 US cents from 38,15 cents at the weekend, and boosted the financial rand to 19,50 cents from 18,30.

Platinum prices gained $40 to $540 in Zurich.

Fears of a disruption in gold supplies as a result of sanctions against South Africa also pushed up both gold and platinum prices at the weekend.

In Zurich dealers forecast gold would breach $400, although temporary adjustments downwards were possible.

Dollar

Today's gold price rise was fuelled by another drop in the value of the dollar on world foreign exchange markets.

In London the dollar fell to 2,05 Deutchemarks, down a pfennig after slipping to 2,05 marks and 153,85 yen in Tokyo.

Krugerrand prices hit new records today, with dealers quoting a buying price of R1 213 and a selling price of R1 227 in Cape Town.

The combination of high gold prices and the low rand exchange rate could bring an earnings bonanza for the country's gold mines — and the taxman.

If present price levels are maintained, the mines could receive as much as R32 110 a kilogram for their gold — a 30 percent increase in gold receipts, which averaged R24 774 a kilogram in the June quarter.

Gold-share prices rose on the Johannesburg Stock Exchange, the giant Vaal Reefs mine gaining R10 at R310.

Rustenburg Platinum gained 150c at R52.

Panic buying by surprised bears sparks gold's surge

12/8/86

STAR (79)

By Neil Behrmann

LONDON — Panic purchases by speculators and professional futures and option traders have sent the gold price surging.

The bearish traders had sold gold short. When the price soared instead of dropping they had to cover naked options or buy back gold futures to prevent losses.

"There was frantic covering by professionals and speculators who hadn't dreamt that there would be a gold price rally," said Mr Robert Menzies, a precious metals trader at Paine Webber International Futures in London. The rise in prices attracted more investors from the sidelines and the price spiked upwards," he said.

The gold price surge, said Mr Alan Davison precious metals analyst at Shearson/Lehman Brothers, was caused by speculators, mainly in the Middle East frantically covering their long-term short positions.

He added that if gold penetrated $400 an ounce, the price could easily run up to $450. Gold was also influenced by extraordinary trade in platinum.

A rumour that South Africa would limit platinum exports set off a surge in orders in New York and the price jumped to a peak of $562 an ounce on Monday from $500 on Friday before retreating to $525.

Scare stories about interference with South African exports could have arisen, dealers said, and Rustenburg Platinum was rumoured to be buying platinum in New York.

Hedge sales

The mine could have been covering forward hedge sales on the futures market, dealers said. Mines guarantee themselves a certain price by hedging or selling metals futures on production that can be delivered at a later date.

Some dealers are wary about prices holding at these high levels.

Gold and platinum prices could be sent down if the Soviet Union took advantage of higher prices, a London dealer said.

"Suddenly there was business; but how long will it last?" said Mr Menzies.

The surge was, however, encouraging, he said and prices could go higher. But if disinflation continued investors would become wary of buying gold at much higher prices.

Short-staffed

Trading was so active yesterday that dealers, short-staffed because of the summer holidays, hardly had sufficient time to answer telephones.

But the surge in orders and the dramatic leap in precious metals prices was confined to speculator activity, dealers said.

Jewellers and Japanese investors who tended to buy steadily when the gold price was depressed withdrew from the market.

Silver prices rose from $5,31 on Friday to $5,51, but at current prices the gold:silver ratio is 72 times silver, and platinum is more than 100 times as high.

UK economists said the rise would bring some relief to the battered South African economy and offset the effects of economic sanctions — if the price holds.

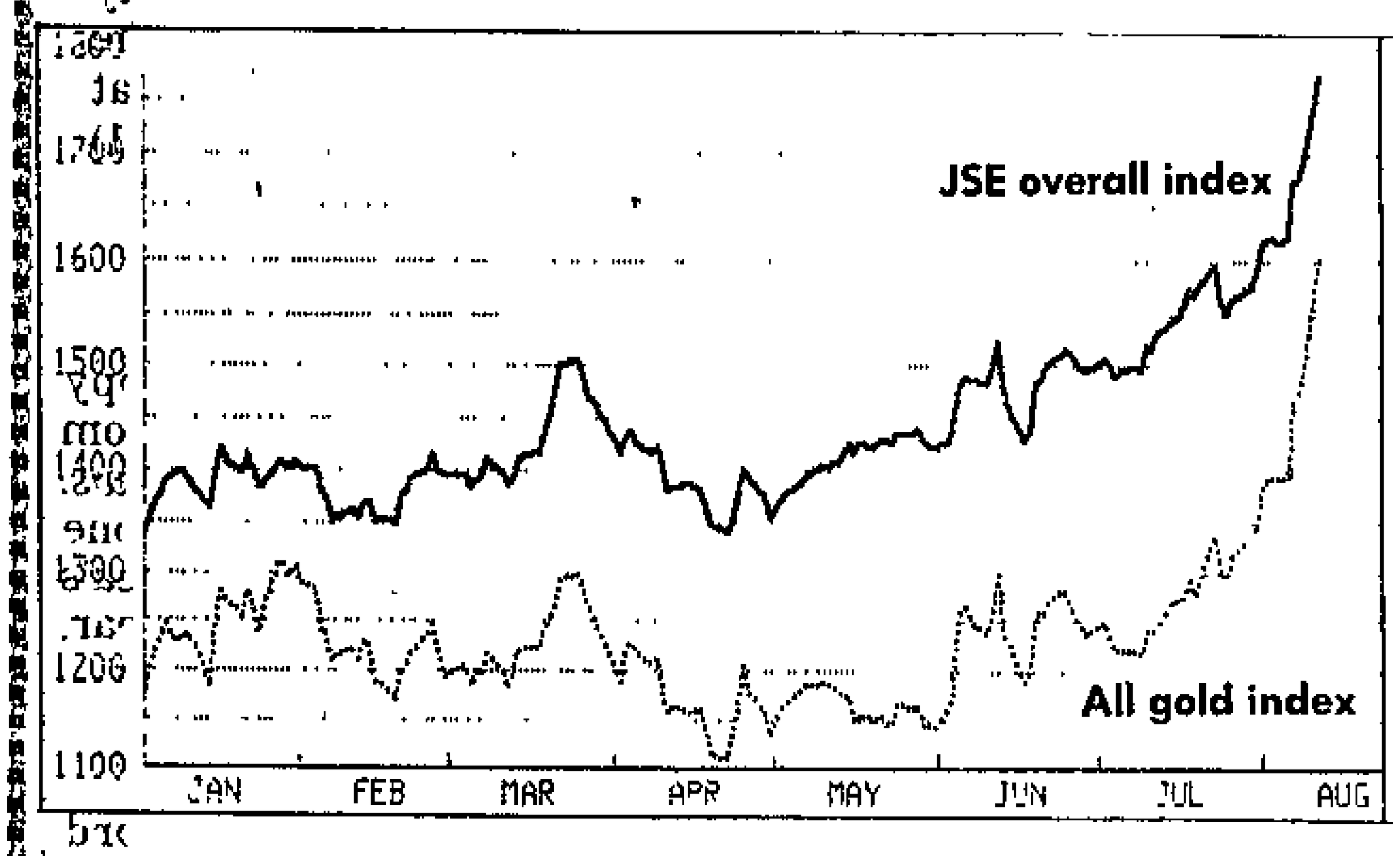
"The run on the gold price would need to be sustained for it to be really felt," economist Mr John Banos said. But he said he expected the gold price to remain high for some time.

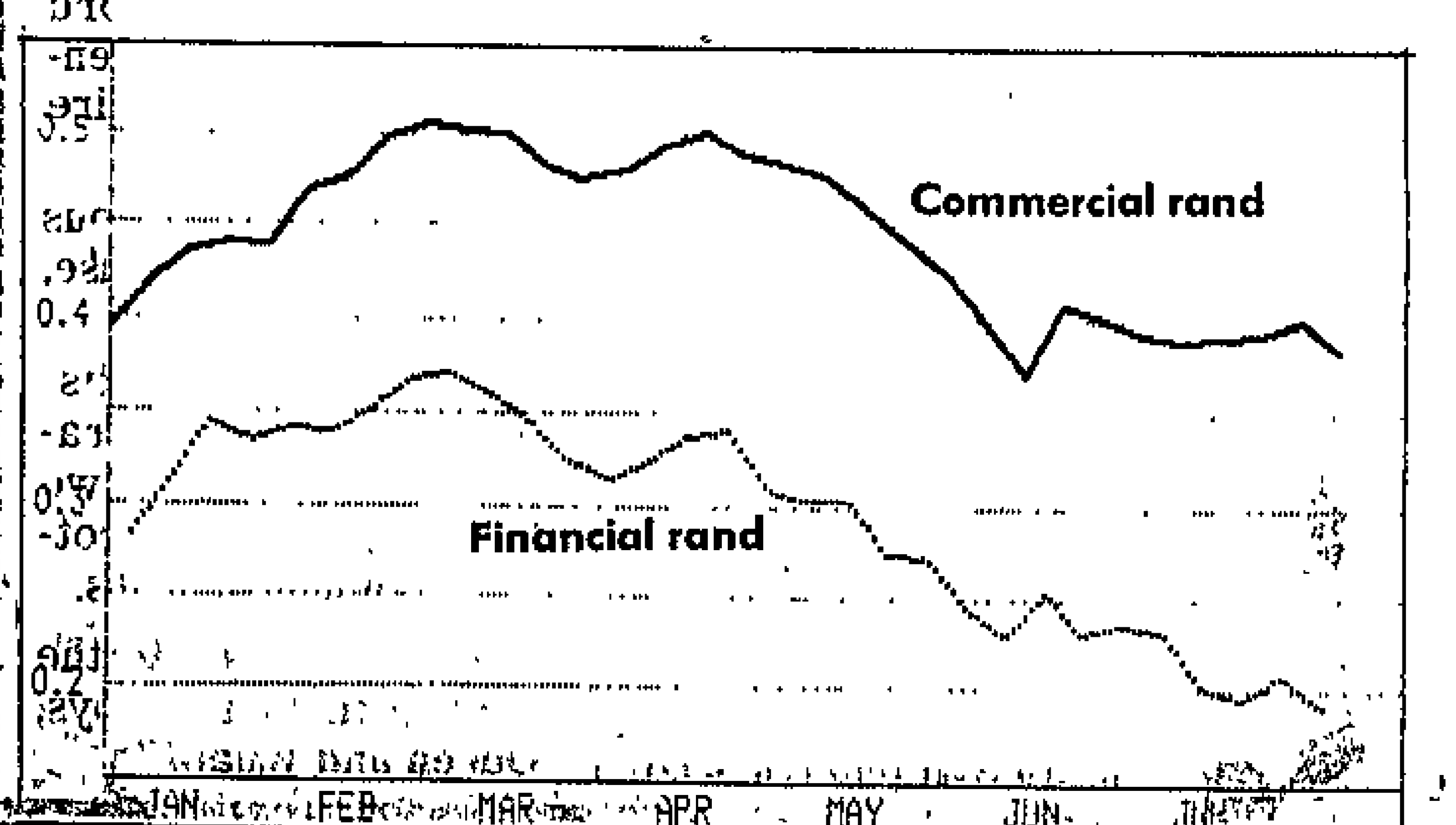
"The rise in the gold price to $394 will minimise the damage done to the economy by sanctions," he added.

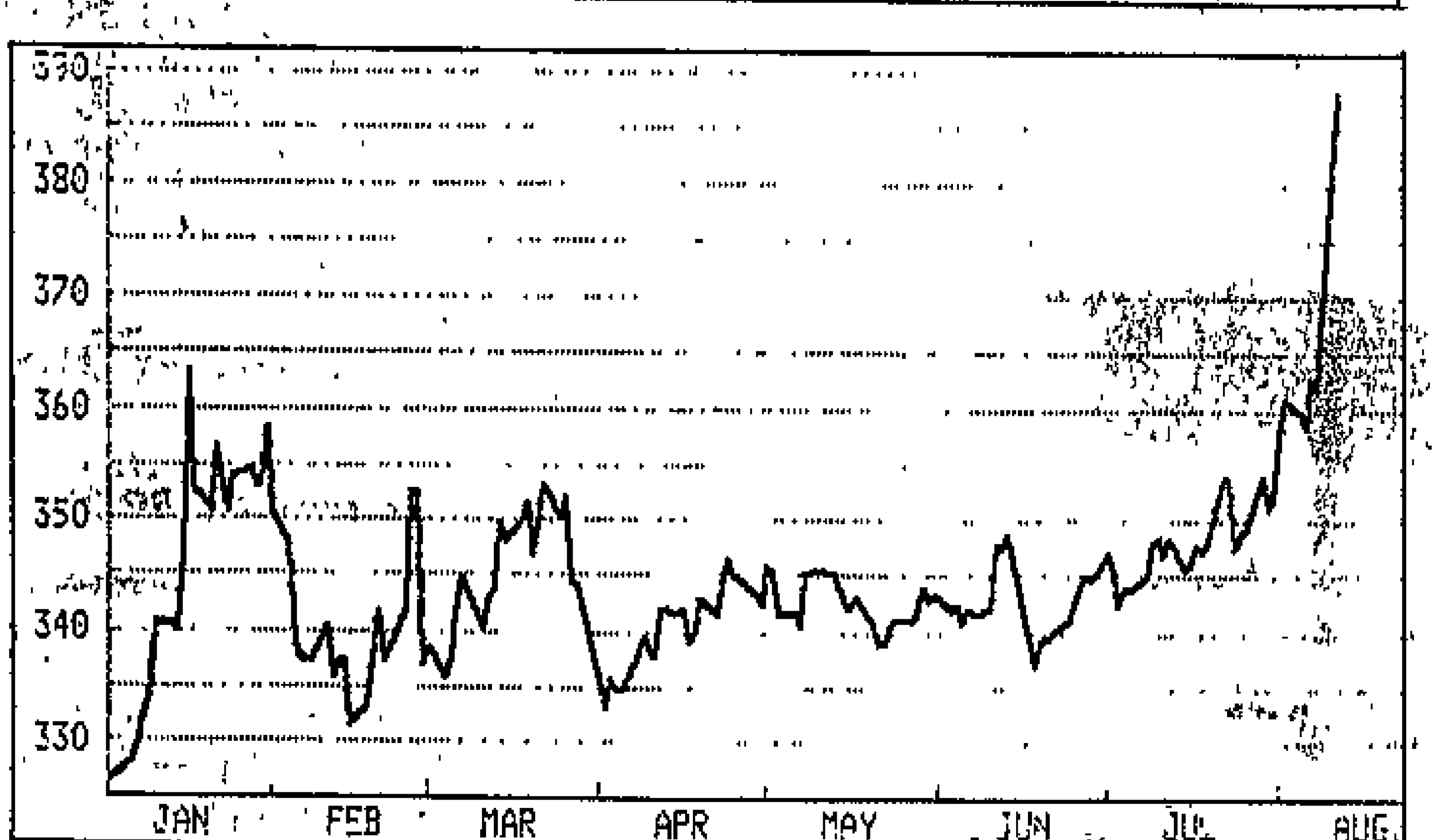
Gold was fixed at $394,50 in London yesterday afternoon, its highest fixing price since March 1984, and analysts said it could soon break through $400.

South Africa provides half of the Western world's gold supplies and around 80 percent of its platinum needs.

Mr Banos said an annualised rise in the gold price of about $60 an ounce would replace all the revenue from coal should South African coal exports be entirely blocked. But he said it was unlikely the country would not be able to sell any coal.







Gold price in dollars since the beginning of the year.

COMMODITIES

Platinum price surge could be flash in the pan, analysts say

From NEIL BEHRMANN

LONDON . — Rumours that South Africa will impose curbs on exports of platinum have set off an active buying spree in precious metals markets.

But informed precious metals dealers say the surge in platinum and gold prices at the weekend was based on false speculation.

They said gold was inherently strong because the "market was tight". But they were wary of the surge in platinum prices.

It was standing at a premium of 34 percent over gold because of unfounded speculation about shrinking South African supplies, they said. At their lows in 1985, platinum at $242 an ounce was at a discount of 14 percent to gold prices of $281.

Platinum was a notoriously volatile metal because world production is only 7 percent of gold supplies.

Bullion dealers said, however, that further strength in the gold price would underpin platinum.

London bullion dealers said the South African authorities had never threatened counter sanctions on platinum and other precious metals because they accounted for a substantial proportion of exports.

At current prices, gold exports generated around $8 billion and platinum $1,2 billion. Coal exports, where international sanctions were in place or under way, generated $1,4 billion at the end of last year.

South African platinum production accounted for 85 percent of Western supplies.

In an interview with the Financial Times in Johannesburg, Mr Gordon Waddell, chairman of Rustenburg Platinum, the biggest platinum mine in the world, said that South African platinum mines were producing at normal output.

As so often happened in markets, dealers were trying to find reasons for the sudden surge in gold and platinum, which only had a small impact on languishing silver prices of $531 an ounce.

But the gold market was already building up towards a breakout in July.

Biggest boom in gold exploration

11/8/86 Mercury Correspondent (79)

JOHANNESBURG—The greatest gold exploration boom in the history of South African mining is now under way with expenditure of about R150m a year for the first time.

The boom has reached such proportions that up to R8m in cash, the highest price ever, has been paid for a farm to gain the mineral and mining rights in the Potchefstroom area.

Because of the programme of drilling, there is a severe shortage of drills and as soon as these are available from one area they are moved at speed to another.

About one-third of this activity has been south of the Free State mines; another third is in the area between Klerksdorp and Randfontein

The remaining third is throughout the Witwatersrand Basin including areas close to the Evander gold mines, south of Johannesburg in the Crown Mines lease area; also to the south of Nigel and between Soweto and Randfontein Estates mine.

The drilling to the south of the Free State goldfields led to the establishment of the Beatrix, Beisa and Joel mines and extensions to older mines are expected

method complex geological structures previously difficult to interpret can be identified

Mining circles are confident that a new deep level mine will be established by JCI south-west of Western Areas gold mine.

Further west in the Potchefstroom district, drilling on the farm Gerhardminnebron by Anglo American's associated company New Central Wits resulted in core assaying 1 756 cm/gt.

There are reports that another core of much higher value has been assayed

Doornfontein G.M.

Gerhardminnebron

Rush for shares as gold price takes off

12/8/86

Mercury Correspondent

JOHANNESBURG—As the gold price rocketed yesterday on European markets, soaring to a peak last reached in 1984, records were shattered on the Johannesburg Stock Exchange.

In London the metal touched $398 an ounce, easing under profit-taking to an afternoon fix of $388. The JSE turnover reached a new peak of R109 million of which mining shares accounted for R90,5 million.

With platinum as the leader, the surging prices of the two noble metals have been sparked off by fears of South African retaliation to sanctions and growing anxiety about deflation in the world economy, London analysts said yesterday.

Yesterday the Wall Street Journal predicted that gold would continue to rise sharply in coming weeks.

'As stock markets are seen to be peaking people are looking for something else to invest in and gold is the obvious thing,' said one London analyst.

Anxiety about the world economy — and particularly fears of a pending recession in the U S — could send gold on an upward spiral.

Platinum jumped more than $50 dollars to $555 yesterday before falling back to $538,50, still up 7% on the day.

Yesterday, the JSE opened in high gear. It was the bull market that gold and stock market analysts had been waiting for.

Johannesburg brokers said that the inevitable correction in the gold price to $387,70 at the London afternoon fixing was not expected to stem the bull run on shares as their books were crammed with unfilled orders.

The gold board chalked up 35 new highs with individual gains stretching to more than 16%. Golds dominated the top 20 list with individual stocks' turnovers ranging from R1 300 000 to R7 000 000.

The rand did not respond to the exuberant gold price. The commercial rand could only manage a 70 point gain since Friday and closed at $0,3885

Gold price shoots up

CNL Times 12/8/86

By GORDON KLING
Finance Editor

79

GOLD, the mainstay of South Africa's economy, soared to a two-and-a-half-year high worth millions of rands to the country, apparently on fears that the government might restrict supplies of the metal, and platinum, in response to the clamour for sanctions.

Sources of the unlikely rumours were hard to come by and not all analysts were convinced they were the sole cause of the growing demand for the precious metals. But world markets remained cautiously bullish last night.

The gold price jumped $26,50 an ounce to the morning fix of $394,50 before sagging to a $388 fix in the afternoon. Late-night reports indicated a resurgence of buyer interest in New York, fuelling hopes that the recovery has not lost steam.

Based on South Africa's annual production of about 20m ounces, yesterday's rise to the afternoon fix alone would be worth about R1bn over a full year. Economists accept that a sustained powerful recovery in gold would catapult the economy out of recession while largely resolving the foreign-debt problem.

● Report, page 8

Sanction fears send gold, platinum soaring

JSE investors go on record R110-m spree

12/8/86 STAR

79

By Peter Farley

Turnover on the Johannesburg Stock Exchange soared to a daily record of just under R110 million yesterday as South African investors indulged themselves in a mammoth spending spree.

The buying bonanza came in the wake of steep rises in gold and platinum prices on international precious metal markets as buyers tried to anticipate the possible effect of sanctions on South Africa.

In unprecedented scenes on the trading floor of the JSE, stockbrokers stampeded to fill buying orders on behalf of clients. For the past few weeks, turnover on the JSE has been averaging about R40 million.

Although gold and platinum prices fell back slightly in late trading in London and New York, dealers expect the JSE to remain strong today as a backlog of orders is filled.

In stark contrast to previous booms on the JSE, yesterday's was almost a private affair — with virtually no buying interest from foreign investors.

In fact, as the rand and the financial rand began to firm during the day — because of the higher gold price — overseas investors used the opportunity to take profits. After firming to 39,50 US cents, the rand dipped to end the day at about 38,80c, while the financial rand was only marginally steadier at 19,75.

Nevertheless, gold shares jumped by the biggest single day leap, with a rise in the All Gold index of more than 100 points to break through the 1 600 mark for the first time. This is almost 30 percent higher than the 1 250 level of little more than a month ago.

But other shares were almost neglected, with mining shares accounting for more than R90 million of the R110 million turnover.

The main impetus on world markets came from a surge in the platinum price to $565 an ounce from $503 at Friday's close, after rumours in London that South Africa might respond to sanctions by cutting off international supplies of the metal.

In its wake followed the gold price, which at one point hit $396 an ounce, but later fell back to stabilise around $388 at the close in New York. In Hong Kong this morning the metal was quoted at a shade above that closing level.

Analysts now expect the gold price to consolidate around present levels, with some suggesting that a move towards $420 is possible.

Minister of Finance Mr Barend du Plessis today welcomed the latest gold price gains as "helpful financially, and also in terms of business confidence."

But he also expressed a note of caution. "Obviously we welcome the rise in the dollar price of gold, but it all depends on how the price will perform in the longer term, and how well related parameters will perform.

"We certainly do not inordinately pinpoint our hopes for economic recovery on the gold price. We have to continue addressing the fundamental structural problems of our economy."

Strong bullish indicators fail to stir reticent rand

HAROLD FRIDJHON

THE rand did not respond yesterday to two strong bullish forces: a rocketing gold price and weak dollar.

Foreign exchange specialists say the gold price will have to consolidate above $400 before sentiment in the rand switches.

The currency is still suspect with a stronger proclivity towards moving downwards, largely because importers and traders see it that way and the authorities have done nothing — and are doing nothing — to change this perception.

The moment the rand shows any signs of strength, and approaches the $0,40 level, importers storm the market, buying forward contracts and taking cover because they regard $0,40 as the ceiling.

They don't wait to see whether or not it will go higher; they act — or react.

In a strict business sense they are correct. Too often have they seen the rand hit against this ceiling and then slip back a couple of US cents. Now they don't take any chances because confidence has waned.

The sanctions talk of last week did nothing to stiffen confidence. Nor did the Reserve Bank yesterday.

Dealers said that if the central bank would have supplied dollars, to meet what appeared to be a modest importer demand, the $0,40 ceiling might have been breached.

Perhaps the Bank takes the view that holding it above $0,40 might be too costly (because the gold price is an imponderable) and that at this stage of sanctions-talk dollars have to be hoarded.

Whatever the reason, the Reserve Bank has, apparently, been somewhat tight-fisted in its release to the market of export-earned dollars, with dealers complaining that the inadequate flow of the US currency is holding down the rand.

They add that the Reserve Bank's showing double prices on the electronic screens has not helped trading because the rates quoted are not supported.

In spite of yesterday's gold euphoria, dealers' forecasts of the rand's trading ranges this week are cautious.

None of the chief dealers canvassed saw the rand rising above $0,40.

They all took the view that, should the rand move towards the ceiling, importers would pull it down. Most believed the lower end of the trading range would be $0,3850, although one chief dealer thought it could test $0,38. He added that if it broke below this floor it could drop as low as $0,36.

It must be stressed, however, that this was a minority view.

However, the consensus opinion is still that importers should maintain a reasonable level of cover and that they should take advantage of any rand appreciation to cover forward.

Exporters, says Standard Bank, who have yet to ship their goods could consider a measure of cover on very short-term receivables.

ARGUS 12/8/(79) (1980)

GOLD PRICE AT 29-MONTH HIGH

Financial Staff

THE price of gold — South Africa's major export — although a little lower today, was still an encouraging $387,25 an ounce in London.

This is $28 higher than this time last week and the highest for 29 months. It is also a gain of $100 from its 1985 low.

Gold closed at $391,25 an ounce in New York last night after leaping to $401.

If the price holds South Africa's annual earnings from gold could soar by almost $700-million (R1 700-million).

The precise reasons for the higher gold price are not known, but New York dealers are inclined to attribute the strong demand for gold and platinum in the past few days to fears that sanctions will force South Africa, the world's biggest producer, to limit exports.

OFF BALANCE

The upsurge in both the gold and platinum prices clearly caught off balance many speculators who sold gold short in expectations of a drop in price.

An annual rise in the gold price of about $60 an ounce would replace all the revenue from coal should South African coal exports be blocked, said a Johannesburg analyst, Mr John Banos.

Panic purchases were made by speculators and traders in futures and options in London during yesterday's unexpected gold rally.

The price increases add an ironic twist to the arguments over imposing sanctions against South Africa, wrote Stefan Wagstyl of the Financial Times in London.

"Fears about the effect of sanctions have improved rather than damaged South Africa's balance of payments."

SURGE

A rumour that South Africa would limit platinum exports set off a surge in orders in New York and the price jumped to a peak of $562 an ounce last night from $500 on Friday before retreating to $525.

Mr Heinrich Looser, chief economist at Switzerland's Bank Julius Baer, said: "Gold could easily go over $400 an ounce and I don't rule out substantially higher levels."

● Krugerrand prices soared to record levels and dealers in Cape Town said they were offering to buy at R1 243 and sell at R1 247.

Share prices soar to record levels

THE soaring gold price has triggered a huge buying boom on the Johannesburg Stock Exchange, lifting share prices to record levels and enriching thousands of large and small investors.

Turnover soared to what is believed to be a record R110,8-million yesterday from R90,3-million on Friday and from just over R37-million a week ago as the little man and the big institutions rushed to buy a share in the rising gold mining profits.

The gold share index jumped by 6,9 percent yesterday to a new high of 1605,4 while the all-market index increased by 4,8 percent to 1773,6.

This brought the rise in share prices in the last six trading days to 9,5 percent and boosted the market value of shares listed by R18,24-billion to R209,23-billion.

Since the beginning of this year the value of shares listed on the JSE has risen by more than R53-billion.

● Gold shares were steady to slightly easier in quiet trading on the JSE today.

Among the trades, Buffels slipped 100c to R10,50 and Welkom 25c to R28,50, while in diamonds De Beers eased 10c to R33,25 after rising 125c yesterday.

● The rand was quoted at 38,70 US cents today in Johannesburg, after closing at 28,85 US cens last night.

● The financial rand was 19,40 US cents, down from last night's closing rate of 20 US cents.

Rush for shares as gold price takes off

12/8/86

Mercury Correspondent

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Germans dislike sanctions

13/3/86 BUSDAY

STOCKHOLM — West German Economy Minister Martin Bangemann said yesterday he did not believe trade sanctions against SA would have the effect of bringing down Pretoria.

Speaking at the end of a two-day official visit to Sweden, he said that despite the arguments of sanctions supporters, SA blacks and not government, would be hurt most by a trade boycott.

"Apartheid is a moral monster and politically ineffective, but despite that I do not believe a trade boycott of SA would be particularly successful," Bangemann said.

He said West Germany was not keen on using sanctions against countries of which it disapproved.

"If we were to boycott SA because it was not observing human rights, we would be forced to boycott a string of other countries," he said. — Sapa-Reuter.

Gold buoyant at $385

Argus 13/8/86

79

Financial Staff

GOLD was trading at just below $385 an ounce in Far Eastern markets this morning as dealers assessed the importance of last night's speech by President P W Botha.

Fears that he might use the occasion to announce curbs on gold and platinum sales had driven the gold price to above $400 an ounce in New York at one stage on Monday and boosted the platinum price to a new peak of $562 an ounce.

Gold closed $10 lower at $384,50 in London last night but it later firmed to $385,90 at the close of trading in New York. Shortly before noon today it was $384,85.

Platinum for October delivery closed in New York last night at $544,50 an ounce after dropping to $528.

Analyst Mr Frederick Demler attributed the firmer platinum price to the hard line struck by Mr Botha in his speech and his failure to rule out retaliatory measures over sanctions, reports Reuter.

The rand slipped to 37,95 US cents after opening at 38,05 this morning. The financial rand was 19,90 US cents.

'Commitments all being met'

BUSDAY 79 13/8/86

Reserve Bank cashes in on gold jackpot

GERALD PROSALENDIS
Economics Editor

THE Reserve Bank has hit the jackpot by selling large quantities of gold at Monday's peak price of $395, adding substantially to its dollar holdings.

The windfall gold sales will strengthen the current account of the balance of payments and also swell Treasury's tax receipts from the mining industry from the increased rand revenues which will flow into the economy.

The Bank does not sell gold as it receives it from the mines. Sales are adjusted according to the markets capacity to absorb bullion and the price.

It is understood that in recent weeks quantities of gold were withheld by the Bank in the belief that the gold price was set for an upward thrust. This policy has proved correct and the country has benefited accordingly.

Reserve Bank traders are said to have

To Page 3

Reserve Bank hits jackpot

From Page 1

been working through the night in 24-hour gold market negotiating deals to satisfy demand from the major markets in both the East and West.

It is ironic that with the sanctions debate in full swing SA should get a windfall from gold that, if sustained, could offset loss in earnings from mandatory sanctions on exports of coal, iron, steel, vegetables, fruit and wine.

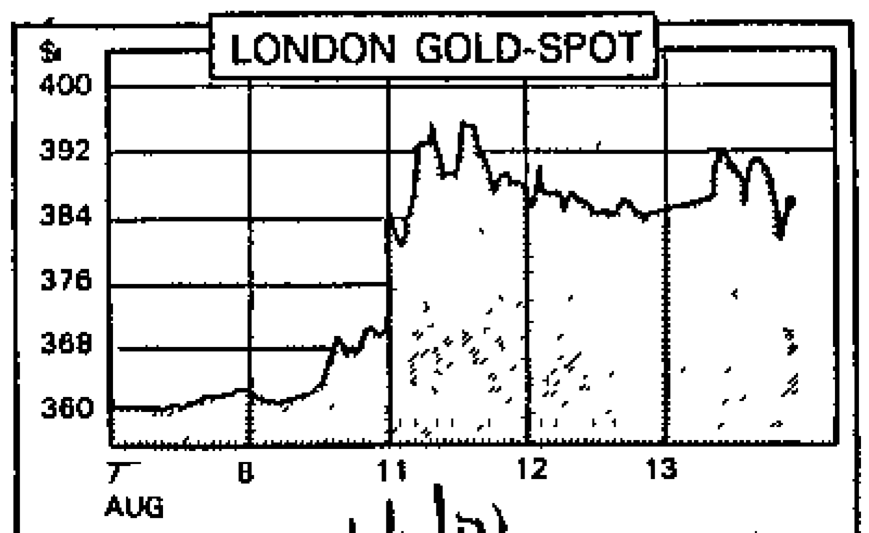
However, SA must avoid being lulled into euphoria. The gold market has to be seen to be consolidating at the higher price level. It could shed a few dollars while a new base is being formed. It could also drop.

Before the present surge in the price of the metal, the Reserve Bank estimated total gold revenue for the year of R16,5bn. Last year the country earned R15,5bn. However, if the higher price is sustained, this figure will be substantially higher.

A one dollar rise in the gold price increases the value of South Africa's gold output by about R55m over a full year, at present exchange rates.

An average price of $385 for the rest of the year would add an additional about $270m to gold earnings to December, or R720m at an average exchange rate of $0,38. A $400 gold price would boost earnings for this year by $425m (R1,15bn).

Over a full year exports of gold exports at a price of $400 would earn R21,8bn.



14/8/86 - BUSDAY

Gold settles below $400

74

LIZ ROUSE

THE gold price closed little changed in London and Zurich yesterday, being fixed at $388 in London after the morning fix of $391,25.

Gold traded at $385,50/$386,50, compared with $384/$385 on Tuesday night.

Last night in New York, platinum was trading at $556, up $20 on the previous day's London fix.

Dealers said a high of $393 was tried during an active and unusually protracted morning fixing of nearly an hour, during which there was demand from a wide range of sources, including speculative money expecting gold to reach $400.

But gold remained below this week's two-year high of $394,50.

President Botha's speech did nothing to allay fears over the bullion supply, said overseas dealers.

Gold shares closed higher on the JSE in active trading, recovering much of Tuesday's losses as buying orders waiting in the queue were executed.

In London, gold producer prices closed mostly firmer after an early bout of profit-taking.

Japan stocks up on gold

BUSDAY 13/8/1986

SIMON BARBER

WASHINGTON — Imports of gold bullion from SA into the US soared mysteriously to 186 671oz in the first six months of this year from 1 577oz for all of 1985, the Commerce Department said.

The surge initially had analysts puzzled as the US generally buys only negligible quantities of bullion direct from SA.

However, most of the metal was bought by the Japanese Ministry of Finance as part of a four-month $2bn buy worldwide for the minting of a new coin in honour of Emperor Hirohito.

Department sources said Japan stockpiled the bullion in the US before shipping it home in June.

Because such trans-shipments show up as exports in US trade statistics, the Japanese move had the intended effect of reducing its politically explosive trade surplus with the US.

Gold and Money Markets Analyst publisher Tom Wolfe said only a small portion of the estimated 6-million oz involved was bought directly from SA.

He said: "Most of it came from Canada, and the other usual sources, Switzerland, the UK and the Soviet Union."

Wolfe said it would be a mistake to be bullish as the buying spree was over

COMMODITIES

NEWS 14/8/86

79

Japan seen as strength behind bullion price surge

From NEIL BEHRMANN

LONDON. — International fears about the political situation in South Africa and widespread speculative buying of platinum have obscured the main reason for the sharp rise in gold prices.

The inherent strength this year comes from an extraordinary increase in Japanese orders.

So much so the nation's new found interest in gold is expected to alter the demand side of the gold market's equation for years to come.

Japan imported 348 metric tons of gold in the first half of 1986 against 95 tons in the same period last year and 197 tons in the whole of 1985, according to Japanese customs statistics.

"At this rate Japanese gold imports could exceed 600 tons this year, about half of Western supplies," says a West German bullion manager. He estimates that purchases will continue to run at a 60-ton monthly rate.

"Without the surge in Japanese demand, gold prices would have been significantly weaker," says Reg Eccles, managing director of Metals & Minerals Research Services, a London consulting firm.

A good portion of the gold deliveries to Japan will be used to mint 10 million coins each containing 20 grams of gold. The coins priced at 100 000 yen ($645) have been minted to commemorate the 60th anniversary of Emperor Hirohito's reign.

The coins are so popular that the Japanese authorities are issuing 50 million lottery tickets to people who want to buy the 10 million coins.

Lucky ticket holders can buy the coin at the end of October, so effectively each ticket holder has a one-in-five chance of buying the coin.

The lottery will be closely watched. If it is successful, the Japanese Finance Ministry will buy more gold on world markets to satisfy demand for the coins.

Excitement over the new coin, which is standing at a substantial premium over the gold price, is only part of a remarkable gold story in Japan.

Both Japanese jewellers and investors have become interested in the metal.

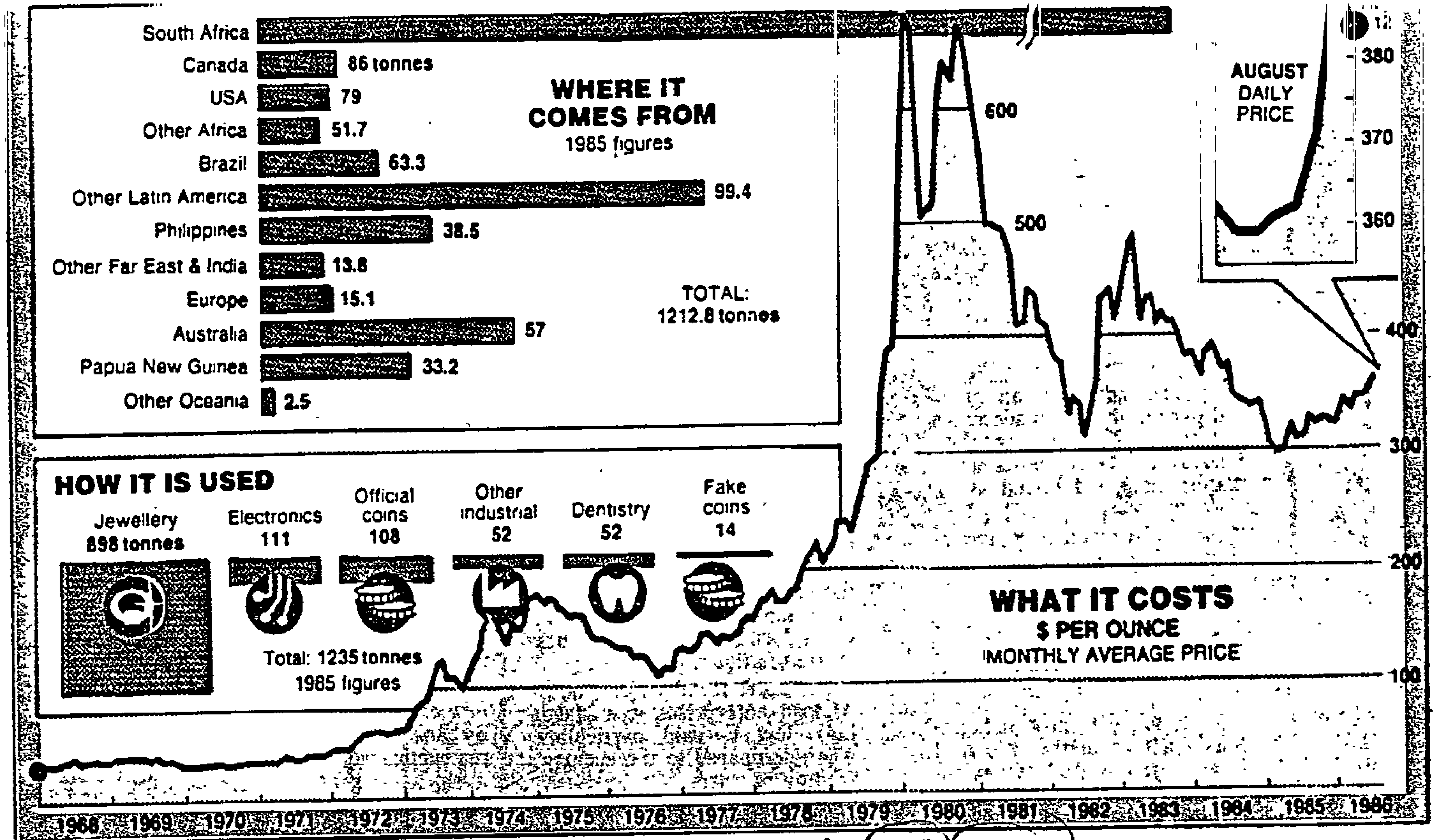
The publicity surrounding the coin, say Japanese dealers in London, has helped ignite enthusiasm for bullion.

Japanese investors buy a coin with a face value of 100 000 yen, so they are protected from any decline in the price of gold. But the Emperor coin is standing at a huge premium over world gold prices.

The coin at 20 grams is equivalent to just under two thirds of an ounce. An equivalent amount of gold at current prices of $385 would cost Japanese investors 38 000 yen ($245) — a discount of 62 percent.

For the average Japanese precious metals dealer the huge discount is a wonderful sales story.

It explains to a large extent why the Japanese are so enthusiastic about gold this year.



w/G ARGUS 10/9/86 (79)

Gold rush: The metal men kill for . . .

LONDON. — Gold is the one thing everybody wants. This week's surge in the gold price illustrates perfectly that the yellow metal continues to keep the central place in the world's system of values which it has held since the start of history.

People began buying more because they feared there might be less. Dealers and speculators, fearing that South Africa, the Western world's major supplier, might retaliate against international sanctions by restricted gold exports, began a frenzy of buying which sent the price soaring.

It exercises a dominion over men's minds which is unchanging, and the lore and legends surrounding gold account for much of its fascination.

Men kill for it. Man and wife unite with it. The medieval alchemists founded chemistry by trying to reproduce it. Benvenuto Cellini, wanting to make his patron, who had seen everything the Italian renaissance could offer, for once stand back and gasp, made a salt cellar out of it.

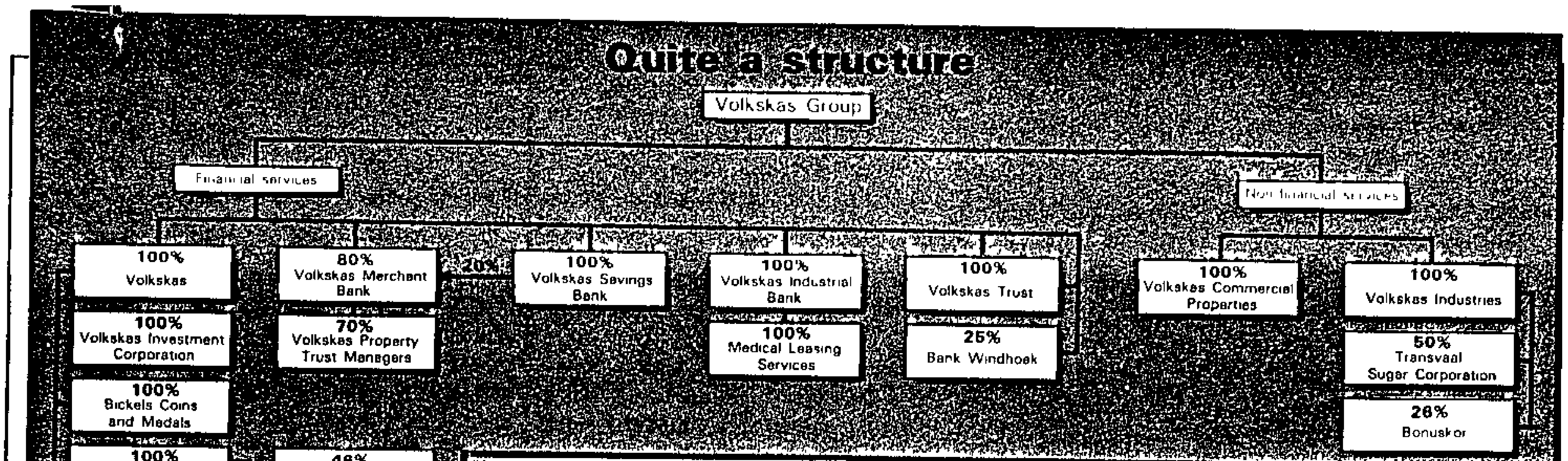
But its true hold is its universal acceptability: It is the one substance everyone will accept as a means of exchange, no matter how troubled the times, and in this the governor of a modern central bank and an Assyrian king or a Minoan merchant are not one whit different. Gold is safe.

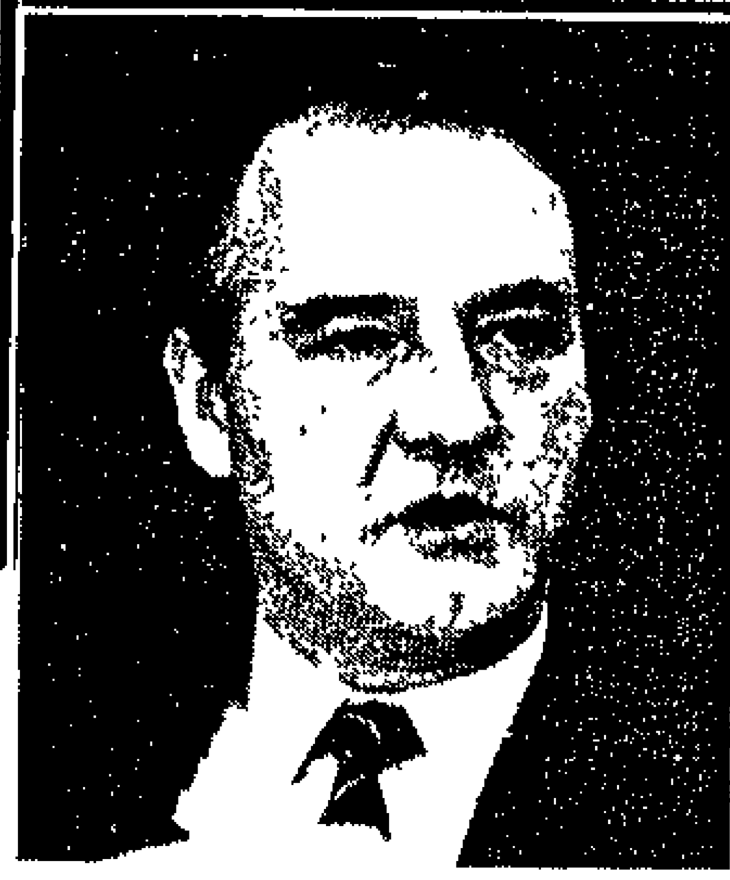
If Russia invades Afghanistan, watch the gold price. If America tries to rescue hostages from Iran, and fails, watch it climb. Euro-bonds? Not today, thank you.

Although it has kept its residual strength as an investment, in recent years gold has lost some of its public glitter and has passed from being the underpinner of the world's currency system to one more metal being traded on the exchanges. Until 1914 Britain was on a full gold standard and anyone could walk into a bank with 20 shillings and come out with a gold sovereign.

The strains of trying to keep the depression economy tied to a renewed gold standard proved too much between the wars and Britain abandoned it for good in 1931. But in 1945 gold became the fixed basis for the international exchange rate system established by the Bretton Woods conference. For more than 20 years the price of gold remained where it had been fixed by Roosevelt in 1934, at $35 an ounce, and currencies hovered around it.

To Page 3




Morkel


Cronje


Robert Tshabalala

Van Vuuren

advances. Lomberg also points out that 60% of Volkskas's overdrafts were secured (69% at Barclays, 65% at Standard). Farm property mortgages were security for 23%, a figure much higher than for the other big four.

After developments with Nedbank and Triomf, investors are wary of bad debts. "Certainly our experience of the past year, like any other bank, has been an unprecedented level of bad debts," says Morkel, "but we have made sufficient provision against internal reserves." Another area of concern is gilts. Cronje, however, assures us that Volkskas is making a profit on its portfolio.

On the subject of disclosure, Morkel is emphatic that the policy of limited disclosure is correct. He does not consider that full disclosure would help investors or depositors in cases of large bad debts. He believes that reserves are there to iron out fluctuations caused by the volatile pattern of bad debts.

Perhaps more pertinent could be that Volkskas does not have a Sanlam or Mutual to turn to and must be careful how it is perceived by the public. This is thought to be one reason why internal reserves are rumoured to be very large. In reality, though, arguments in support of non-disclosure are specious. The market does not *know* the size or adequacy of reserves, nor the seriousness of bad debts — surely an excellent reason for improving disclosure and, therefore, credibility.

Rumour that Volkskas holds large hidden reserves has been fed by the denial that there will be a rights issue in the immediate future. Although Morkel acknowledges that Volkskas is short of capital in terms of the new Banks Act, "by restructuring assets, we need less capital and won't have a shortage."

Other rumours also abound — one is that Volkskas will join up with Nedbank. Morkel maintains that there is nothing in the pipeline, but "our options are open — I would not exclude any of the banks." A factor that could encourage speculation about marriages is that Volkskas's major shareholder, Rembrandt, is not in direct competition with the controlling companies of any other bank.

The main question, however, must be when patient shareholders will see an improvement in earnings and dividends. Cronje and Van Vuuren say the "outflow to the building societies has stopped." The new capital ratios will affect the way scarce capital is employed. Indications are that dividend cover will not be reduced, so a rise in earnings is needed to give the share price impetus.

Morkel is not encouraging. "The real benefits (of rationalisation programmes) will start flowing in 1988," he says. Earnings "this financial year and the next are going to be very much the same." Nevertheless, Lomberg, who has been recommending the share for a year, says purchases can still be made.

Volkskas may be gathering strength and could emerge in two years' time as a giant of the banking scene. Whether it will, must depend on the success of the new structure, including management structure, and the plan to switch entirely to quality business. After all, all the banks want the cream.

Pat Kenney

GILT OPTIONS

Fin Mail 15/8/86

The world of puts and calls

Trading in gilts is becoming increasingly popular as a hedge against economic and political instability. But you have to have considerable capital to enter the game.

One explosion is going virtually unnoticed. The quiet, but rapid growth of the gilt option market is a product of the increasing importance of financial engineering to tackle the havoc wreaked on markets by political and economic turmoil.

Gilt option volume (mostly in primary trade) has almost doubled over the past year to an estimated R1 billion a month. By all accounts it is still rising — and this in a market that only really got going in 1984.

Rand Merchant Bank's Paul Harris reckons "nearly all brokers, major banking groups, all but one or two insurance companies, two or three pension funds, four or five borrowers, and four or five corporates are involved." An increasing number of struggling borrowers are attaching options to primary issues to entice reluctant investors.

Why such growth? First (and perhaps most important), the political and economic climate has created a highly volatile capital market where risk management is essential.

Enabling investors to hedge against sharp interest rate movements, options are a type of insurance, allowing option buyers to gain (potential fortunes) from movements, while limiting their downside loss to the price paid. The trade has its own specialised vocabulary (see box).

Options are thus not only a trading exercise, but an asset for the holder and a useful tool in portfolio management. Through options, portfolio managers can buy or sell stock without influencing rates. Says Federated Life's Luigi Colantoni: "Buying and selling options is taking a view, and used by portfolio managers as a balancing mechanism."

Arnold Pronto

Gill Raine ... not speculative

Investor interest was probably triggered by the requirement that insurers and pension funds invest in gilts (so-called prescribed assets). Portfolio managers are always looking to improve the poor returns realised. Many institutions write options against long-term gilt stock bought, giving them flexibility to move out of a position. Options are also a useful gearing tool. Potential appreciation on R1m stock can be gained with a much smaller outlay.

Most institutions are doing well out of their option books. It has been said that but for options, the long end of the capital market — which faces extinction as a result of reluctance to commit funds in a time of extreme uncertainty — would be non-existent.

Most stockbrokers are involved in options, providing research, buying options (especially short options for their own account), and broking. They do not write options. Unofficial estimates are that the JSE (as opposed to the inter-bank market) accounts for about half the option trade: over 90% of overnight and day-night principal options, around 40% of principal options up to a week, but few principal options for longer periods.

Most option trade (an estimated 60%) is on the jobbers' favourite, RSA 15% 2005 stock. Some R2 billion is in issue and the entire nominal value is turned over every 12 weeks. The second most traded option is Sats 7,5% 2008, whose popularity is a result of Sats's active promotion and willingness to write box options. Escom is likely to enter the option market this year.

Individuals have access to the option market, but are not major participants. It is a complicated market, involving many fancy strategies. As JSE president Tony Norton says: "It's not for amateurs." Also, option writers prefer dealing with bigger clients as the sums involved are large and the cost in terms of time does not warrant actively enticing individuals.

Thus the main participants, whether takers, writers or jobbers, are institutions with access to vast sums. At current prices the move of more than 200 points in the RSA 2005 in the last three weeks is worth about R90 000. Not bad for an investment of R15 000.

Though it may appear a speculator's paradise, the true nature of the market, Frankel Kruger's Gill Raine argues, is not speculative: "It's a matter of educating people that it's a market with risks and rewards."

So it is a high-risk game. With such stakes is there not a risk of burnt fingers; more important, is stricter control not necessary?

Writing options naked, that is, without owning stock to back the option, is dangerous. There is nothing to prevent large losses (which many feel are only a matter of time). Stockbrokers are controlled — cash margins are monitored and bank guarantees required for open positions. Assures Norton: "We watch it like a hawk as the whole market can be prejudiced by the action of a single member."

But for non-brokers, the only control is trust and reputation. As Sanlam's Ronnie Masson says: "To write options, a good standing and holding a similar option or cash resources (margin account) is required."

Harris is not worried. "For buyers, knocks are finite and limited to the premium. The downside risks, and hence the knocks, in the physical market are much larger."

But he agrees that option grantors are exposed to large losses should rates move against them. Most big option writers thus try to hedge their positions.

To improve financial security, some are lobbying for an option clearing house to lay down procedures and requirements for granting options, monitor margins and manage credit risk. At the moment, larger institutions act as informal clearing houses.

The Stals Commission, which is investigating and advising on these problems, seems to be on the shelf while chairman Chris Stals attends to foreign debt negotiations.

The JSE is aiming for a formal traded option market, but before this can be realised

Tony Norton ... 'not for amateurs'

a co-ordinated settlement system between the JSE and banks is needed. Norton believes a clearing house is characteristic of a good market. "Overseas markets are overseen by a clearing house which guarantees performances through margin and clearance disclosure," he says.

But not all favour a formalised market. Volkskas Merchant Bank's Gunther Meier for one believes that "the size of the market does not yet justify a formal and legal framework in which all participants have to operate. An association which gives individual participants maximum freedom but will protect the public, seems better."

Harris adds: "We should rather allow the market to develop in the popular stocks. We need a clearing house for physical stock but not yet for options. It would be counterproductive to establish a formal market before volumes can justify the costs."

What of the future? The market is still thin and young with relatively few participants. New markets are there for the taking. As volumes increase, markets are likely to develop in more stocks (especially in the shorter and medium term, becoming increasingly popular) and interesting variations. ■

OPTION SPEAK

Call option: The right (but not obligation) to buy stock from the option grantor at the specified rate on the specified date. Calls are purchased if one expects rates to drop.

Put option: The right (but not obligation) to sell stock to the grantor at the specified rate on the specified date. Puts are purchased in anticipation of a rise in rates.

Box option: An option to exercise either a call or put. Call/put options can be purchased at the same points away (below in the case of calls and above in the case of puts) from spot. Because it is a hedge both ways, a box option costs roughly double that of a straight option (the combined price of a call and put).

American option: May be exercised any time prior to maturity.

European option: May be exercised only on the maturity date.

Spot yield: Prevailing market rate.

Strike date: Final date on which an option may be exercised.

Premium: Grantor's charge for granting the option.

In the money: The strike yield is above the spot yield in the case of a call and below the spot yield in the case of a put.

Out the money: The strike yield is below the spot yield in the case of a call and above spot in the case of a put.

Capital outflow set to swallow gold profit

17/8/86 SUNTIMES

By David Southey

THE increased gold price is unlikely to give the economy a major boost.

Economists and businessmen fear that the increased foreign-currency earnings will be swallowed up by stepped-up capital outflows ahead of sanctions.

The failure of the rand to rise above US$0,38 in spite of a $40 jump in the price of gold points to the seriousness of SA's capital leakage.

It also indicates continued low confidence among both domestic and foreign businessmen in SA's political future.

Coffer-filler

Economists estimate that every $10 an ounce rise in the gold price translates into an annualised $200 million boost to SA's earnings. If the gold price remains above $380, nearly $2-billion could be added to SA's depleted foreign-currency coffers by the end of the year.

However, with an estimated 60% of SA's outstanding foreign debt falling outside the standstill net and foreign creditors nervous of further restrictions on repayments in the event of sanctions, capital outflows are likely to rise.

Speculation is that the Reserve Bank is trying to stockpile dollars in anticipation of lower forex earnings under sanctions. The bank's purchase of dollars from the private sector bolsters liquidity by virtue of cheap rands being exchanged for expensive dollars.

Gold-mine earnings along with tax revenue from them receive a fillip from a high dollar price of gold combined with a low rand. If the Reserve Bank remains an active net buyer of dollars from the private sector liquidity in the money market will increase and depress interest rates.

Gilts look good

Traders in short-term paper report a severe shortage in money-market assets, which means rates could fall further.

Long-term rates seem to have consolidated around 15%, but traders think easing is possible under the weight of funds. Relative to equities, which are expensive, and property which is depressed, gilts may yet offer the best investing opportunities.

But both gilts and equities are likely to react more strongly to bad news than to good.

MONEY
AND
YOUR
LIFE

Martin
Spring

What you should be doing about gold investments

W/C ARGUS 16/8/86 (88) (79)

WHEN I last wrote about gold, back in January, there was a flurry of interest in the metal similar to that we have just experienced.

The gold price had risen to $353, the gold share index stood at 1268, the Krugerrand was being traded at R855 and you could buy units in the Standard Gold Fund for 163,45.

My concluding advice was not to be in a hurry to buy gold investments (because I expected the flurry of interest to collapse as it did, but to "use any weakness over the next few months to build up your holding of Krugerrands and to buy gold shares or Gold Funds units".

As I write this, gold is trading at $384, gold shares and Gold Fund units are 21 percent higher than they were in January, while the Krugerrand (looking overheated) has jumpted to R1 260.

What should you be doing now about gold investments?

Firstly, it is important to remember that recent action in the gold market has largely been a reflection of dollar weakness.

Proof of this is that if you use some other major currency to measure the value of gold, such as the Swiss franc, you will see that gold is not yet in an uptrend.

This is not just a theoretical argument. Our economy will get no boost from gold if, although we get more dollars for our bullion exports, those dollars have lost purchasing power.

Although international trade is a complex subject, ultimately we have to earn yen to pay for imports from Japan, marks to pay for our purchases from Germany, and so on.

Gold's failure convincingly to reverse its downtrend in terms of several major currencies suggests that there is no widespread fear of collapse of the world economy, only disquiet about the dollar.

So why the recent flurry?

One reason is that the dollar gold price is traditionally strong at this time of the year, for seasonal reasons linked to jewelley industry purchases. If it were not, that would be very bad news indeed.

Another is anti-dollar sentiment.

Foreigners need to believe that the capital gains and income they can get out of their American investments will more than offset what they are losing through the decline in the dollar's exchange rate.

If, as seems possible, the American economy is running out of steam, the capital gains could evaporate and income flows could fall.

This is disquieting enough to discourage some flow of capital into America, weakening the dollar's underpinning.

In a climate such as this, some international investors, both American and non-American, may be feeling the time has come for them to make a small precautionary investment in gold.

A third reason for the recent flurry could be changes in the supply and demand situation.

For some time the Russians have been selling more gold than they produce by running down their stocks. They have been doing this because they need hard currencies to offset lower revenues from oil exports.

It could be that Moscow has run out of "surplus" gold to sell.

It could also be that the Japanese, who have caught gold fever on an amazing scale, are stepping up their purchases.

These would be encouraged by the authorities, who are only too keen to find ways to reduce Japan's embarrassingly large foreign trade surplus.

On balance, the most likely outlook for the gold price is an uptrend in terms of dollars and stability in terms of other major currencies such as the yen, the mark and the Swiss franc.

In terms of the rand — which is what matters to the mining companies, which have to pay most of their expenses in rands — the gold price is likely to stabilize in the range R900 to R1 000 an ounce.

At present gold shares and Gold Fund units look cheap relative to the rand gold price, and may be bought with confidence.

Krugerrands, however, look overpriced to me: why pay such a large premium for an asset which yields no income and has less upside potential than gold shares?

● Martin Spring is editor of Personal Finance Newsletter.

Highest level since debt standstill

SA's forex, gold reserves exceed $2bn

19/8/86 BUSDAY

GERALD PROSALENDIS
Economics Editor

SA'S foreign exchange and gold reserves now stood at a higher level than at any time since the imposition of the standstill last year, Reserve Bank Governor Gerhard de Kock said yesterday.

And, despite large purchases of dollars by the Bank to replenish badly depleted reserves, the rand has made a gain of 6% for the week to yesterday's close of $0,45. Yesterday alone, the currency rose 3% to its closing price.

After the close, the currency rose even further to $0,4540, almost two cents higher than Wednesday's close of $0,4370.

De Kock said: "The currency would have risen even higher if the Bank had not been a net buyer of dollars."

SA's gold and foreign exchange reserves now exceeded $2bn. Expressed in rand terms, these reserves appreciate automatically with any rise in the currency.

De Kock said: "But, what is important is that they have been rising in dollar terms."

After declining for the first six months of the year, the opportunity to top up

To Page 3

SA reserves worth $2bn

BUSDAY 19/9/86

From Page 1

foreign exchange reserves comes as a welcome respite for the monetary authorities who have been hard pressed to repay $3bn of foreign debt since the end of 1984.

De Kock said: "We are now in a more comfortable position than we have been for some time. However, we cannot get slap-happy merely because the gold price has held above $400 for two weeks."

The dollar could rebound to DM2,080 if, for example, Germany lowered interest rates by 0,5%. This, in turn, could weaken the gold price and bring the rand under pressure.

But, the flood of dollars into the country, after two weeks of higher gold mining proceeds, has strengthened De Kock's hand to support the currency should the dollar rebound or gold retreat.

Yesterday's surge in the rand was closely related to the plunge in the dollar to its lowest level against the Deutschmark in more than five years. Once the dollar breached the crucial DM2,000 level, SA exporters rushed to bring their dollars into the foreign exchange market.

De Kock said the monetary authorities had received complaints from industry that the rand was moving up too sharply.

He said: "We are controlling the rand's rise and are not letting it surge upwards. At times we have bought and sold up to $100m within the same day. If we had not done this the rand's behaviour would have been far more volatile."

One immediate spin-off of a higher rand, and a lower dollar, is that a rise in the price of petrol is now unlikely. The government, it is believed, has been buying oil at lower dollar price which will enable it to hold the present petrol price even though it is based on an exchange rate of about $0,47.

17/8/86 (79) SUN TIMES

Emperor's coin puts gold back on throne

By Jim Srodes: Washington

A HUGE purchase by the Japanese was the catalyst for the run-up in the gold price.

But underlying market fundamentals have laid the foundation for what could be a sustained increase in the gold price, say US dealers.

Although it was reported in the US and South Africa that worries about a possible disruption in gold supplies to the market led to the price increase, the surge was triggered by an unusually large 203-ton purchase of gold by the Japanese Government in the first four months of this year.

Patriotic

Tokyo began stockpiling gold for minting of a coin to mark the 60th anniversary of Emperor Hirohito's accession to the throne. The 10-million coins are expected to be in great demand when they go on sale in October.

The Japanese are said to have bought another 100 tons of gold in July, and many US analysts predict they will be in the market for more as they seek to satisfy growing patriotic demand for the commemorative coins.

Jeffrey Nichols, president of New York's Precious Metals Advisors Inc, says: "The market for gold was already fairly tight. The first Japanese buys pushed gold to $340 and $350 and then through $360. That got the summer market moving and once we passed $360 we saw a good deal of short covering. Then the price rise began to attract widespread investor demand.

"It was not investors' fears about the political situation exploding in SA or a possible cut-off in metal supplies."

Platinum

Mr Nichols says earlier assumptions that gold was rising on the back of platinum, which in turn was rocketing on fears of a supply shortage, were wrong.

"People looked at platinum prices, which jumped by $25 on some days, and thought that platinum was leading gold and all precious metals. But whenever precious metals turn sharply upward, platinum moves more than others. "It is a thin market with tight supplies and any shift in investor interest causes big price swings."

The reason it took gold bugs so long to become aware of the extraordinary Japanese purchases was that the Tokyo Government took an indirect and ingenious route. It bought bullion in London — Sharps-Pixley is said to have handled the deal — and it was transferred to Citibank in New York where it awaited shipment to Japan.

The Japanese took the circuitous route to make a dent in their politically troublesome trade deficit with the US. The $2-billion gold purchase, because it was eventually shipped from the United States, figured in the trade statistics and helped to ease Japan's surplus with America.

Japanese officials reasoned that the gold rerouting would blunt their trade surplus at least temporarily and quieten the congressional call for trade barriers.

Central banks

US dealers say the Japanese Government's major purchases have been augmented by rising demand for gold from investment sectors.

A New York dealer says: "The Japanese are simply buying lots of gold — not only the Government but the private sector.

"In addition, India is coming along as an important market, both jewellery and industrial demand increasing. The central banks have been in the market as well. All we need now is for investors to become concerned about inflation again and that will keep gold going up."

But some US gold bugs worry that the current pace of increase is too fast to sustain. They would prefer a more even rise in the price of gold.

Nichols says: "If we get the type of advance where it continues to go up and up without digestion, it could be unhealthy and lead to a blow-out. It would be much better for the advance to include a pause that refreshes along the way — a tempered advance that lasts, not a sharp one that fades."

Although US and other investors have rediscovered gold's investment potential, SA mining shares have attracted no more than a yawn at best from Americans.

One reason, according to New York sources, is that even though US investors do not fear a cut-off in precious-metal supplies they are concerned that mining-share dividends could be caught up in the international whirlwind surrounding apartheid and economic sanctions.

Investors worry that Pretoria may restrict the flow of dividends by changing the payment status to the financial rand category from the current commercial rand, thereby slashing yields.

Australian

Worse, there is a concern that Pretoria could block payment of dividends to foreigners whose nations have imposed sanctions. Although the SA Government has insisted it will not touch foreign-held shares, US investors are not convinced.

Australian shares, which yield 5%, are in great demand. But SA mining stocks, which under the commercial rand rate yield about 18%, languish on US stock exchanges.

Precious metals prices weaken

19/8/86 BUSDAY (79)

Business Day Reporter

GOLD and platinum prices fell sharply yesterday to erase some of last week's gains as dealers regained confidence that government would not disrupt world supplies of precious metals.

Gold closed in London at $376,25, down nearly $6 from its close last week of $382. Platinum was priced at $535 from $546,50 on Friday.

Dealers in Johannesburg said trading activity in both markets was nowhere near the levels of last week when fears of restricted supplies sent platinum prices to $562, a five-year high. Gold soared to a two-year high of $394,50 last Monday and hovered around $390 until Friday.

Yesterday's activity was described mainly as profit-taking by professional investors and seen as a necessary correction of last week's gains.

Traders said it probably did not indicate the start of a long-term price decline.

The rand weakened, closing 0,3c lower against the dollar at $0,3805/15 in thin trading.

Dealers said the Reserve Bank stepped in to sell dollars whenever the rand seemed in danger of falling below $0,38.

The financial rand also fell slightly, to $0,1950/2000, from $0,2015/65 on Friday.

Gold still holds sway in the monetary markets

25/8/86 SAR (79)

By Stan Kennedy

To a large extent, gold still holds the world's monetary systems in balance against the vagaries of the marketplace and fluctuations in currencies.

And amid international debts and high budget deficits, the worldwide focus on gold has seldom been keener.

This point was not overlooked when the Council for Mineral Technology, Unisa's School of Business Leadership, the SA Institute of Mining and Metallurgy and the Chamber of Mines of SA set out to make Gold 100 the most memorable conference to be held on gold.

As South Africa is the world leader in gold-mining and extraction technology, it was only fitting that this once-in-a-lifetime conference should be held in the centenary year of the "City of Gold".

The international community — about 600 delegates are expected — has taken Gold 100 as a wonderful opportunity to gain insight into the complex and fascinating mechanism of world gold markets and technical factors governing gold production.

The conference will be officially opened at the Johannesburg Sun Hotel on September 15, by the president of the Chamber of Mines, Mr Peter Gush.

The Minister of Finance, Mr Barend du Plessis, will be one of the main speakers at the plenary session on the first day.

Other distinguished speakers on the first day include Mr Robert Guy, N M Rothchild & Sons and chairman of the London Gold Market; Professor M D G Salamon, Colorada School of Mines; Professor D A Pretorius, University of the Witwatersrand; Professor Nic Wiehahn, School of Business Leadership, Unisa; Dr Geoff Gafner, Intergold; and Mr Jack Holmes, Anglo American Corporation.

From Tuesday, September 16 to Thursday, September 18, there will be presentations at the Johannesburg Sun and Carlton hotels by a prominent array of leading bankers, economists and scientists, both local and overseas, covering 22 major topics.

A special commemorative medallion has been struck.

Enquiries from coin collectors from all over the world wanting to buy the medallion are pouring in and there is a strong possibility that a special minting in gold will be available to the public after the conference.

Despite recent bad publicity about South Africa, Gold 100 should certainly demonstrate that one of South Africa's strongest trump card against sanctions is gold.

79 FIN MAIL 22/8/86.

GOLD

Will gold do the trick?

Once again people are looking to gold to bail SA out of its economic malaise, and once again they will be disappointed.

For one thing, foreign debt constrictions have changed all the rules; for another, we can no longer get away with relying on one major export. Local labour profiles and overseas economic developments have changed all that.

Having leapt to $395/oz, the metal is already $20 lower. Although it may stay around these levels, the impact is uncertain. What is certain is that, with SA in such turmoil, the "typical" effects of a higher gold price will be distorted.

In normal circumstances, the economy would be boosted — the rand would rise as a result of an improving balance of payments and confidence; the reserves would rise and thereby increase money supply which, in turn, would stimulate the economy.

"Normal rules," says Volkskas economist, Adam Jacobs, "are topsy turvy." The economy is so intertwined with the political crisis that economic fundamentals are of little more than academic interest. The economy simply does not move as "economic fundamentals" would suggest.

This abnormal situation is reflected in the most visible and immediate barometer — the rand. The currency has failed to appreciate in response to the higher gold price.

Why? Reserve Bank Governor, Gerhard de Kock, cites adverse leads and lags and "substantial" repayment of foreign debt. "Despite this," he adds, "there has been no decrease in reserves over the past few months."

The popular market explanation is that the Bank is accumulating foreign exchange, instead of using such revenue to boost the rand. Standard Bank, discussing last week's activities in the forex market, says the Bank "for reasons best known to itself," only sporadically supplied dollars.

"This suggests the Bank is either intent on allowing market forces to determine the rand's level, or dollar receipts are being set aside for alternative purposes, possibly foreign debt repayment," it says. The Bank may be reluctant to see the rand appreciate much, as money could pour out even faster and export earnings would be damaged.

De Kock says the Bank has not been withholding dollars nor building reserves, but has been "protecting the gold and forex reserves. Since the Bank has paid mining houses in rand, we feed all the weekly dollars from gold sales into the market." He says gold *was* sold from the reserves at $390-$395 (which with hindsight seems wise); this excess of dollars has been retained. Thus, only the composition of reserves has changed, not the underlying amount — a total of R3,9 billion.

Some economists, including FCI's Arthur Hammond-Tooke, believe the gold price surge prevented the rand from falling even further.

The abnormal situation is emphasised by Old Mutual economist, Rob Lee, who says that if, on waking from a 10-year sleep, an economist was told that SA has a current account surplus equivalent to 6%-7% of GDP, he would forecast a high growth rate. "If, on top of this, our economist was told that there had been a stimulatory policy for 18 months and yet the economy was still in recession, he would think you were nuts."

Many still rely on the "gold times, good times" syndrome. They consume more, invest more and borrow more when the gold price is up — all conducive to pushing the economy out of the doldrums. However, it is a moot point how distorted perceptions have become and whether a gold price rise is sufficient therapy to lift spirits.

SA owed international creditors some $24 billion at the end of 1985. This is substantially lower now, given large oil credit and IMF loan repayments, as well as other debt repayments both in and out of the standstill net. De Kock says new figures about remaining debt will soon be available, as a census is under way.

At present, with annual gold output of almost 22m ounces, a $30 gold price rise brings in an extra $660m annually. A $100 increase in platinum brings in $250m.

Repayments easier

Any boost to the reserves from greater gold proceeds will obviously make repayments easier and hence reduce pressure on the balance of payments and consequently the rand, but it would need a massive increase to alleviate the overall pressure of the foreign debt shackles.

Against the poor state of reserves and large capital flight, gains from a higher gold price are marginal. "Dollar demand arising out of the debt and other forms of flight money will impair the impact extra gold earnings would usually have," says economist, Stephen Gelb. JCI economist, Ronnie Bethlehem, reminds us that net reserves are still negative: "Before having any significant impact on the local economy, we must reconstitute reserves."

Lee believes that additional revenue from gold "should help finance government overspending," but estimates the budget deficit will, nevertheless, be R2 billion higher than the budgeted R4 billion.

It will also take a much higher gold price to entice foreign investment. While foreigners might purchase gold shares, the economy is so shaky and the hassle factor so great that gold does not look like changing foreign minds about SA. ■

BUILDING SOCIETY LAW PASSED

Now that the Building Societies Bill has finally been passed (it was some seven years in the making), the United Building Society (UBS) will finalise details of a JSE listing at a board meeting on Friday. Relieved UBS CE and deputy chairman Piet Badenhorst tells the *FM* full details can be expected next week. He has little doubt the UBS will be the first to gain a listing.

The Bill was obviously a priority; it was placed first on the order paper on the second day of the new session of parliament, having lost out in the first day to a Conservative Party filibuster on KwaNatal. Second on the order paper was its sister, the Mutual Building Societies Amendment Bill, preserving a modified mutual structure for societies wanting it.

Badenhorst welcomed the legislation as a declaration that government "is serious about bringing more equal competition into the financial arena." He is, of course, convinced the legislation will enable building societies to compete more equally and meaningfully with other financial intermediaries.

He believes the consumer will benefit from greater choice, which will boost competition, in turn meaning better rates for both depositors and borrowers through finer margins.

MONEY SUPPLY

FIN MAIL 22/8/86

Move into short term

The latest figures for money supply indicate a shift away from long-term deposits, strongly suggestive of a market belief that interest rates have bottomed.

Though one must never read too much into any monthly economic figure in isolation, the bulk of profits in the Christmas-boosted second half.

Bearing in mind the group earned 103c in the second half last year, that trading in all main divisions appears to be running ahead of 1985, and that both debt and interest rates are falling, W & A should comfortably earn 200c this year. That puts it on a forward earnings yield of 22%, and assuming three times cover, a dividend yield of 7,2% — a rating that may be far too harsh for a company on a recovery trend whose share price is a 36% discount to asset value.

While operating income remained static at R23,2m (R23,3m), the sharp fall in finance costs to R9,5m (R18,8m) saw pretax income spiral to R10,85m (R1,77m). With debt significantly reduced since December, the debt:equity ratio has fallen from 78% to 69%, a far cry from the 110% of barely a year ago.

Attributable profit was R4,24m (R1,24m loss), which was boosted by extraordinary profits of R6,22m on the sale of shares in Hallite and Jazz Stores.

The curious fact is that most major subsidiaries had already reported, yet still the market seemed to underestimate performance. One reason could be that while most are listed, some important earners, such as W & A Distributors, lie tucked in unlisted corners, away from analysts' eyes. Another reason could be the group's complex structure, which was recently reorganised.

The newly constituted subsidiary, **Hunts**, produced strong earnings, largely reflecting stable returns from its 60% holding in **General Tyre** and vastly improved returns from its 81% of **E W Tarry**, which now contains the Willams Hunt motor division. Williams Hunt sells GM cars which, after a lean spell, have been gaining market share.

Higher up the group structure, **World Furnishers** reported a sharp turnaround, based partly on improved trading conditions, and partly on an improved financial structure in the wake of raising some R10m by selling shares in Jazz. Interim profits were R1,01m, virtually matching the R1,09m for the whole previous year.

The other furniture subsidiary, **Bradlows**, reduced its interim loss to R213 000 (R897 000), and is expected to return to profit in the second half.

On the strength of the overall performance, W & A could be due for rerating.

Neville Glaser

FIN MAIL

GOLD/PLATINUM

29/8/86

Shares running

The JSE All Gold index is pushing towards the 1 700 level, spurred on by foreign buyers encouraged by the improved outlook for gold, and local buyers climbing into what they see as a rand and sanctions-proof investment hedge. A number of JSE analysts feel the gold shares are generally fully valued at present, and further increases in the dollar gold price are needed to justify continued purchases — but they also expect to get further increases, which means the gold index looks set to climb even higher.

Some analysts caution, however, that there are bound to be corrections along the way, and there are a couple of potentially bearish jokers in the gold share pack. These include the possibility of strike action on the gold mines, and the chances of a recovery in the rand or the US dollar. The improvement in the dollar gold price, which has coincided with drops in the major overseas stock markets and falls in the value of the dollar, has encouraged overseas investors to start looking again at South African gold shares.

"Our shares are cheap viewed in terms of their currencies — in fact, bargains when the yields on offer are compared with those of Canadian and Australian gold producers," comments one analyst with an institutional broking firm. "European and American investors have started buying the shares for the first time in months, which is encouraging given the continuing sanctions debate."

Says another: "The fact that the rand has not recovered along with the gold price proves the policy of a managed rand float is a myth. The currency is being kept right where it is by the Reserve Bank to maximise export revenues and to try to correct some of the problems caused by the mess the economy is in. This is a structural change to the investment situation which is being appreciated by local investors."

Gold at $380/oz and the rand at US38c works out to R32 151/kg in revenue for the gold mines. This means the current September quarter will again produce some bumper results from the gold mines and, with prospective dividend yields of up to 10% on offer, it's difficult to fault a decision to buy gold shares.

Amid the bullish pronouncements, a note of caution was sounded by a bearish portfolio manager: "I can't argue with the trend in the gold price and I see the gold price moving between about $370/oz and $430/oz. However, I cannot accept the overwhelming opinion that the rand will stay at current levels with no chance of a recovery and neither can I accept that the dollar is as bombed-out as everybody says."

Another gold analyst believes that the JSE gold market is currently overheated and there could be a short-term correction.

The platinum market is more complicated, with differing opinions on how long the party can last. "There is a day of reckoning coming for speculators in platinum," prophesies Fergusson Brothers' analyst Derek Ritchie. "The price has been driven up through speculation, verging almost on hysteria, that SA would hold back metal supplies in the event of sanctions. Last week's White Paper on mineral strategy ruled this out and anyway platinum, unlike gold, is marketed by the individual companies and not the Reserve Bank.

"A disruption to supply is just not on. Rustenburg and Impala shares could well go to the R60 level but at that point investors should take profits," he advises.

Another precious metals analyst agrees with the concern about speculative buying but points out that for foreign investors buying platinum shares the only real options open are Rustenburg and Impala. "If they decide to rate these shares as they rate Australian gold shares and accept those kind of low dividend yields then the prices could stay very firm," he says.

Brendan Ryan

SPECTRUM INDUSTRIAL

Joining the DCM

On October 16 Spectrum Industrial, trading under the names General Industrial Supplies (GIS) and Hardware House (HH), plans to join the 13 companies already listed on the development capital market (DCM). Unlike recent DCM listings, a public rather than private offer is being made, giving the public an opportunity to get in at ground floor.

The two divisions, GIS and HH, are situated in Alrode and Isando, and supply parts used in the installation and maintenance of industrial equipment. MD Steven Swersky (32) and financial director Brian Benjamin (31) tell me that the purpose of the listing is to fund growth and expansion in a market niche they believe has good future potential. Given the size of the company, the directors believe the DCM is the ideal vehicle for this.

Spectrum currently has no outside financing apart from director's loans and occasional use of overdraft facilities. This suggests the company is highly liquid. Lead times in which debtors are financed are on average 30 to 60 days, depending on the size of client — an indication of solid cash generation. Over the past five years, turnover has grown by an annual 20%. Turnover to end-December 1985 was R3,4m and an audited R2,1m for the six months to June 1986. Income before tax was R346 000 for the year to end-December, and R289 000 in the six months to June.

Originally founded in 1955 by Swersky's father, Spectrum began trading as GIS in 1973 and merged with HH in 1979. Management says the merged operation enables the company to buy in large quantities without having to approach wholesalers. By doing so, they claim Spectrum has been able to steal a march on competitors. Its wide spread of clients, from multinationals to "one-man-bands," has apparently shielded Spectrum from downturn in the manufacturing industry. Computerised accounts receivables enables tight credit control. And because of the large stock holding of some 10 000 items, the company is said to have gained a reputation for quick and efficient service.

Most of the items such as fasteners, abrasives, piping, valves and hoses, measuring instruments, various tools and hydraulic equipment, don't become dated. Staff complement, including sales reps, is 44, of whom 11 joined in the last six months as Spectrum geared up for an increased volume of busi-

GOLD – 1986

SEPT. — DEC.

CAPE TIMES 2/9/86

Gold edges to key $400 mark

79

LONDON. — Gold closed at $391,25-$392,75 an ounce, up from Friday's close of 385,50/386,00 and just below the day's highs, dealers said.

They said gold closed in a quiet market in the absence of New York traders due to the Labour Day bank holiday in the US.

The day's high of $392-$393 came at the morning fix, when the market saw aggressive buying on platinum's strength.

But gold was sold off, mainly from the Middle East, at around the $393, and drifted $1 to $2 lower in the early afternoon.

Dealers said gold's upward progress looked set to continue, with an attempt on the psychologically important $400 threshold expected within the next few weeks.

They cited a bearish dollar and strong platinum as the main factors underpinning gold.

Platinum was fixed yesterday afternoon at a new six-year high of $638,00 an ounce. It later traded in a range of $635-$638.

Dealers said the market was quiet, with moderate short-covering maintaining upward momentum, and good buying at the fix.

In Zurich, platinum closed at a six-year high, while gold edged further towards the key $400 an ounce level, dealers said.

Gold closed near the day's high at $391,25-$392,25 an ounce, up some $3,75 from the opening and $8,75 from the previous close.

Platinum was up around $18 at $634-$639 an ounce. — Reuter

Shares soar as gold heads for $400

2/9/86 (79)

Demand for shares, particularly gold shares, soared on the Johannesburg Stock Exchange yesterday, and many gold shares reached new highs.

The moves were fuelled by the stronger London bullion price, up $6 to $391 an ounce.

The upward trend is expected to continue with talk of gold breaking through the $400-an-ounce level to about $420.

The main buyers yesterday were local institutions and private investors, who have nowhere else to invest their money against inflation.

The JSE all-gold index stormed through the 1 700 level for the first time, closing at 1 727, above Friday's previous record of 1 693.

The industrial board was sidelined with the index unchanged.

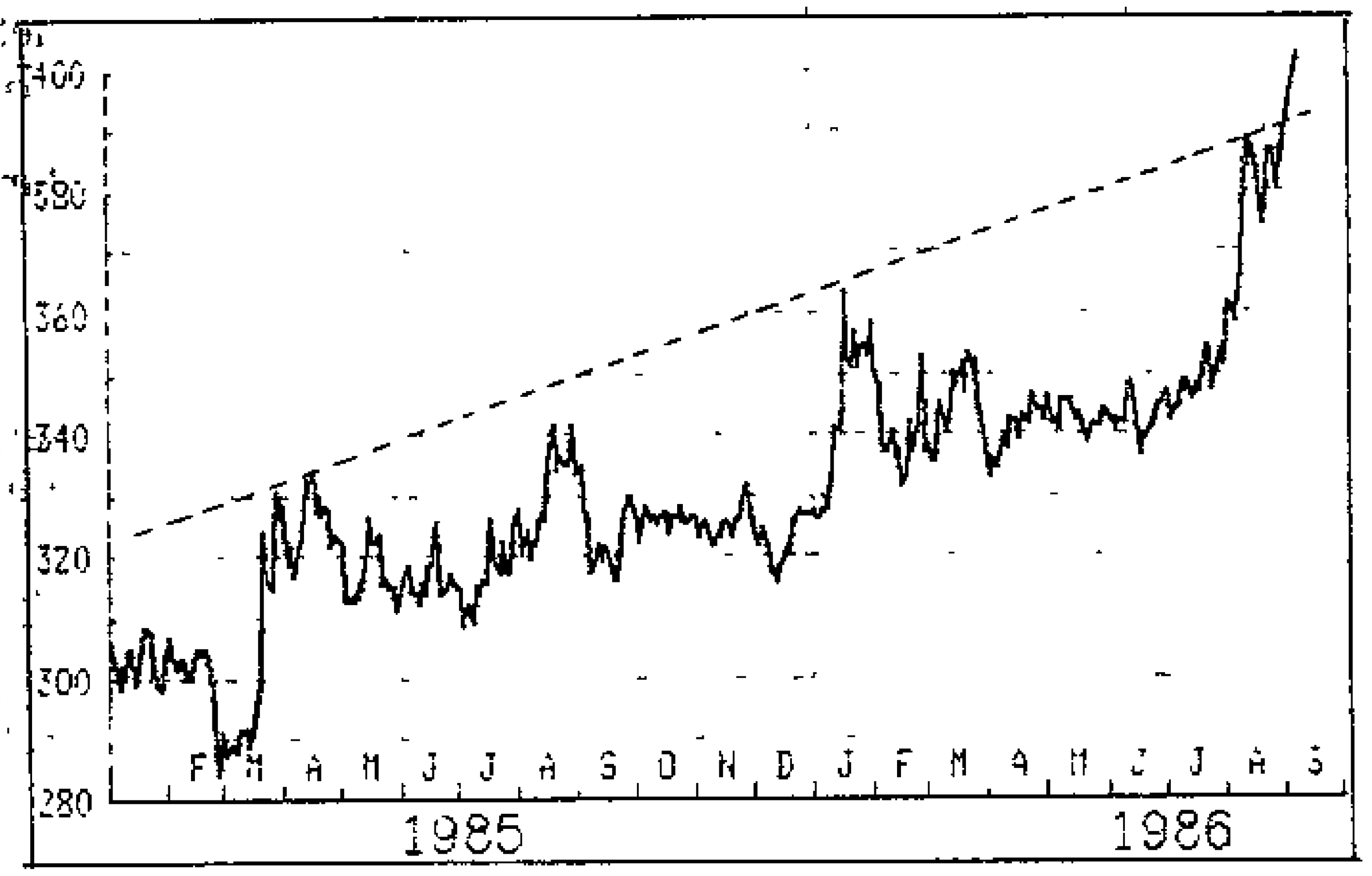
Platinum shares also reflected the strength of the metal, which is currently trading in the $630/ounce range, as Impala firmed another 75c to R57,50.

The firmer rand of 40,10 US cents did not seriously affect the upward march of the gold shares.

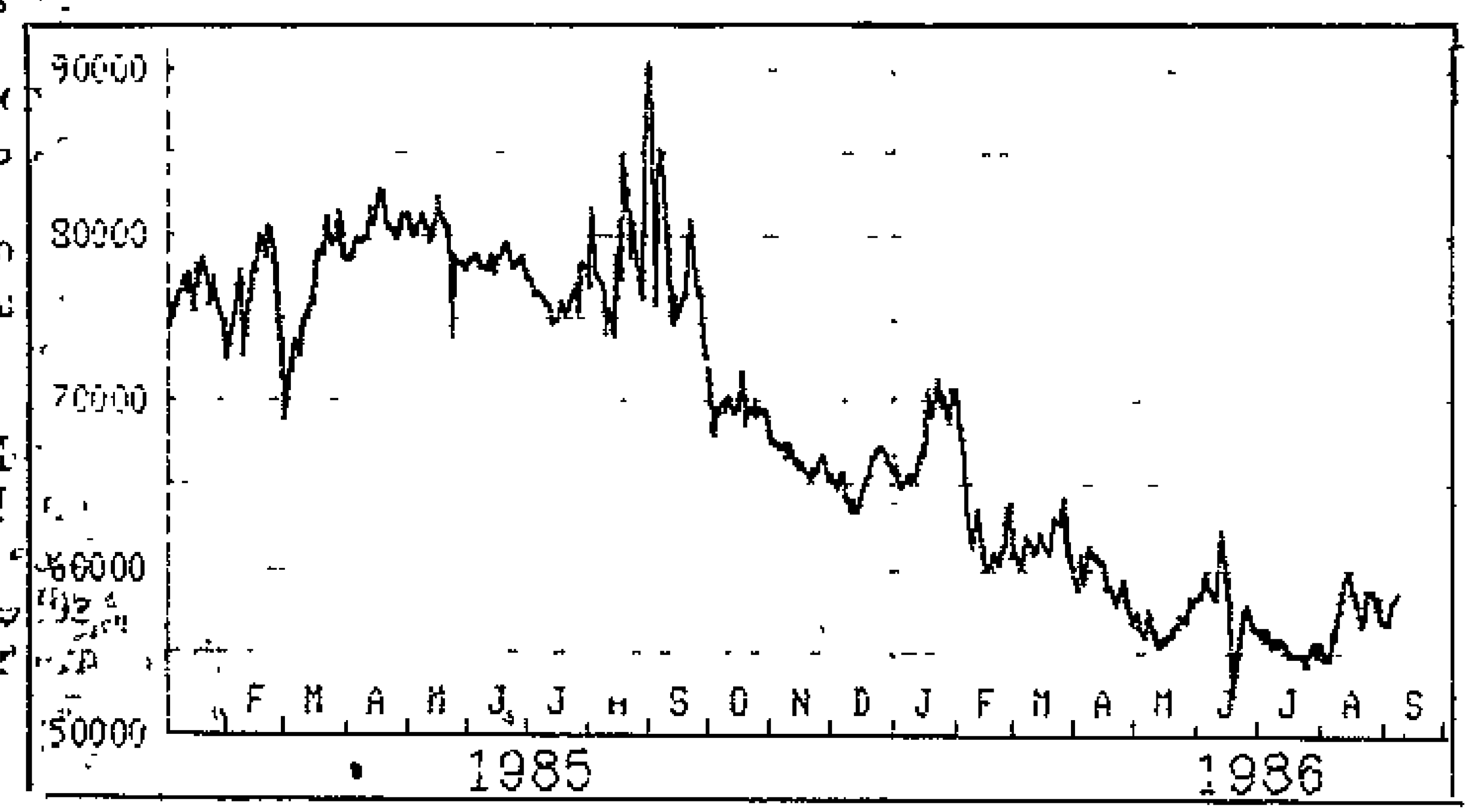
It did reduce the advance in the rand gold price, which would have moved through the R1 000/ounce level had the rand stayed at the 39 US cent level.

Gold tops $400 and analysts expect it to keep climbing

3/9/86 (79) SMR



The gold price in dollars.



The gold price in Japanese yen — Graphs: Simpson Frater.

NEW YORK — Gold, buoyed by strong gains in platinum prices, has shot through $400 an ounce for the first time in two-and-a-half years, and Wall Street analysts see it continuing to climb in the short term.

Mr Frederick Demler, an industry analyst with Drexel Burnham Lambert, said he saw gold prices rising to between $435 and $450 in the short term, citing the political turmoil in South Africa, strong Japanese demand, the weak US economy which could lead to lower interest rates, the possibility that inflation might pick up again and stable oil prices.

In Johannesburg Dr Azar Jammine of Econometrix said that whatever reasons were advanced for the latest rise in the gold price, it was a fact that gold always reacted to fears of inflation.

It is the world's main store of wealth in inflationary times and fears that the major Western nations were about to experience rising inflation has been pushing gold on the international markets.

He said the US, because of its budget deficits and massive use of foreign funding, now owed the rest of the world more than the rest of the world owed the US.

He said that it was significant that gold had broken through the $400 an ounce trend line and the price theoretically could now move towards $460.

He added that the Government had embarked on major expenditure projects in recent months, but the inflow of funds to the exchequer from the booming gold and platinum markets were likely to be handled carefully in the light of the country's debt repayment problems.

Gold rose $16,52 an ounce in Hong Kong today to $408,95. It closed yesterday $392,43.

In New York last night, gold for September delivery rose $18,10 to $405,70 an ounce, the highest since March 1984.

Gold for delivery in December, now the pace-setting month, closed up $18,20 at $411,50 an ounce, while platinum prices rose by the maximum permitted $25 an ounce to $651,30 an ounce for delivery in October on the New York Mercantile Exchange. Spot platinum jumped $38,40 to $663,20 an ounce.

Mr Demler said platinum was "well overbought and due for a correction", but he did not know when that might happen.

Mr Bill Byers of Bear Stearns agreed. "The bullish psychology has definitely taken over in platinum, since there's no evidence that the South African situation has gotten worse," he said.

Although fears that South Africa might curb its precious metals exports in retaliation for economic sanctions started the rally in precious metals several weeks ago, analysts said other factors and the market's own momentum were now in play.

"Everybody is buying, professionals, retail investors, industrial customers," said a dealer at a major Swiss bank earlier yesterday.

Gold, traditionally a haven at times of political uncertainty and high inflation, reached a peak of $852 in January 1980, but then fell back as high interest rates and low inflation changed the scene.

However, recent signs of booming money supply growth in the United States, raising fears of a return to rapid inflation, have begun to tempt buyers back, analysts said.

But this week's Bank Julius Baer KK Swiss Investment Research Index, a leading index based on interviews with some 100 Swiss analysts and traders, found that more than half those polled thought gold would go higher still. — Reuter.

Platinum well above $600

Gold fever hits world markets

Cape Times 3/9/87

By GORDON KLING
Financial Editor

GOLD FEVER resumed on world bullion markets yesterday, driving futures delivery prices through the $400 an ounce barrier for the first time in more than two years.

Although prices began to fall back in London in late trading, due to profit-taking in New York when the markets there re-opened after a holiday, many dealers believe this is only a temporary setback and the rise will be resumed.

Soaring prices have boosted confidence in SA, raising hopes that the economy may be about to pull out of its long recession.

Optimism

Economists and businessmen reported a new note of optimism in spite of the country's continuing political violence and the growing threat of economic sanctions.

"The figures are not conclusive but it looks as though the economy is picking itself off the bottom and is beginning to move," Aubrey Dickman, the Anglo-American Corp's chief economist, said.

After hectic trading on European markets, the gold price began to ease in London, where it closed at $392,25-$392,75 compared with the afternoon fixing of $393,25, down from $395,50 in the morning.

The rand reflected enthusiasm for the yellow metal with a 1c gain to $0,4110/20, although the financial rand seemed impervious at $0,2035/85 from the previous day's $0,2025/75.

Gold shares led a strong advance on the JSE.

The JSE All Gold and other indices rose to new records, thanks in some degree to the failure of the financial rand to respond to gold's improvement.

Platinum, which, unusually, has led gold up during much of the recent rise, was fixed at a six-year high of $658,50 in the morning, but from then on drifted down to closed at $645. It was priced around $340 in 1985.

Gold for delivery in December rose $7,30 to $400,60, but the upswing ran out of buyers under the August 11 high of $404,50.

Reports from Zurich say turnover there was enormous, with millions of dollars worth of gold and platinum changing hands in hectic trading.

Trading in gold began in Zurich at $397 an ounce but dropped back a little as professional traders took their profit.

Reuter reports that dealers said both metals still looked set on an upward course.

Drift

Dealers in London were divided as to whether gold's downward drift after touching a high of $396,50/397,50 meant the metal was moving towards a downside price correction after failing to attain $400, or whether it was merely a temporary check caused by profit-taking in New York.

Many dealers said that sentiment was still bullish and the metal was poised to follow platinum up again.

One dealer said, "we are expecting another assault on the $400 mark — if not tomorrow or the next day, certainly in the next couple of weeks."

Closing gold prices

(In $ an ounce)
LONDON:
392,25-392,75
Fixing am: 395,50
Fixing pm: 393,25
ZURICH:
393,00-396,00
— Reuter

Speculators are bullish about gold agai

2/9/86 SMK

79

By Neil Behrmann

LONDON — Swiss bullion dealers say investment and speculative demand for gold is beginning to outpace jewellery and industrial consumption.

Gold jumped yesterday when the New York markets were closed for Labour Day. Speculators who had sold short covered large positions in London, the dealers say.

The purchases took place during the morning session when London's five bullion houses fix the price of gold

Mr Alan Davison, precious metals analyst at Shearson Lehman, believes that there are still large bear positions outstanding.

Speculators will be forced to cover their short positions on the options and futures market if the price breaks $400, he says. And if the price does break $400, its surge could continue as the frantic bears try to protect their capital.

Bull trend

Most of the bears, he says come from the Middle East.

A Swiss bullion manager, however, believes most of the short positions have already been covered.

"The rise on Monday was unusual," he says. "Middle Eastern bears were covering."

But another bullion manager contends gold is "in a definite bull trend".

He maintains the market is underpinned by orders from American and other investors who have begun to build up positions in gold.

Their purchases and the higher price, however, has begun to curb industrial offtake. Japanese orders have fallen, he says.

"At the moment, the trading range is $370 to $395," says the bullion manager, "but it is only a matter of time before bullion tests $400 and if that happens the price could easily rise to the $420 range."

Ms Rosemary O'Connor, precious metals specialist at James Capel, London stockbrokers, contends industrial demand is "healthy" and jewellery sales are "good".

"The gold demand-supply balance should be in deficit this year," she says.

She says the consolidation between $380 and $400 is constructive for the market.

Since August 5 the price of gold has risen 9 percent in dollars and has appreciated in other currencies as well.

But the large price gains were seen in South African gold shares on foreign markets. They have been depressed by pessimism about South Africa's prospects, a weak financial rand, fears of counter-sanctions on international investors.

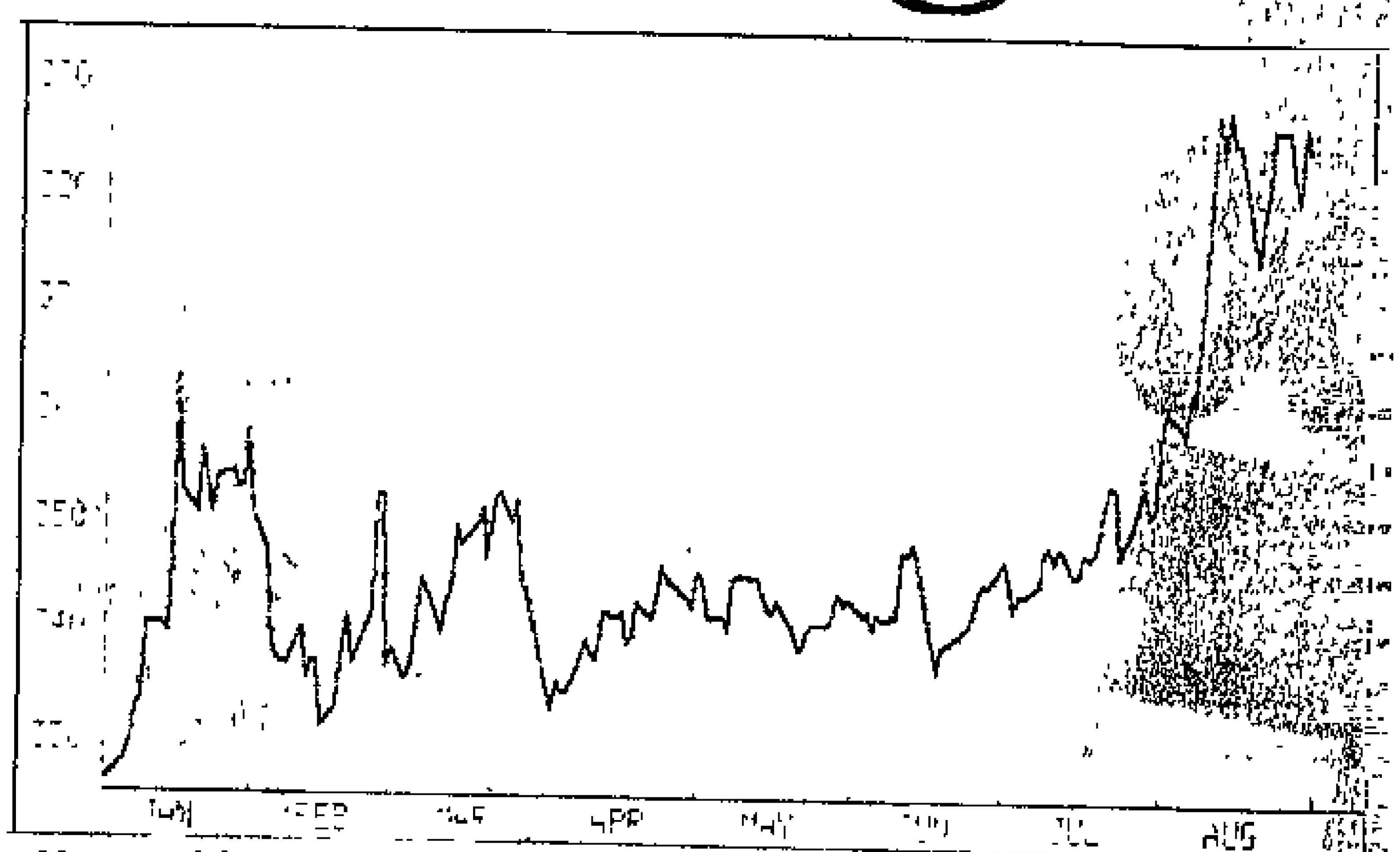
Since August 5, however, when gold shares were at their nadir, the *Financial Times* gold share index has surged 30 percent.

Volatile golds

Durban Deep, a marginal short life mine has risen by 56 percent, Harties and Doornfontein by 48 percent, Freegold by 43 percent, Kloof by 45 percent, Vaal Reefs by 40 percent, Winkelhaak by 38 percent, Venterspost by 32 percent and Driefontein by 30 percent.

South African gold shares in London and New York, however are notoriously volatile and the spreads between buying and selling prices range between five percent to 10 percent at times.

Market makers maintain the wide spreads to protect themselves from thoughtless statements by South African Ministers, unforeseen strikes and violence and the erratic behaviour of the gold price.



How gold has surged this year — *Graph Simpson Frater*

Precious metals could bring extra R1,5 bn

STAR 3/9/86

7a

Gold soars to give economy a huge boost

By Trevor Walker

South Africa's economic prospects have brightened considerably as gold and platinum prices continue to roar ahead on the international metal markets.

If the boom continues, an extra R1 500 million is expected to flow into the country.

Gold this year has risen from $325 to more than $400, after having stagnated round $320 for most of 1985.

Economists said the increased tax receipts which would pour into the coffers of the Receiver of Revenue were unlikely to fuel inflation because of the restraints placed on the authorities by the debt standstill.

Interest rates will certainly fall in the near future, and shopkeepers are now looking forward to a much more merrier Christmas than previously hoped for.

The Reserve Bank is keen to get the people spending, and according to Dr Azar Jammine of Econometrix, boosting money supply will not increase inflation because many factories are under-utilised.

All the signs now point to an upturn in the economy, and business confidence is strengthening round the country.

The stock market's key barometer, the overall index, is nearing the 2 000 mark and is almost 50 percent higher than at the beginning of the year.

The market's gold index has soared to a record 1 758 from a low in January of a shade above 1 200.

The star performer, platinum, has more than doubled to break through the 4 000 mark this week from 1 900 at the beginning of the year.

The industrial market has lagged a little, rising to 1 325 from 1 050 in January.

Reflecting the rosier economic outlook, the rand has recovered to 41 US cents and the financial rand has moved above 20 cents.

Hectic demand puts glitter on gold again

Star 4/9/86

ZURICH — Investors have suddenly rediscovered the allure of gold and, after taking the price swiftly above $400 an ounce, look set to drive it yet higher, bankers say.

Dealers reported hectic demand yesterday as the price of the long-neglected investment climbed to three-year highs.

Prospects of economic sanctions against South Africa, and supply hiccups, fuelled a steady rise in the past month.

Now, worries about renewed global inflation and the health of the world banking system are also cited as reasons investors are seeking security in precious metals.

Westdeutsche Landesbank of West Germany predicted a current recovery in oil prices and the weakness of the dollar could help push gold to $450 by the end of the year.

Gold was fixed in London yesterday morning at $407,20 an ounce, $13,95 above the previous level.

Gold also helped push other precious metals higher.

Platinum, which had led the precious metals market higher from last month, gained as much as $25 an ounce to reach $670.

Even silver, burdened by massive oversupply, rose about 25 cents to $5,40 an ounce.

Traders nervous

But levels were little changed from those of Tuesday night in New York and in Asia earlier. Professional traders, who buy and sell for short-term gains, were nervous profit-taking might develop, and happily sold to meet any fresh demand.

Investors had virtually abandoned gold after it peaked in January 1980 at $852 dollars, when inflation in the United States was still in double digits.

Now, the fall in US interest rates, orchestrated to promote economic growth, was seen as risking renewed inflation.

Mr David Williamson, a senior analyst at investment bankers Shearson Lehman Brothers in London, said: "Investors may be questioning the level of the world's stock markets and be seeking an alternative haven for their funds."

Bank Julius Baer in Zurich, which had long advised against gold, even as "insurance," recently recommended it for 5 percent of an investor's portfolio. Credit Suisse, which had suggested 5 percent, just increased its recommendation to five to 10 percent.

Mrs Christa Schroff, precious metals economist at Credit Suisse in Zurich, said investor buying had been brisk, but so had buying from gold mines themselves.

Many mining companies had sold their production for several months ahead when prices started to rise last month.

"The fact that the mines are now buying that back means they too expect the price will continue to rise."

The Soviet Union, a major gold producer, sold heavily early in the year and again in mid-August. But it had now withdrawn from the market, reducing further new supply, she said.

This year Moscow would probably sell only about the same amount as last year's 220 tons, not the 300 tons which analysts had forecast earlier this year.

Nor was South Africa likely to increase its output, despite the country's pressing financial problems.

In Johannesburg, Chamber of Mines spokesman Mr John Imrie said: "In fact, it works the other way. When the price is low, the mines have to mine high grade ore to maintain profitability. As the price goes up, they can afford to mine lower grades."

Later, gold drifted down a little as a result of profit-taking, mainly by US dealers. Gold dropped back to $403,50 in New York last night and platinum eased to $651,90. — Reuter.

Economists warn against euphoria about gold's rise

By Reg Rumney

Gold broke through a special barrier this week — not only in dollar terms, but in terms of other currencies.

Economists and analysts canvassed yesterday unanimously welcomed the boost to sluggish sentiment a rise in gold represents. But they warned against euphoria, since it would not magically solve all the country's economic problems.

The Reserve Bank Governor, Dr Gerhard de Kock, made a similar point this week on TV.

And Finance Minister Mr Barend du Plessis, interviewed on TV last night, while welcoming the support a higher gold price afforded the rand, added a note of caution.

When, earlier this year, South Africans eagerly grasped at small gains in the gold price for comfort economists warned that while gold might

GOLD PRICE IN OTHER CURRENCIES
One oz gold is equal to:

March 2	Aug 29	percent change	Sep 2	percent change
$338,15	$388,00	15	$405,55	20
Y60 917,72	Y59 732,60	-2 Y62	474,98	2,55
£234,34	£260,05	11	£271,45	16
Dm753,99	Dm787,45	4	Dm821,65	9
Sfr636,23	Sfr635,93	-0,04	Sfr662,87	4

currencies, and the revenue in terms of those other currencies was not as great.

A straight comparison between what the gold price commanded in dollars, yen, pounds, marks and Swiss francs to date, at the end of August, and on March 2 this year, underlines the benefits of gold's latest strengthening (see table).

Every rise in the rand profits.

On January 2 gold stood at $326,30 and the rand at $0,3940. That meant 1 oz of gold equalled R828,17.

On September 1, at $391,75 and a rand/dollar rate of $0,4015, 1 oz of gold brought in R975,71 - that is R147,54 more.

Yesterday, the rand price of gold was — at $404,625 — R957,69.

Mr David Giese of ... 25% improvement above current earnings for mining houses.

The rand-dollar rate had not moved much upwards, he said, so the rand price of gold was still high, but would probably level out. The gold price surge had "lent a lot of confidence to the market".

He added that the gold price rise made South African shares look ex- ... would not necessarily take the opportunity to disinvest.

He was "a little bit concerned about that theory". If gold did rise investors wanting to get into a currency hedge, but wanting to get rid of SA shares, would be hard put to find a place to reinvest their money.

A senior economist yesterday pointed out that the dollar price of gold was important because SA liabilities were determined in dollars.

At a gold price of around $407, compared with levels earlier this year of about $327, and SA annual production of 21 million oz a year, this $80 improvement would mean a windfall of $1,7 billion.

This, he said, was a major part of SA debt repayment commitment. But even if the rand recovering strongly (unlikely) and the rand price of gold fell marginally, the

Maternity days per pregnanc

FRIDAY, SEPTEMBER 5, 198

Gold closes steady at $406,25

Cape Times 5/9/86

79

LONDON. — Gold closed steady at $406,00-$406,50, down on Wednesday's close of $407-$408 but up on the day, dealers said.

They said the metal had recovered much of the early losses incurred when it slipped to a low of $401-$402 around mid-day on heavy selling in platinum.

Dealers said gold appeared to be consolidating its recent gains at just above the $400 threshold, before moving upwards again.

Platinum recovered from lows of around $635 an ounce to an afternoon fix of $644,50 on new US buying.

Dealers said yesterday's losses in gold and platinum were a slight correction to the strong rises of the week, led by platinum, which on Wednesday took gold over the psychologically important $400 mark.

Most dealers said they expected the metals to move up again, though some said increases in gold could begin to match and eventually overtake those of platinum as gold develops its own momentum. — Reuter

Highest level reached since 1983

Gold price soars to $407

Cape Times 4/9/86

7A

By GORDON KLING
Financial Editor

GOLD'S tentative rise on world bullion markets for the past few weeks yesterday took on aspects of the early stages of a boom capable of transforming SA's bleak financial outlook literally overnight.

The yellow metal closed at $407-$408 an ounce, well up on the previous day's $392,25/75. Gut feeling in the market is for a continuation of the rise.

Repeating the pattern of previous days, the price opened high at $409-$411 before slipping down to the morning fix of $407,20, the highest since September 1983, but nowhere near the $850 plus price at the time of the Iranian hostage crises in Janaury 1980.

Records

New records were chalked up by the various share indices on the JSE, and the rand gained another cent to close at $0,4220/30 after peaking earlier in the day at $0,43.

Platinum, which has led gold up for several weeks now, hit a six-year high of $665,90.

Some dealers said they thought gold and platinum could easily come down again after gains they said were too large and too rapid.

They maintained both gold and platinum had recently been boosted by short-covering.

On the other hand Shearson Lehman in its weekly metals review said it saw investors turning more and more to gold as worries grew over the world economy and banking system.

Analysts initially credited the surge to threat of sanctions against SA.

Orders

In Zurich, gold was backed by fresh buying orders from gold companies themselves, in spite of rumours in the London market of Soviet Union selling.

Demand for bullion was described as "hectic."

Westdeutsche Landesbank, based in Duesseldorf, West Germany, predicted that the recovery of oil prices and the weakness of the dollar could help push gold to $450 by the end of the year.

Zurich's Bank Julius Baer, which had long advised against gold, even as "insurance", recently recommended it for 5% of an investor's portfolio.

Credit Suisse, which had suggested 5% has just increased its recommendation to 5% to 10%.

Reuters notes that many mining companies had sold their production for several months ahead when prices started to rise last month.

"The fact that the mines are now buying that back means they too expect the price will continue to rise," said one analyst.

SA is unlikely to increase output.

International gold boom may aid SA

5/9/86

STAR

(79)

By Trevor Walker

A gold boom has hit the internatonal bullion markets with the price rising no less than $25 an ounce over the past week.

The metal touched $422 in the United States yesterday and was trading around $408 in the Far East early today.

Platinum for October delivery hit a six-year high of $676 in Chicago yesterday after the earlier London fix of $645.

The Johannesburg stock market has been hitting new high's virtually every day, and the market's overall index rose just over 100 points to 1 962 during the week.

In addition the country's current account is running strongly in surplus and the foreign exchange reserves are rising every day.

Experts have been quick to point out that the surge could be short lived and unless accompanied by dramatic political advances, the impact on the country could be limited.

Nevertheless, declining interest rates and the gold boom will significantly enhance the ability of mining companies to spend on capital expansion.

The Reserve Bank wooing of the consumer continues and the cost of money was lowered yesterday by the announcement that it has reduced the bank rate to 10,0 percent from 10,5 percent.

The downward trend in the whole pattern of interest rates has followed the sharp fall off in demand for credit and the authorities are now desperately trying to boost credit spending to raise production at idle factories.

The commercial banks have followed with a cut in their prime lending rate to 13,5 percent and Barclays moved immediately by dropping its home lending rate to 15,5 for October one.

Building societies are expected to follow in the weeks ahead.

Mr Peter von Broembsen, assistant GM of the Permanent Building Society said "with the softening of interest rates it is inevitable that the bond rate must follow if this is the pattern which is emerging".

Bulls look poised to mount new charge on gold

BUSDAY 5/9/86

79

GERALD PROSALENDIS
Economics Editor

THE gold bullrun looks poised to enter a second phase as hectic trading in New York lifts the London price.

After opening at $402, the New York price rose briefly to touch $417 before falling back to trade at about $410 early yesterday afternoon. Only hours before, London analysts were warning the price could slip below $400.

The metal was fixed earlier in London at $405,50. The see-sawing New York price confirmed that bulls were taking profits, but also that there were other buyers standing by to replace them.

Reasons given for the upward thrust were fears of sanctions against SA, a weakening dollar rekindling fears of inflation in the US and concern about the stability of the world banking system. But it appears the price is being carried along on a wave of speculation. "Investors will follow markets that are showing a strong bull trend," an analyst said yesterday.

Platinum, retreated from Wednesday's fix of $648,5 to close at $644,5 in London in what was described as a nervous market.

Investment brokers abroad were advising clients to switch out of the smaller platinum market, which seems vulnerable to manipulation, and into gold.

The commercial rand closed yesterday at $0,4185, down from Wednesday's $0,4220.

Gold, platinum, reach new heights

CT Times 6/9/86

79

By
AUDREY D'ANGELO
Assistant Financial Editor

THE GOLD price continued to soar for most of yesterday, surging to a new three-year high of $421,25 an ounce in hectic London trading, in spite of a strengthening of the US dollar.

Platinum and silver also rose and the rand strengthened to close in Johannesburg at $0,4210 amid renewed feelings of confidence that the worst of the recession was over.

The gold price eased slightly in New York on profit-taking but Reuter reports that sentiment was still bullish and dealers were expecting further rises.

London dealers said that a rise to $500 an ounce was a realistic hope.

The hijack of a Pan Am jumbo jet by men believed to be Libyans gave fresh impetus to the rise, already fuelled by the European Economic Community decision to impose limited sanctions on SA and by reports of unrest in this country, which strengthened fears of interrupted supplies of gold and platinum.

But dealers said the main reason for the rise was fear about the state of the world economy and the resurgence of inflation, which was returning gold to its traditional role as a safe haven.

Reuter reports that gold traded late in London at a bid of $421,25 an ounce, up from $406 on Thursday and from $386 last Friday.

The last time the gold price reached more than $420 an ounce was on August 25, 1983, when it stood at $423,25 in London and Zurich.

The rise triggered automatic buying orders before profit-taking began to set in.

Platinum traded at $675 an ounce in Zurich, late yesterday, up some $25 from Thursday.

Silver also rose, to close in London at $5,43 a troy ounce, up from $5,35 on Thursday and from $5,12 last Friday.

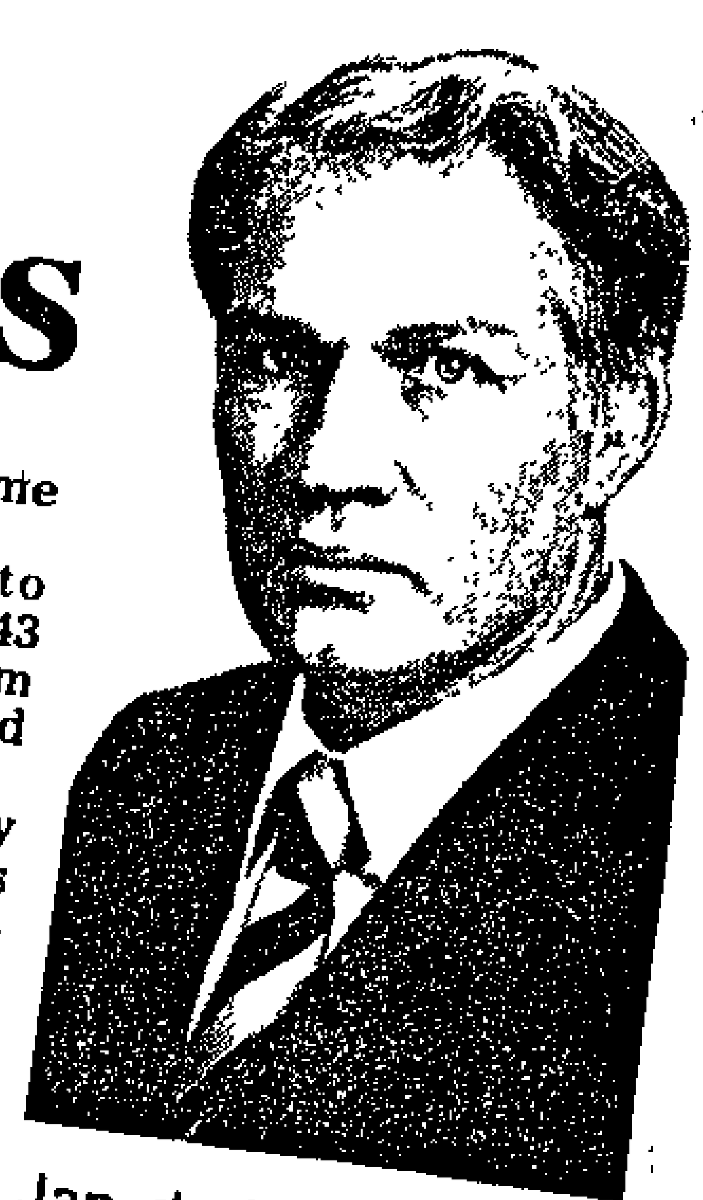
In Europe's currency markets, the dollar was higher after the US released unemployment figures which were better than expected.

In London, one British pound sterling traded late yesterday at $1,4979 dollars, down from Thursday's $1,5060 but up from last Friday's $1,4870 dollars.

Stake increased

LONDON. — Turner & Newall Plc said an associated company, Instant Wonder, has purchased 50 000 ordinary shares in AE Plc at 240p per share.

T & N and its associates now hold 27,2m shares in AE, representing a stake of 27,26%. — Reuter



Jan de Waal, MD of Marine Products, has been appointed a director of Fedfood.

Closing gold prices

(In $ an ounce)

LONDON:
421,00—422,00
Fixing am: 418,25
Fixing pm: 420,80
ZURICH:
421,00—426,00
(417,00—422,00)

Gold down as dollar hits bullrun

BUSDAY 9/9/86 79

GERALD PROSALENDIS
Economics Editor

GOLD closed lower yesterday in New York at $410,40 — after a technical correction to the bull run — mainly because of the firmer dollar.

The price fluctuated wildly. At one stage it was trading at $420, later settling at the lower price. In reaction to Friday's $427, which was due to an emotional and speculative surge, dealers said the price was too high. However, the long-term outlook remains bullish.

In a nervous London market, gold closed at $415,25/$416,25, down from Friday's close of $421,00.

The short-term correction was seen by dealers as being healthy, especially after the dollar gained ground against other currencies during the day.

Platinum ended sharply lower in New York at $646,70 after being fixed at $673,75 in London on Friday afternoon. At one stage, heavy platinum selling by a single commission house shortly before the US market opened took the metal to a low of $647,00/$650,50 in London. In the New York futures market, the bellwether October delivery dropped by the maximum permitted $25 to close at $652,70.

The rand closed slightly down at $0,4170, compared with Friday's close of $0,4205. However, the financial rand showed a marginal gain to close at $0,2300, up from Friday's close of $0,2250.

Capital market rates rose marginally yesterday in thin but nervous trading. RSA 2005 13% stock closed at 14,23% after closing at 14,19% on Friday.

Gold comes to SA's rescue

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N/M 9/9/86

CAPE TOWN—The rise in the gold price would help to prevent the sanctions campaign from placing South Africa's economy under siege, the Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

South Africa had been able to repay three billion US dollars of foreign debt since the end of 1984 and the country's ability to cope with sanctions had greatly increased.

'If you had told me in December, 1984, that we would repay three billion dollars I would have said it was impossible. But we have done it and we have survived,' Dr de Kock said.

Addressing a South Africa British Trade Association (Sabrita) lunch, he said the higher gold price could provide the confidence that business and consumers needed for more rapid domestic expansion.

However, the increase in the gold price, even if sustained, did not mean South Africa's economic difficulties were over.

'But it will certainly be of material assistance in overcoming the harmful effects of financial sanctions.'

He said financial sanctions, as opposed to trade sanctions, had not resulted from conscious decisions by governments or legislatures but had arisen from the deterioration in overseas perceptions of South Africa's socio-political situation.

'Distorted'

'Foreign investors, bankers and businessmen have been troubled by uncertainty and concern about the nature, extent and possible consequences of South Africa's domestic political problems.

'As any well informed observer must know, these perceptions are exaggerated and distorted, if not completely erroneous. But the point is that for the moment they do exist.'

Dr de Kock said the rise in the gold price should not obscure the fact that there were four basic requirements for any lasting solution to the country's economic difficulties.

'Firstly, we must continue to apply an appropriate short term monetary and fiscal strategy.

'Secondly, it is important to proceed with the formulation of a long term economic strategy for South Africa.

'Thirdly, law and order must be maintained and, fourthly there must be comprehensive further political and constitutional reform.'

He said there was no doubt that the scope existed for a more vigorous cyclical upswing in the short term and a higher real average growth in the medium and long term.

The policy of monetary and fiscal discipline had entailed sacrifices but had fully achieved its aim of eliminating excess demand and producing a large current account surplus.

Gold was fixed at $418,60 in London yesterday — (Sapa)

FIN MAIL 12/9/86

GOLD SHARES

Strong support

Gold share prices will remain at their present high levels and could be set to move even higher in the next few months. This seems inescapable given the gold price's breakthrough $400 and the record rand gold prices being received by the mines.

In nine weeks the JSE All Gold index soared some 50% to a record 1 839 on Friday, before weakening in two days of profit-taking this week to 1 765. Platinum shares have been just as impressive in recent months.

In both sectors, historical dividend yields have been depressed to levels which are no longer alluring. But in many cases further substantial dividend increases are likely. Forecast dividend yields should ensure that local investors continue to accumulate or hold both gold and platinum counters.

Potential returns, when magnified by exchange rates, could also attract heightened interest from abroad. Analysts note that overseas investors again appear to have turned net buyers of South African gold shares, although not yet in any big way.

Until mid-1986, the share prices were essentially supported by the weak rand, which for 2½ years has enlarged mine profits. But the current share boom is fuelled by the improved sentiment in bullion markets.

Many were surprised at the suddenness of gold's recovery. "We are as flabbergasted as anybody," says Colin Fenton, head of GFSA's gold division. "When we did our forecasts for the gold price in June, we saw no reason to look for a higher average figure for the 1987 year than last year. So our forecast for the year was R24 000/kg. It looks as though we were horribly wrong."

Fenton feels that the immediate cause of gold's recent surge was the soaring platinum price. As Rusplats chairman Gordon Waddell's annual review makes clear, platinum has been boosted by firmer fundamental demand. But since early August the free market price was chased higher by intense speculative demand, apparently based largely on concerns about reduced supplies from SA, which accounts for about 85% of Western world platinum production.

However, as Albert Loveless, of London stockbroker Smith New Court, points out:

"It probably isn't any single outstanding factor that's driving bullion, but rather a lot of small things that have been there for some time. Suddenly the market wants to listen to them." Other factors said to be bullish for gold include:

☐ The Japanese government's purchases of gold for use in commemorative coins. In November Japan will celebrate this year's anniversary of the 60-year reign of Emperor Hirohito by issuing 10m gold coins. The coin is expected to absorb some 200 t of gold this year, making Japan the biggest consumer of bullion in the world in 1986. In addition, Tokyo is said to be considering an additional issue of 5m gold coins next February;

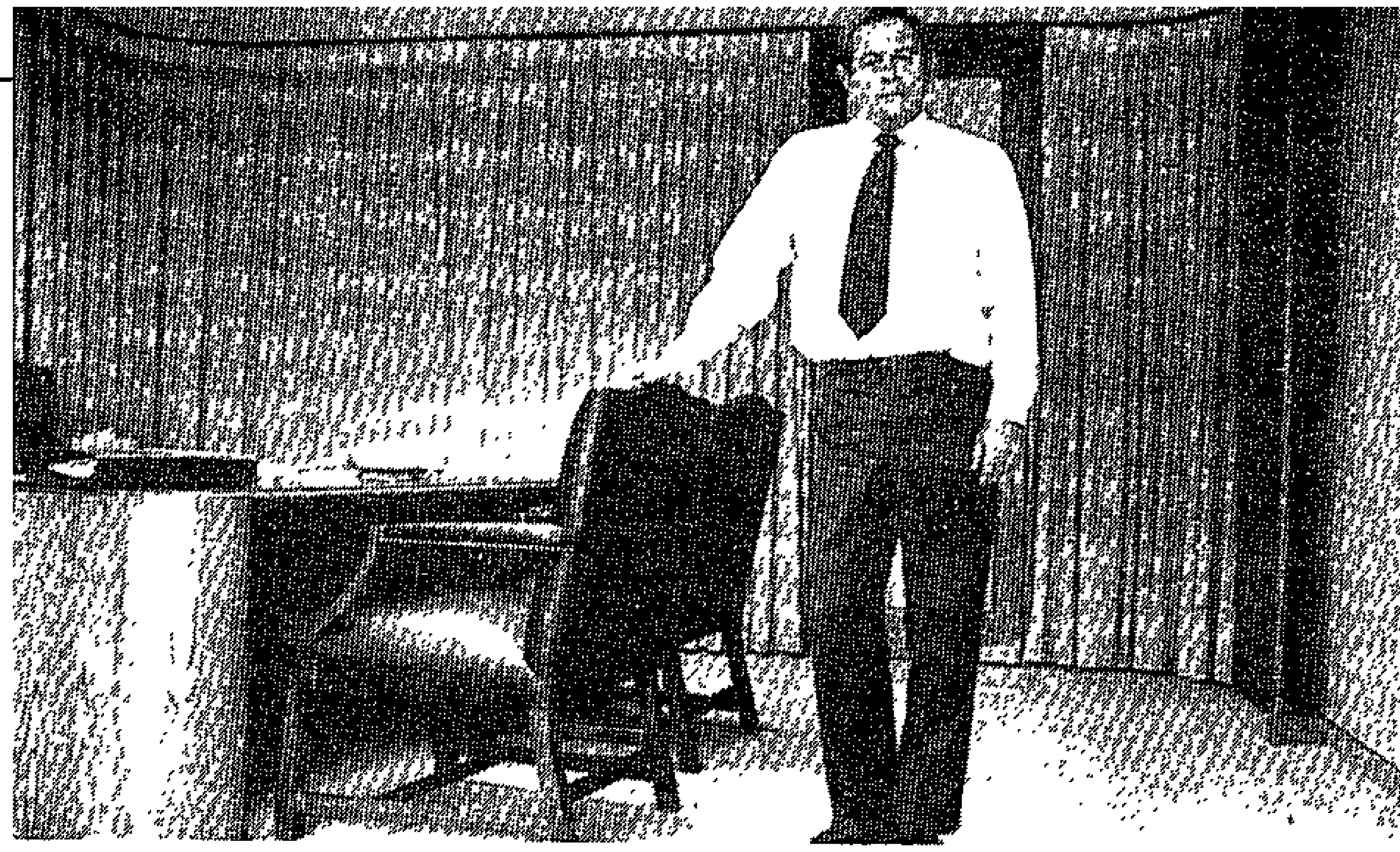
☐ The dollar's weakness since last September against other leading currencies such as the yen, Swiss franc, sterling and the German mark made gold investments cheaper for purchasers in those countries;

☐ Certain central banks increased purchases of gold. This became noticeable during 1985, when some countries felt their reserves were too dependent on assets denominated in shrinking dollars. These governments began to increase the gold content of their reserves, and the trend is thought to have continued during 1986;

☐ As the price moved upwards, technical buy signals were triggered, drawing more buyers into the market. Some analysts argue that gold bottomed at $284 in the first quarter of last year, after the Group of Five reached an accord on how to address the soaring dollar. "Gold's uptrend has not been broken since then," says another London analyst;

☐ Mid-year rumours about possible shortfalls in supplies of gold from SA added to bullish sentiment. This was based partly on expectations of lower recovery grades, and hence reduced overall gold production, that should result from the high rand price of gold. But this can be exaggerated. SA produced 673,3 t of gold in 1985, and grade changes alone are unlikely to make much difference in the short-term. Fenton points out that grade adjustments take some time to take effect on SA's large-tonnage mines.

"We are more than halfway through the year now, and the total gold output from SA looks like being little more than 10 t less than in 1985," he says. "That amount is not too significant in the context of the world market. It would have been more significant when we supplied more than 70% of Western world gold production about 20 years ago, but today our share is only about 55%."



GFSA's Fenton . . . sanctions shouldn't disrupt gold mines

Also, effects of grade declines will be compensated to some extent over the next few years by expansions and new projects. These include Kloof's Leeudoorn section, Western Deep Levels, the HJ Joel mine, and anticipated projects such as Gencor's Poplar.

Probably the more important factors associated with the South African situation are purely speculative. One theory says that the gold mines could suffer strikes serious enough to reduce gold production; another says sanctions against SA could disrupt the mining industry; or that the SA government might retaliate by withholding supplies of gold or platinum from world markets.

Fenton does not believe that sanctions are likely to be particularly disruptive. "On a normal, running gold mine about 95% of the stores are made locally," he says. On a new mine a few items such as electric winders are imported, but if all such imports stopped — which won't happen — then they could still be made here."

The SA government recently tried to allay fears that supplies could be deliberately withheld. Considering the country's need for foreign exchange, the idea seems implausible.

With talks between the employers and National Union of Mineworkers (NUM) still continuing, a strike cannot be ruled out but remains unpredictable; at the same time, the impasse could drag on for long enough to encourage the bullish gold market for a while.

Meanwhile, the mines' cash flow has leapt ahead. The average rand gold price was around R25 000/kg in the June quarter but climbed to R28 000 in July and R30 000 in August; on Tuesday's gold price of $409 and the US41,75c rand, the price was just over R30 000. So with only three weeks left of the September quarter, the rand price is up by a good 20% on the first half of the year.

In theory, continued firmness in the gold price should result in a stronger rand, but it's probable that bearish political sentiment will prevent the currency from rising very far.

This suggests that if bullion weakens again, the rand could ensure that strong increases in earnings flow through. There is, however, a risk that if bullion drops below $400 this will trigger a bout of profit-taking.

Even so, there's no doubt that attractive dividends are in the pipeline. GFSA's mines should be due for an exceptionally good September quarter, as this is the first quarter of the group's financial year, one when capital expenditure is normally relatively low.

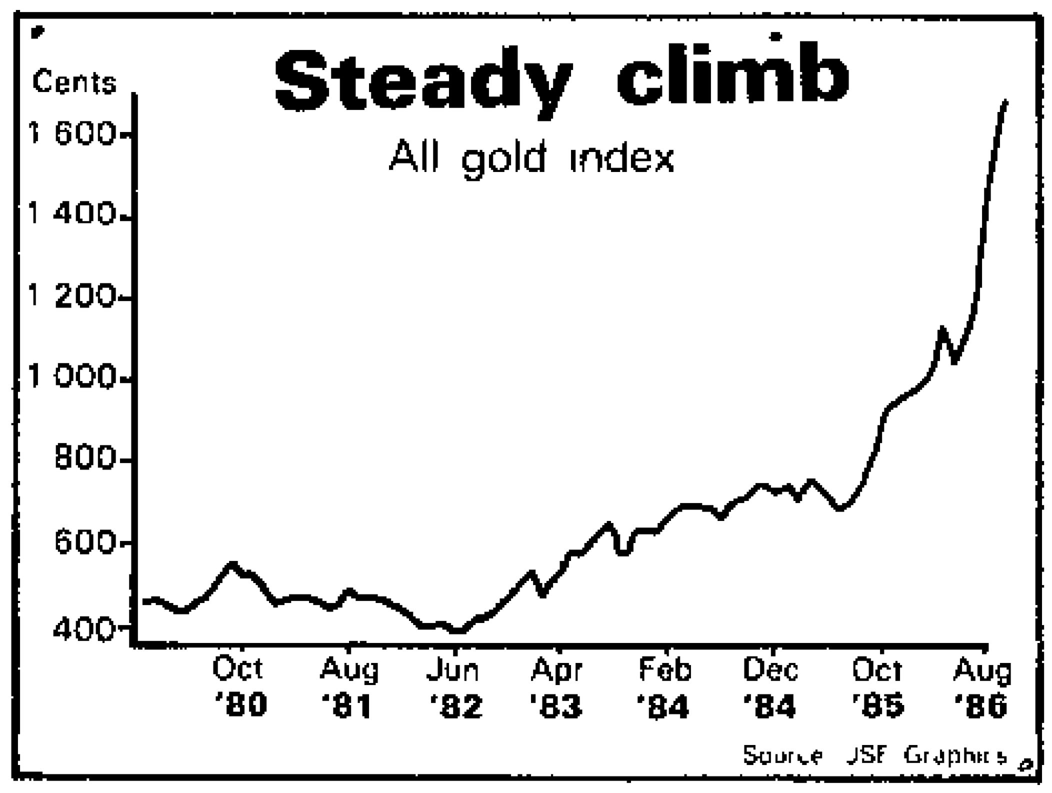
And, unlike some other groups, GFSA is unlikely to respond to the better price by increasing capex; previous retentions have avoided the need for this.

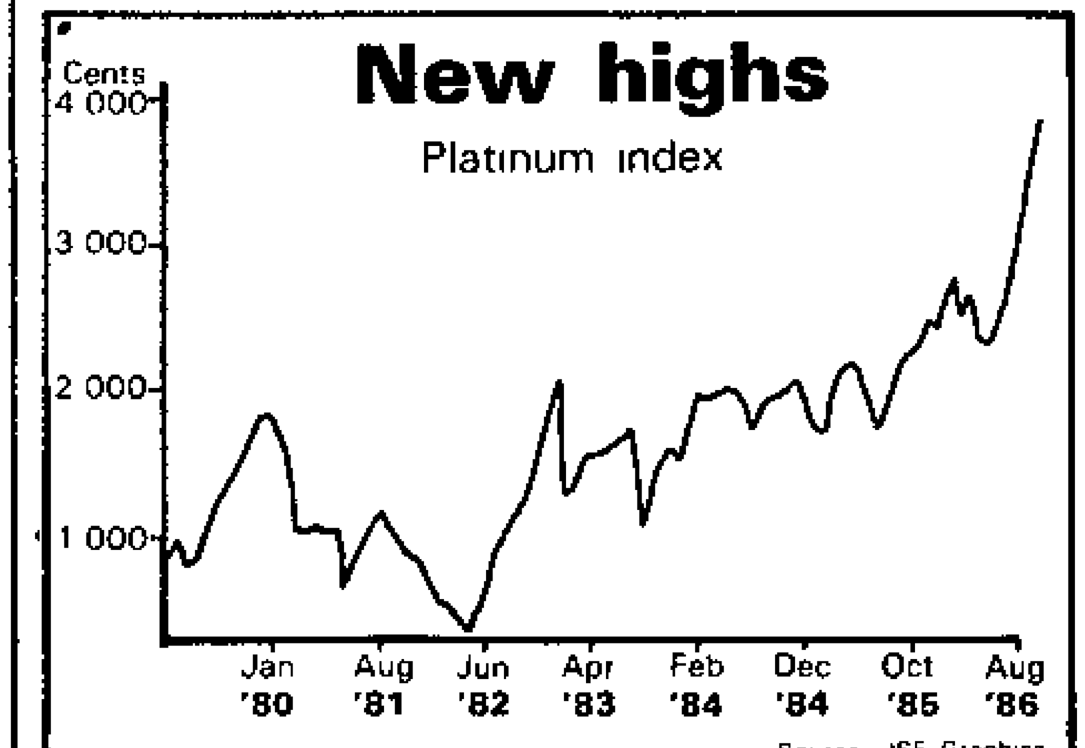
As shown by this week's announcement from Randfontein, which is forecasting a recovery grade of only 4 g/t for its current year (see page 108), in some cases grade reductions could be quite significant. Certainly a gold price of R30 000/kg suggests an acceleration of the trend.

But certain mines cannot easily reduce grades, and some may even have to increase their yields — these include Buffels, Ventersdpost and Kloof. Two mines whose dividend potential is closely geared to revenues are Elandsrand and Deelkraal, as these do not pay tax at present.

Working costs in the worrying factor. The September quarter will show the effects of wage increases granted earlier this year to union members. When these are coupled with the effects of inflation at 17%-odd, and pressures on costs that typically occur in the gold industry during periods of good gold prices, escalations in average unit costs can be expected to remain harrowing for some time.

Andrew McNulty





13/9/86 . SOWC (79)

Golds continue to bound ahead on JSE

By Sven Lünsche

Analysts are expecting a further rise in the bullion price and a subsequent boom of gold shares on the Johannesburg Stock Exchange following Wall Street's big crash.

Overseas investors are not expected to come directly into the South African gold market, but the renewed investment into gold and the subsequent price rise of bullion will benefit the JSE in the long-term.

On the JSE gold shares had already done extremely well throughout the week, despite the oscillating gold price, and there was no stopping investors who swept gold share prices to dizzy new highs at the close yesterday.

The shares strengthened by an average of more than five percent during yesterday's trading and the All Gold index was pushed to a record high of 1881, before closing slighlty lower at 1876, as the bullion price rose by $10 to close the day at $413 in London.

Said one analyst:"Local buyers — excluding the more cautious institutions — are apparently convinced the gold price is now set to break into dramatically higher ground. There's no other explanation for their determination to grab stock at current levels, which by the usual yardsticks are glaringly risky.

"It's easy to say the market is grossly overbought. But it's relative. If you firmly believe gold will break through the next resistance level at about $460 — as most of the current JSE buyers apparently do — then it makes sense to climb into the shares now and leave the fundamentals for later inspection..."

The boom in gold shares pulled the rest of the market with it — the Overall index closed at 1959, just below its record high close of 1964 set on September 5 and up sharply from Thursday's 1913.

Looking ahead, analysts and dealers agreed there was every chance that gold shares and mining financial prices could go higher still — provided the gold price held or rose.

Said one: "Sentiment is very firm. There's been no wavering at all. Of course, there remains a question mark over the quality of buying; it could swing into reverse in minutes if there's a major correction in the gold price.

"But we've seen prices decline very little in the face of lesser corrections in gold itself this week, and this seems to indicate the optimism will take quite a hammering before crumbling."

At the JSE close, Randfontein was R15 up on R410, Vaal Reefs better by no less than R25 at R365, Venters up R3,50 at R33,50 and other shares, both heavyweights and lighter stock, especially marginals, had risen by still greater proportions.

The platinum price bounced sharply off its its low yesterday in New York of $540 and tested levels above $600. However, on the JSE both Implats and Rusplats were about 100c off on the day — down to R50,50 and R53 respectively.

Mining financials and other metals followed golds lead and firmed during the day's trading.

In London gold shares firmed in line with the bullion price which was set at a high for the week at $419,50 at the afternoon fix. Trading interest was moderate, dealers said.

Vaal Reefs closed $7 up at $82,25 but has since moved to $80,75 in after hour's business, dealers added. Amgold gained $4,50 to $80 while Harties added 50c at 525 while Elsburg firmed 20c at 315.

Other mining issues were generally higher with RTZ up 7p at 611, De Beers up 13 cents at 745 and Rustenburg 12 cents dearer at 1200.

Blyvoor may increase total dividend to 230c

Given an average gold price of R28 000 per kg, Blyvooruitzicht Gold Mining Co should pay a total dividend of 230c this year against 200c last year, says chairman Mr Clive Knobbs.

That price would be achieved with a rand/dollar rate of 40 US cents combined with a gold price of $350 an ounce.

Mr Knobbs says in his statement to shareholders that tonnage milled will be higher than last year, but Blyvoor's grade is expected to decline. Capital expenditure is estimated at R20,8 million.

Tonnage milled last year fell by four per cent, mainly because of a one-week strike in March when about 44 000 tons were lost.

"In addition, some unavoidable delays were experienced in transferring stoping operations from the Carbon Leader horizon to the Main Reef horizon, and in the earlier part of the year a number of stopes were negotiating dykes."

Mr Knobbs says the yield fell by five percent because of the concentration of mining in the lower grade western section of the mine and the increased tonnage drawn from Main Reef sources.

Gold production for the year was 1238 kg lower but, due to a rise in the average gold price, working revenue rose by 24 percent to a record R321,8-million.

Blyvoor's total working profit in 1985-86 was R26,5 million higher at R147,4 million, just over R9 million of which came from uranium.

Total profit after appropriations was R43,7 million, R7 million higher than the previous year.— Sapa.

13/9/86 - STAR 79

sunrise finance

Gold and platinum bounce back strongly

LONDON — In an abrupt reversal of the trend so far this week, gold and platinum advanced strongly yesterday as investors sought refuge from a tumbling stock and bond market.

Gold was fixed in London at $418,75 ounce, or $13 above yesterday's close, and it later traded at $423 — within sight of the three-year traded high of $425 reached a week ago.

Platinum rebounded to a London fix of $600 an ounce, some $30 above Thursday afternoon's fix, though still well below the six-year fixing high seen last Friday of $673,75.

Analysts at leading London banks and bullion houses, most of which have expected a broadly upward trend for precious metal prices, saw today's rise as a reaffirmation of their belief after a week in which it has been tested sorely.

"The market has seen a few little upheavals recently ... but we are in a bull phase," said Graham Birch, a bullion analyst with stockbrokers Kleinwort Grieveson and Co.

A wave of profit-taking and speculation, particularly evident on the volatile New York futures market, has taken gold as low as $400 and platinum down to $560 an ounce this week.

The catalyst for gold's upturn was a sharp fall in stock and bond prices on New York's Wall Street Thursday night and then a rapid sell-off on the London Stock Exchange.

"A dreadful performance on the stock market normally stimulates stores of value like precious metals," Birch said.

Also boosting gold, and weighing on the bond market, were fears of an upsurge of inflation — although the rise in US producer prices in August, announced early in the European afternoon, were fractionally below expectations at 0,3 percent.

Analysts were more puzzled by the upturn in platinum, as many had predicted that it would consolidate around the mid-$500 level.

A senior gold market source said: "Platinum fell so heavily in the last few days that some correction was inevitable."

Dealers said platinum was looking for a price level at which to consolidate after its recent violent movements, but it was too early to tell whether this had been found.— Reuter.

income needed to maintain earnings growth on the Liberty ordinaries and servicing the new prefs could be provided by dividends from the UK interests, which have so far not paid dividends to SA (but these companies have not financed their growth from SA, either, and any income from this source must be a bonus for local shareholders).

One has the impression from Gordon that the business game in SA is getting too small. He no longer "feels the imperative to do deals — if they work out, fine," and, although he says that there is a "good nucleus in the UK," there does seem more excitement in the overseas interests. The merger with the Pru, though, means "for the next couple of years, I shall probably be less free to concentrate on the overseas companies."

These have grown in importance to the Liberty group. The assets of TransAtlantic, 58%-owned by Liberty and consolidated in the accounts, now amount to about 23% of Liberty's total assets and are worth more than those of the Pru.

The overseas expansion has been financed mainly by borrowings, but, with the rights issue of TransAtlantic and the sale of almost the whole portfolio of Continental and Industrial Trust (now 88% owned by TransAtlantic), TransAtlantic is virtually debt-free and there is £100m cash. There are a lot of ideas on the drawing board and Gordon says he "hopes to come to an accommodation with Sun Life," in which Liberty has a 26% stake but no board representation so far. Gordon still sees the core of the business as life insurance and "I have infinite patience — I can sometimes wait for a decade before doing something I made up my mind to do."

It is this reduced gearing of the UK companies that makes Gordon think "there will be a substantial cash flow from TransAtlantic," which "could start this year."

Emphasising the difficulties of merging two life companies, Gordon mentions that this is the fourth merger he has experienced "and there is no chance of me doing another insurance merger in SA in my lifetime. I would like the last few years of my business life to be less pressured."

Some hope. Liberty is big and demands attention. Gordon is relatively young and clearly is in no mood to opt out. And as Gordon maintains that Liberty now has a capital base larger, with the exception of the Prudential UK, than any other life company outside the US or Japan, he is clearly going to make use of it. Says Gordon: "Liberty Life is now so strong it can withstand almost any adversity in future."

Pat Kenney

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GILTS

And still the good times roll

Amid severe political and economic crises, turnover in the South African gilts market has reached phenomenal levels. But with an improved economic outlook, the market is asking how long gilts will be able to stand the pace.

If Guinness kept track of financial markets, South African gilts would surely take pride of place in its famous book of records.

Consider the statistics. Market capitalisation on the JSE has risen from R11,8 billion in December 1977 to R30,2 billion at the end of last year. Impressive enough, but the real story of the great bull run in gilts is to be found in the turnover figures.

In 1977, R64m of the R11,8 billion, or less than 1% of capitalised value at end-December, changed hands during the year; in 1985, the turnover figure passed the R51 billion mark, or some 170% of market value at December 31 last year.

And that's only the JSE. Off-market figures cannot be tracked, but traders reckon there is more inter-bank activity in gilts than on the stock exchange. It can thus be assumed total turnover was worth at least R100 billion last year, with most of the stock turning over twice in the 12-month period.

Why the stampede? The scrip shortage clearly has something to do with it. Last year, for example, only 4,1% of equity capitalisation on the JSE (at December 31) was traded. The New York trend line, by contrast, is between 30% and 40%.

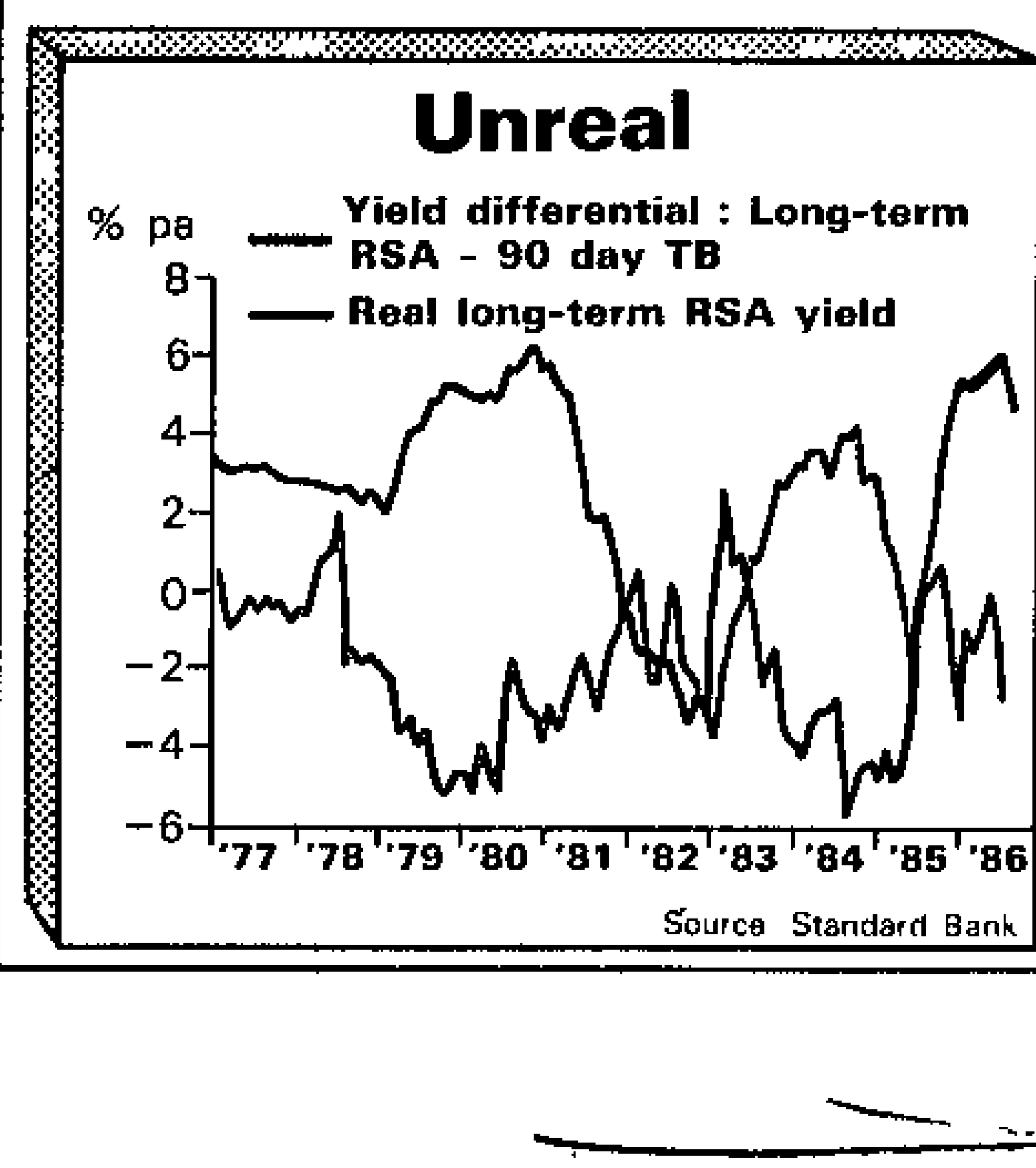
Other reasons are the tremendous expansion of institutions; the growing importance of financial engineering; increasing sophistication of portfolio management; emphasis on performance; and improvement in technology (especially double-quotes through Reuters).

Also, although the trend is only beginning, gilts are no longer the sole preserve of the big legions. Operating in a market in which basic units come at a round R1m has not been for the small man and nor, for that matter, the smaller pension fund.

Now that gap is being filled by fixed-income unit trusts like the Standard Bank Extra Income Fund (partly in gilts) and the Hill Samuel Gilt Fund (wholly in gilts).

Individuals, explains Hill Samuel deputy MD (and fund chairman) Jurie Bester, can now participate in the market with as little as R2 000. So far, those who have taken up the offer have little cause for regret. Since inception on November 6 last year, their investments have grown 37% — 25% capital and 12% income yield.

What is more telling, perhaps, is that the market value of the fund has doubled in two months (to R55m) and the rapid expansion continues. Because investment in the Hill Samuel Gilt Fund qualifies as prescribed assets, much of the money is coming from smaller pension funds.



In line with the surge in activity, operators are becoming more and more sophisticated and providing keen bid/offer quotes. "The market," says JSE president Tony Norton, "is highly professional and can hold its own anywhere in the world."

It is still, however, underdeveloped. Three stocks account for some 65% of total trade. About 15 RSA stocks, five Escom stocks and two Sats stocks are actively traded — with the long Sats stock setting the pace.

Sadly, however, the vast turnover figures do not reflect growth in new gilt securities. Says Senbank's Leon Krynauw: "Existing stock is merely turning over more often."

The gilt market is less regulated than the equity market. Unlike equity broking, gilt brokers (26 of the 42 brokers deal in gilts as well as equity) not only act as agents but also as principals.

There is nevertheless strict control. All deals, Norton says, must be recorded within 15 minutes. Brokers also have to work to other stringent requirements relating to cash margins and bank guarantees, among others, which ensure that "no brokers go beyond their capacity."

After months of technical talks, the JSE and bankers have reached basic agreement on a settlement system which could operate, says Norton, before the end of the year.

Gilt dealers, meanwhile, are cashing in on the growth. Some half-dozen reputedly earn well over R250 000 annually, and most brokers hold on to valuable gilt dealers by providing incentives. Competition for brain power is fierce, both among brokers and from Australia, which has lured away four dealers in the past year.

The 77 JSE gilt dealers (25 of them women), who are typically lured from banks and merchant banks, are highly qualified. Ivor Jones's Sandy Patterson observes that there

FIN MAIL 12/9/86

FACE TO FACE

CHRIS STALS

Looking promising

Dr Chris Stals heads the Department of Finance. The *FM* spoke to him as the economy shows tentative signs of recovery. It is, too, the first anniversary of his appointment and of last year's unilateral freeze on certain foreign loan repayments, temporary closure of the markets, and reintroduction of the two-tier rand. Stals, also chief foreign debt negotiator, will meet major foreign creditors later this month.

***FM*: With signs that the economy is at last on the mend, how do you view the situation?**

Stals: After almost five months of rising consumer expenditure, it looks as if we are settling into a period of steady consumer-led expansion. This is a welcome change. But it is still early to talk about recovery. Encouraging news is confined to consumer expenditure, but this should absorb surplus capacity and work through to stimulate investment.

Is further fiscal stimulation planned?

The authorities have done enough through monetary and fiscal policy to provide the base for the private sector to take over. In addition we must still assess the effect of the June programme.

With government spending way above budget are we not heading for the same problems that overspending caused in 1984?

The 1984 mini-boom was excessive. Today, with the economy in strong recession, we must provide incentives through government spending and can be more accommodative without overstimulating. We have learnt from the past and do not want another mini-boom, but a long, steady upturn that feeds into wealth-creating investment.

You emphasise the shift in policy priority to the old Keynesian remedy of spending our way out of recession. How will excessive inflation be eased?

Inflation is not our top priority now; growth and employment, rather, are essential. It is too risky to go flat out and tackle inflation. With inflation of a cost-push nature caused mainly by a weak rand and wage demands, excess demand will not have much effect.

But how will inflation be brought down?

We hope the rand and balance of payments will stabilise. Already on a quarter-on-quarter basis inflation is much lower, around 13%. Theoretically we should tackle inflation with tight monetary measures and fiscal restraint. But this will be too costly in terms of employment and growth.

How will we achieve the 4,5% growth needed to absorb people coming on to the labour market, let alone reduce unemployment?

This is why our attention is on job creation and training. But responsibility falls also on the private sector.

Officials have indicated frustration with the private sector. Are there plans to force such investment?

Not really. We hope that the proposed changes to the tax structure being investigated by Judge Margo will provide incentives to invest. We can't make them invest.

Given structural economic damage and continuing political turmoil, how realistic is an average annual 4,5% long-term growth rate?

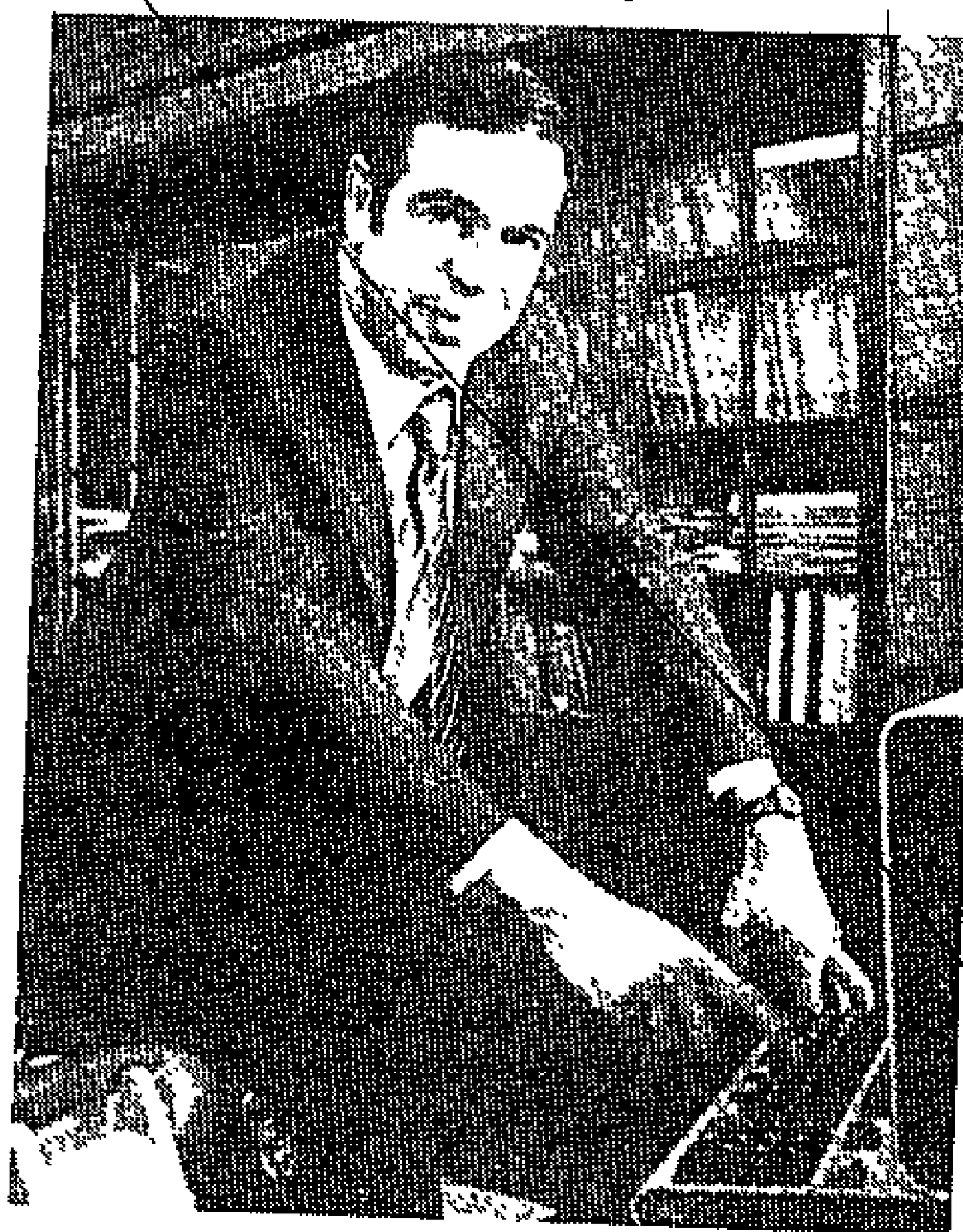
It is ambitious. A more realistic assumption is mild consumer-led recovery over the next few years, restrained by capital flight and political changes.

Can business ignore the political climate?

It's their view. But the political process will continue; we must learn to live within it and take a longer-term perspective.

As custodians of the economy which, you agree, is undermined by political crisis, is it not the economic authorities' responsibility to make political demands?

We can caution politicians of the consequences of their decisions, but it is not for us to tell them what to do. Similarly, they do not try to run the economy.



With hindsight would you agree that the March Budget was too cautious.

Yes. At the time we were working with 1985 fourth-quarter figures, which indicated an upswing had begun. We wanted to be cautious in the knowledge that further measures could easily be added — and were.

There is concern that the June R1,2 billion package is taking too long to have an impact, especially the R750m allotted to housing.

The housing programme takes time to plan, especially because of the special arrangement with the private sector. Because we are waiting for the private sector to come back to us with proposals, little has been spent so far, despite our being ready to transfer money. As soon as this happens and we are satisfied, money will be transferred. We have agreed to make R400m available.

And the rest of the money?

This has been allocated to various departments and is now their problem.

How is it ensured that these departments will spend the money to advantage?

Each department provided projects — such as old-age homes, houses, creches, township development — on which it could spend immediately. There was no shortage of them. The Auditor General monitors this to ensure money is used effectively.

At times fiscal and monetary policy have had opposite objectives. What is the relationship between the Treasury and Reserve Bank?

It is still good. We liaise through numerous committees at all levels, and meet monthly at top level. It is easier to adjust monetary than fiscal policy. This is why policy has seemingly been at loggerheads.

What is happening to the proposed regulation of the gilt option market?

This has been on ice due to more immediate concerns and no real urgency. However, things are moving again. At two meetings in the past month we completed draft proposals and identified areas which need more work. Proposals should be finalised within two months, ready for draft legislation to pave the way for a formal market and greater discipline.

There are two main chapters on banking supervision and accounting principles. Two people are overseas investigating electronic markets and prudent requirements.

How has repayment of foreign debt gone?

It has worked out roughly as expected in terms of the current account surplus and repayments. SA has already repaid about $2 billion of an estimated total commitment of $2,3 billion due by June 1987.

Should this ease pressure on the rand?

Theoretically yes, but much depends on leads and lags.

This implies that the current account surplus in the next few quarters should exceed capital outflows. How long will SA, a developing country, export badly needed capital?

This is an unknown factor, largely dependent on political developments.

What do you expect from the talks in London this month with major creditor banks?

It is a technical review meeting. No matters of principle will be discussed — they will be dealt with in April when we meet again.

What then, given that the "agreement" in February merely put SA on probation?

Banks' pressure against SA has not eased, but it is still early. We have not begun to consider our proposals.

What is the position of mediator Fritz Leutwiler?

He will not attend, as he is not really needed for technical discussions. Leaders from both delegations will conduct procedures. Leutwiler may be called nearer the April talks. He has made it clear that he is prepared to assist if need be.

'Gold bonanza': tax cut hopes

By BOB KERNOHAN
Business Editor

PLUNGES in the value of stocks on the world's financial markets and the current "gold bonanza" stand to benefit the South African man in the street.

But economists are uncertain what the precise benefits will be, although drops in income tax and increased Government spending are likely spin-offs.

— it was trading at close to $420 an ounce as markets closed last night — was bolstered this week when stocks took a nose dive on the world's leading financial centre, Wall Street in New York.

Repercussions of the massive slide — which began a week ago and reached panic proportions on Thursday — were felt in other financial centres.

But in South Africa the reaction is cautious optimism as economists keep their fingers crossed that gold will continue to push up, or at least not drop below $400.

"If the price holds, we will earn an extra $1 500 million [R3 600 million] in the next 12 months," said Dr Cees Bruggemans, chief economist of Barclays Bank. "Increased earnings from platinum could take the total to R5 000 million.

"As the Government is the main 'shareholder' in the gold mines [by way of tax revenue], they must be feeling very comfortable with the revenue at the moment."

Dr Bruggemans said the high price of gold was benefiting the economy by increasing confidence levels and could also lead to the Government spending more on building projects, so boosting the private sector.

Dr David Rees — economic consultant to a leading firm of stockbrokers — said the man in the street stood to benefit in two ways from the "gold bonanza".

"First, he benefits because the higher gold price goes hand in hand with a healthier exchange rate, so lowering inflation.

"Secondly, the higher gold price means greater tax revenue for the Government."

Dr Rees — formerly professor of economics at the University of Cape Town's Graduate School of Business — believed the first step would be more Government spending on hospitals, schools and housing

"Tax relief could also be granted in the next Budget, particularly at the top end of the income scale." It was unikely there would be any cut in general sales tax (GST).

He said that while the gold market was likely to continue to be volatile, fears of rising international inflation and the drop in the value of the dollar indicated that gold would probably stay above the crucial $400 level.

● Reports from New York today said economists felt that the stock market would pick up again.

● Sanctions Bill approved — Page 2

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W/E Post 13/9/86

Current bullion price could add R2-bn to forex earnings

Chart analysis gives gold a $500 target

STAR 79

15/9/86

By Sven Lünsche

The gold price could be set to rise to around $500, if the London afternoon fix remains above $405 for the next week, according to a purely charting analysis of the bullion price.

This follows, the recent boom which saw the gold price break through the three-year upper channel line, a trend line which has represented the metal's upper price limit for the last three years and which currently stands at $405.

Analysts said that if the price falls back below the $405 level for more than a week, the upward trend could be regarded as a hiccup and the price would revert to movements between the three-year channel lines.

If, however, current price levels of about $410 could be maintained, the price is set to move to the $500 mark, the approximate level of the five-year upper channel line.

What seems certain at this stage is that the gold price graph will stay above the $385 mark, a level which it first crossed about a month ago and which presents the current top level of the one-year channel.

This will push the the average gold price for 1986 to above $370 and earn the country more than R2 billion in additonal forex earnings for the year compared with 1985.

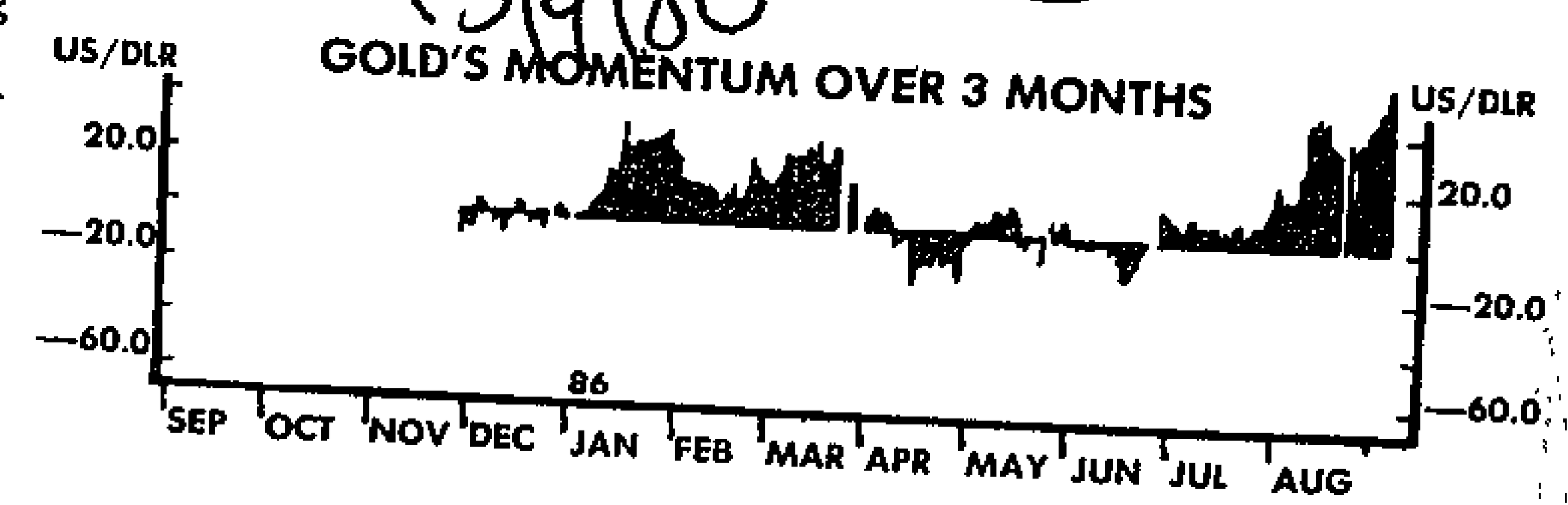
The upward trend is confirmed by a comparison between the metal's price graph and its 40-day moving average. The gold price is currently about $40 above this average and this ratio is expected to be maintained in the coming weeks

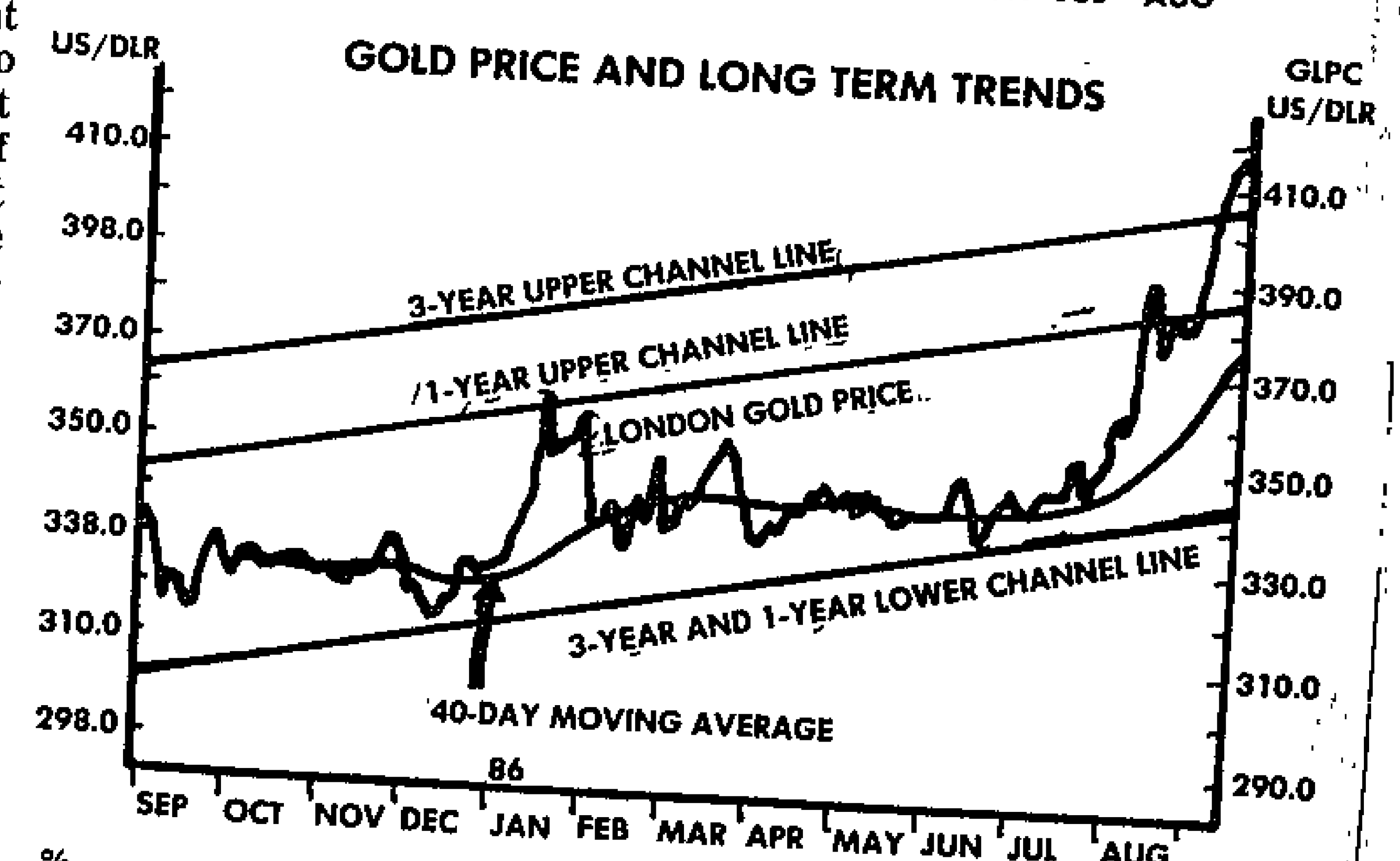
Gold's relative strength over the last three months expresses the ratio of daily upward and downward moves of the daily price against the price three months ago.

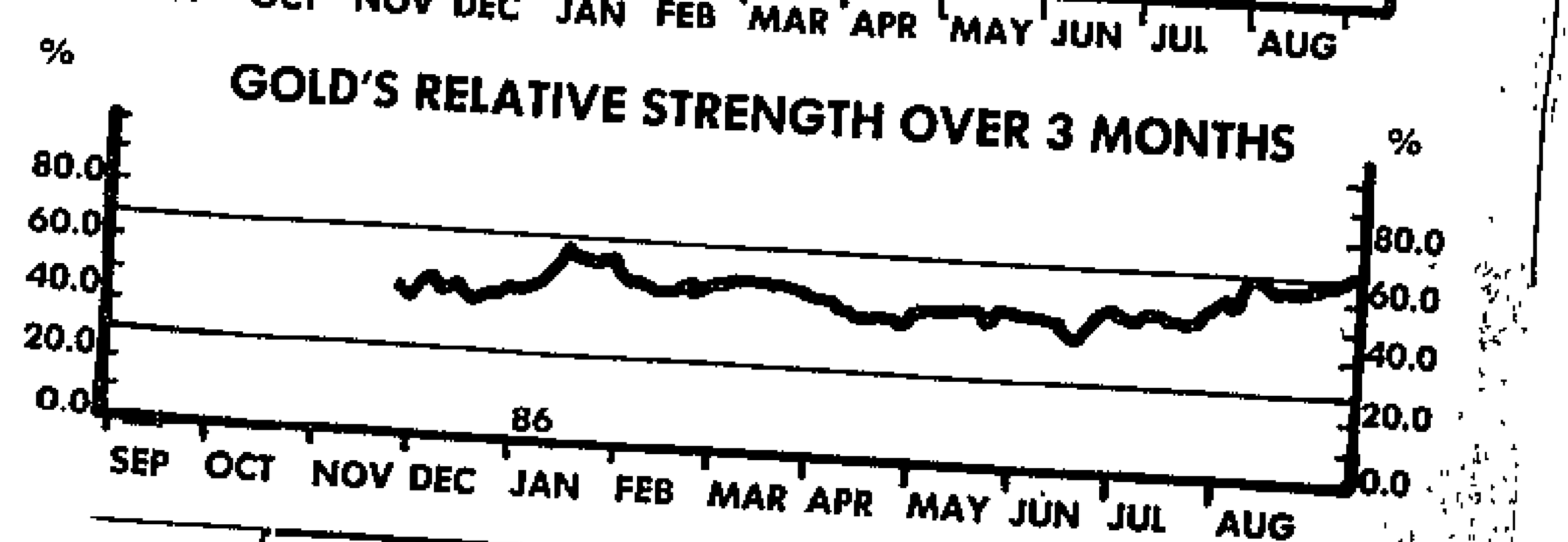
Over the last year a ratio of between 20 and 60 percent was maintained, but with the recent boom this ratio was pushed to over 60 percent for the first time since the boom days of 1980/81 and, with the current daily price regularly above the price of three months ago, the relative strength of gold will continue moving upwards before an anticipated period of consolidation in about two months time.

Finally, gold's momentum over the last three months also indicates that the price will comtinue moving upwards as the graph shows the ratio of change of the current price against the price three months ago in currency terms.

The current ratio of change is about $40 dollars, an indication that strong demand for the metal continues, a trend which started in the beginning of July and which is set to rise for about two months before a period of consolidation.







Blyvoor to maintain high dividend yield

BUSDAY 16/9/86

CHERILYN IRETON

BLYVOORUITZICHT (Blyvoor) gold mine, nearing the end of its life, is expected to maintain its high dividend yield by paying a total of 230c this year.

In his annual review, chairman Clive Knobbs says tonnage milled should increase but grade will continue to decline from last year's 6,22 grams a ton.

However, if the rand remains at around $0,40c with a gold price in the region of R28 000/kg, Blyvoor will be able to lift its dividend payment by 30c on 1985's total of 200c.

Knobbs says capital expenditure will be almost unchanged at R20,8m and will be incurred on exploration of the Main Reef and resiting of the six level.

Last year, Blyvoor's milled tonnage fell 4% to 2,1-million tons because of a labour strike through which 44 000 tons were lost. Delays were also experienced in transferring stoping operations from the Carbon Leader horizon to the Main Reef horizon.

Yield fell 5% because of the concentration of mining in the lower grade Western Section of the mine and the increased tonnage from Main Reef sources.

Blyvoor's ore reserves, re-estimated at the end of June amounted to 4,8m tons of which 3,3 tons are available for mining at an average gold value of 17,8g/t.

Prof Bhadra Ranchod

Choice of Indian diplomat criticised

Mercury Reporter

THE appointment of University of Durban-Westville law professor Prof Bhadra Ranchod as South African Ambassador Extraordinary to the European Community drew strong criticism from students and the Natal Indian Congress (NIC) yesterday

Describing Prof Ranchod's appointment to Brussels, announced yesterday, as 'tokenism in its most blatant form', NIC executive member Dr Farouk Meer said it placed Prof Ranchod 'firmly on the side of apartheid and oppression'

Prof Ranchod is the first Indian to be appointed a South African ambassador

But, Dr Meer added, 'not even a pliable Indian can sell apartheid or stave off sanctions'

'Apartheid is unsellable'

He said Prof Ranchod had always been 'closer to the Government than to the oppressed'

The UDW Students' Representative Council said in a statement 'Prof Ranchod will be representing the South African Government and its apartheid policy'

Defended

Prof Ranchod shrugged off the criticism and said those who criticised him had the right to do so because he believed in freedom of expression

But he defended himself by saying 'I have consistently supported human rights in South Africa. That's where I have placed all my energies over the years

'I am not looking for a job, money or status I feel that in South Africa one is either going to support violence or work towards promoting human rights and getting a dispensation which will lead to a more just society'

Asked whether it was not ironic that someone who had to apply for a permit to live in the home of his choice should be appointed ambassador (Prof Ranchod had applied to live in a white area near his university), he said 'I abandoned that plan when the ambassadorship came into the picture'

S A's wealth will be shared, says Du Plessis

JOHANNESBURG—South Africa was in the midst of a programme of change that would transfer resources from its First World economy to its Third World sector, eventually merging the two completely, Mr Barend du Plessis, Minister of Finance, said yesterday.

Addressing an international conference on gold, he said this was being done through the political and social reforms that were taking place in the country

High growth was needed in the First World economy to fund and support the Third World component, Mr du Plessis said

Owing particularly to gold mining, the South African economy had developed into a dual system, where certain rural areas with little mining activity had tended to fall behind in the sphere of economic development

Mr du Plessis said the Government believed this 'investment' would yield good returns

Supplemented by social and political reforms, it would provide a base for further economic growth — a stimulus of 'inward industrialisation' rather than export promotion or even import substitution

'We are confident that gold will continue to play its indispensible role during this turbulent but epochal period in the history of South Africa,' he said

In the short term, the South African economy was well geared for a more vigorous upswing than that experienced over the past 12 months, he said

'Monetary policy has been progressively relaxed and various stimulatory injections have been made through special fiscal measures,' Mr du Plessis said

'Should this now be reinforced by the traditional engine of growth for the South African economy and the gold price hold above the $400 dollar per ounce level for some time, nobody will be able to dispute that the ingredients have been mixed and the stage set for a strong upsurge in the domestic economy over the next 12 months'

In the medium term, the Government had to concentrate on massive social reform programmes

'We are indeed investing a large proportion of our financial resources in human capital'

30 years

It should emerge at the conference that gold would continue to support the economy for at least another 30 years, Mr du Plessis said

Gold dominated the South African balance of payments, however, and consequently it had a somewhat exaggerated psychological influence on the business mood

South Africa needed greater diversification of its balance of payments, so the Government had appointed a new commission of inquiry into the export potential of the economy, and in particular of the non-mining sectors.

Mr du Plessis said gold accounted for 10% of the South African gross domestic product

It had given the State Revenue Fund R2,6 billion during 1985 in the form of lease payments and taxation — (Sapa)

● See Page 16

Food scheme for Indian school pupils

Mercury Reporter

THE Minister of Health Services and Welfare in the House of Delegates, Mr Ismail Kathrada, yesterday announced the introduction of school feeding schemes for Indian children in some schools where parents were facing hardships because of unemployment

In a statement to the Mercury, he said that many years ago feeding of schoolchildren was stopped because of the economic situation

'In view of this there was no provision in my budget for a scheme of this nature However, I concede that there is now a pressing need for relief for children attending school where parents are unemployed and are experiencing hardships because of the present economic climate

'It has been agreed by the Ministers' Council in the House of Delegates to provide assistance for the children

'However, it will be necessary for school teachers to identify children in need of this service Only children from families in financial and social distress will qualify and the family will be assisted through the department's public assistance schedule wherever necessary'

Mr Kathrada said it was considered 'that, for psychological reasons, the feeding of school children en masse needs to be avoided

'The parents of children identified by the school personnel for assistance must apply through my regional office for assistance,' he added

Hluhluwe attack suspect arrested

Crime Reporter

KWAMBONAMBI police have arrested a man believed to be connected with the attack on an elderly Hluhluwe couple earlier this month

On September 8, Mr Frederik Liebenberg, 77, was stabbed several times when a black man entered his house after breaking a window Mr Liebenberg and his wife managed to fight off the attacker who fled

A man is to appear in the Empangeni Regional Court today on a charge of housebreaking and two counts of attempted murder

ET Cons profit rises 57%

ADAM PAYNE

EASTERN Transvaal Cons, with one of the highest yields in the gold mining industry at 9,6g/t, expects to raise its grade and gold production in the year to next June.

Chairman Rob Wilson says in his annual review for the year to June that mill throughput at Sheba mine will be raised slightly.

Grade will only be lower than 9,6g/t if the gold price rises substantially, so enabling the mines to work to lower pay limits. ET Cons' after-tax profit rose 57% to R31,3m, or 281c a share (211c), in the year to last June.

Wilson says working costs will continue to rise, so that the rand gold price will be the principal factor governing profits and dividends.

ET Cons is to investigate the viability of increasing Agnes mine's production.

If the Agnes investigation is positive, then considerable additional development will be needed to support the higher production rate.

The timing of any decision will be determined mainly by the Princeton project's progress — and thus ET Cons' ability to fund additional capex — and the rand gold price.

At the Princeton section the highest value PS5 orebody will be mined first.

Capex this year is expected to total R22m (R19,1m).

The JSE bull runs wild in the heaven amid hell

WEEKLY MAIL (79) 19/9/86

The situation could not be more incongruous: the country is in turmoil, yet brokers and financial institutions are feasting on an extraordinary boom. ALEXANDER CAMARGUE reports

AMID one of the country's most severe political and economic crises, the Johannesburg Stock Exchange roars ahead. The great bull run presently underway on the JSE has been described as "heaven for a market place".

It is also termed a "sad reflection" of South African society that a fortunate few worry what to do with surplus money while the majority battle under pathetic conditions. Under these conditions talk of a boom is cruel cynicism.

Certainly the situation is incongruous. The country is in turmoil, the economy severely depressed, the majority live miserably. Yet brokers, financial institutions and smaller investors are feasting off the boom in equity prices and the plunge in rates on the capital market.

In one year the gold index has just about doubled while the industrial index is up about 30 percent. The graphs are almost vertical.

Similarly, on the gilts market rates have dropped some four percentage points in as many months. (A fall in rates is a rise in the price and hence the investment value of the gilt.) In August alone the value of shares traded was R1,4-billion (162m shares) while the nominal value of gilts traded was an unbelievable R15,7-billion. More remarkably the JSE accounts for under half the total gilt trade.

The "boom amid gloom" can be explained — and is indeed related.

A major reason for the good times is the amount of surplus money around due to the lack of investor confidence.

Cash-flush institutions find no opportunity to invest in factories or job-creating projects, despite no lack of need. Incredibly, they have nothing to do with their vast funds — being eroded at 18 percent a year through inflation — and so seek a haven in the equity and gilt markets, hence the booms. In this context the JSE boom is a sign of weakness.

In addition, declining short-term interest rates have drawn funds into the JSE. This is not only because partially "freed" debt-servicing funds can be invested on the JSE, but the cost of holding cash becomes increasingly high as interest rates decline. (Consider that at present inflation is around 18 percent and short-term interest rates around nine percent) More importantly, interest rates are expected to remain down well into next year.

On top of all this the gold bonanza has served to boost confidence, profit expectations and liquidity — giving the market a further push. Similarly improving industrial company results (notably Gencor) are also coming through and aiding sentiment, as well as increasing profits to invest in the JSE.

These are, of course, general observations. Each industry and/or company has its own attraction/detraction via its profit potential, growth prospects and so on. Some shares have indeed gone down! Markets, after all, move on perceptions and do not necessarily reflect economic health.

For instance, because the rand has been expected to stay weak there has been considerable interest in rand-hedge stocks — that is companies likely to do well out of a weak rand, namely exporters (Sinclair, Sappi) and those with large offshore interests (Rembrandt, Plate Glass).

Whatever the exact reasons, the market has been caught in its own momentum with jobbers having a field day. Hence the great bull run that will go down in the annuls of history. Most analysts agree that the trend is up. And a peculiar feature of markets is that when people believe it will go up, it will. So if you are one of the lucky few that has money, the JSE still looks a good bet.

We could get much more for it making jewellery GOLD

Excerpt from an address given by Dr Louw Alberts — Director General, Mineral and Energy Affairs — at the Gold 100 conference in Johannesburg.

Post Focus

SOUTH Africa produces about half of the world's gold, and has certainly over the past 100 years contributed the major portion of the world's total stockpile.

Yet we have never really gone beyond the ingot stage. Our added value component is negligibly small.

It is common knowledge that the value of the gold content in jewellery, thin wires, alloys and sheets is increased by several factors — as high as 1 000% in some cases — and yet this country seems content to sell its gold in the form of crude, huge, heavy chunks known as bars of bullion.

What's more, we have done so over the past 100 years and it appears we will persist in doing so for the next 100.

Sure, the quality and purity is excellent and the value-a-bar is high, but for all that the shape houses less imagination than an ordinary building brick.

In 1984, SA mines produced 683 tons out of a total world production of 1 439-tons. In that year the demand for jewellery worldwide absorbed 818 tons of the new gold and 220 tons of recycled metal.

Electronics in the same year accounted for 122 tons, dentistry for 57 tons, coins and medals 174 tons and other industrial and decorative uses amounted to 53 tons.

Every succeeding government has recognised the tremendous role the mineral industry plays in the SA economy and a healthy partnership has developed over the decades.

As a result, a legislative and fiscal system has developed over the years which favours and supports private enterprise in the mining area. Good effort has been made throughout to provide infrastructural services — power, water and transport — to serve the mining industry.

All-in-all, the SA Government's policy towards the mining industry is one of the best in the world.

However, every system has its aberrations and in many people's thinking the Government approach toward an indigenous jewellery industry is one of them.

Our jewellery industry and trade experiences the heaviest taxation among Western nations and it is retarding the entrepreneurs who want to turn our gold and diamonds into aesthetic artefacts that can add to the intrinsic value by several hundred percent.

I daresay that when the present taxation on jewellery was introduced 20 years ago the approach was that we were dealing mainly with imported luxury items and this merited the existing tax system.

While it is true that most of our jewellery is imported, the net result was as described.

SA ought to be one of the largest jewellery manufacturers in the world. We certainly have the right raw materials in sufficient quantity. The first essential step is establishing a strong home base supplying our own needs and serving as a departure platform for overseas outreach.

Turning the searchlight to the private sector, an industry as big and as powerful as the SA mining industry naturally develops its own cultural mores. One of them is the tendency to view the mining and processing of minerals as an industry separate from the industry of manufacturing the primary products into artefacts.

This has given rise to a tremendous inertia in the mining sector when it comes to added value ventures. Any well-established human activity seems to prefer revival to reformation in the minds of its leaders.

It will require a change in mental outlook, wherein mineral processing — or ore-dressing, as we call it — in SA is seen as the first step in the chain.

The entrepreneurial spirit of our mining forefathers is equally necessary. In many mining sectors one faces the problem that adding value will bring you into competition with the very overseas clients that buy your primary product to re-work it.

Obviously one will have to penetrate the market wisely by bringing in overseas partnership and selecting areas where new expertise has to be developed.

In the case of gold and its higher products, that problem of the overseas customer does not enter the equation, because our gold is sold on the international markets and not transacted from primary producer directly to buyer.

One comes to the unavoidable conclusion that our gold mining industry is only interested in promoting gold rather than promoting local industries that use gold.

Intergold is a highly respected and successful organisation that has promoted gold and its applications in a general international sense. Its major sponsors are clearly our own gold mining industry. The argument simply is: if more gold is used worldwide, SA as a major producer can only benefit.

It will require courage, entrepreneurship, perseverance and even the willingness to sacrifice initially, but of all our great financial institutions, the gold mining industry should take the lead in adding value to our gold and, in so doing, our total national wealth.

20/9/86

IV/14 (79)

Gold rush as buyers go wild

WORLD gold buyers scented blood somewhere as demand pushed up the price by $12 to $435 yesterday. The sudden leap bore the rand upwards and continued the optimism which had prevailed since the price had risen over $400 some weeks ago.

Share trading on the Johannesburg Stock Exchange turned from active, as the gold price rose, to hectic as the gold index soared 90 points to pass the 2 000 mark.

By the close yesterday the rand was 45,30/40 U S cents after starting the day at 45,00/10 U S cents and up 3 c on the week.

Finance Editor

Some of the recovery was masked by Reserve Bank trading which had the effect of holding the currency down. As the gold price rises, more dollars become available to the bank to help it smooth out the rand.

Barclays forecast last night that the rand would move into the 43 c-to-46 c range next week.

And as a side issue, the debt moratorium meeting with South Africa's creditors in London is due on Wednesday. The outcome could affect the rand.

Gold was traded yesterday to $435 — the highest price since May, 1983. The close was $430.

Gold investors see the long-awaited interest rate cuts in Germany and Japan approaching, as well

★ TURN TO PAGE 2

Gold price up by $12

★ FROM PAGE 1

as the international gatherings of the world's bankers and money men for the annual meetings of the World Bank and International Monetary Fund.

They remain worried about the state of Bankamerica in spite of reports that all is well.

A wrong turning could lead to inflation and a soaring gold price.

Gold up, but so is inflation

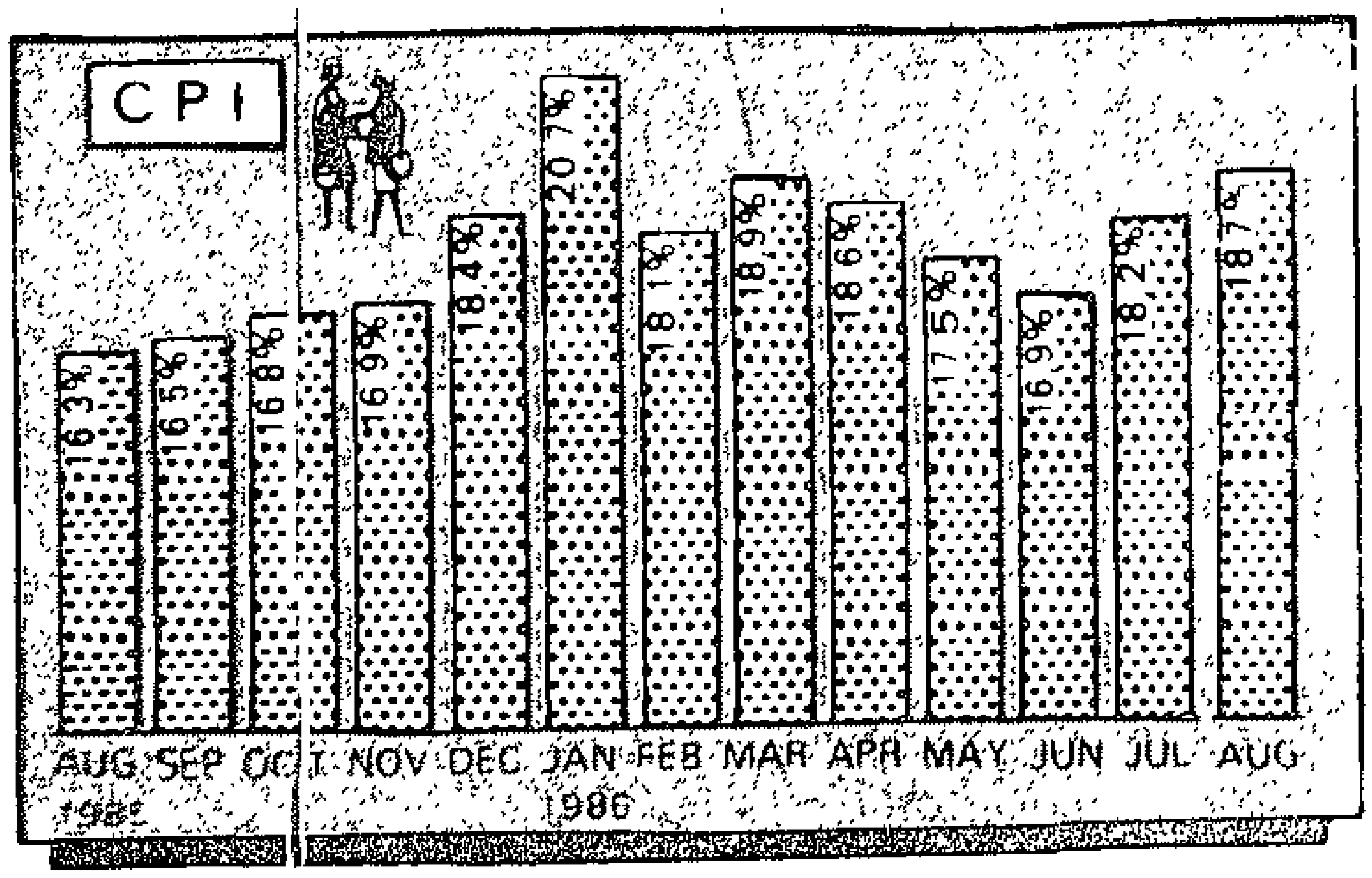
Cape Times 20/2/86 79

By GORDON KLING
Financial Editor

GOLD — South Africa's financial lifeline — has soared to a three-and-a-half-year London high of over $430.

But domestic inflation has also leapt to a budget-busting 18,7 percent, pushing hard against the additional gold price bonanza, worth R1-billion to South Africa over a full year.

Gold, which accounts for the lion's share of South Africa's export earnings, streaked out of its week-long consolidation yesterday with a leap of nearly $20 an ounce to close in London of $430-$431.



'Worst ever'

Latest statistics show that inflation is eating into consumers' pockets at an unprecedented rate. The overall 18,7 percent rise year-on-year in August is the third-highest since the rampant inflation of 1920, but for the poor it is the worst ever.

Worst-hit are the lower- and middle-income groups where the indices rose 19,1 percent for a new record rise and 19,2 percent, compared with an 18,3 percent rise for the higher-income group.

Indices released by the Central Statistical Services in Pretoria last night show that inflation for low-income earners is rising at 19,1 percent, the highest rate on record for those least able to afford the additional burden.

The middle-income group was subjected to an increase of 19,2 percent, while higher-income earners got off relatively lightly with a thump of 18,3 percent.

That means that official projections of a rate close to 15 percent for the year have now been dashed, but economists do not attribute the problem to excessive demand for goods.

Much of South Africa's inflation is imported by the weak rand which, however, gained about 8 percent this week to close at over US$0,45.

Growth in the economy remains stuck at about half the hoped-for 3 percent for the financial year ending in February.

Prospects of better times are improving. Bank foreign-exchange desks expect the rand to continue to gather strength, and business confidence as measured by Assocom and the Stellenbosch Bureau for Economic Research is on the rise.

On the gold front, dealers say the metal is now moving independently of platinum which has led it upwards for the past two months.

The Johannesburg Stock Exchange All Gold Index hit yet another record yesterday as gold counters soared on the bullion rise, and analysts see no early end to the phenomenal bull market.

● Gold reaches 3½-year high — Page 20

Gold at its 3-year best

Financial Staff

Both the international bullion price and South African gold shares hit new peaks yesterday as the growing business optimism continued to gather momentum.

The gold price set a new three-year peak at the afternoon fix in London of $430 and was later quoted at close to $435.

In its wake, demand for gold shares maintained the strength seen throughout the week and yesterday afternoon the JSE's key All Gold index broke through the psychological 2 000 mark for the first time.

This was despite the rand remaining strong against the dollar at around 45 cents.

However, a note of caution was sounded with the release of the August inflation figures which showed an increase in the consumer price index to an annual rate of 18,7 percent from 18,2 percent in July and only 16,9 percent in June.

Star

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(79) N\M 23/9/86

Gold nears the $450 mark

Finance Editor

GOLD yesterday neared the $450 mark at midday but as caution, and profit-taking stepped in, fell to $435,50 at the afternoon fix in London.

The yellow metal traded at $448 in London for a short time.

In currencies the dollar climbed back up against the mark from its position last Friday below Dm2 and the yen showed no signs of falling towards 150 to the dollar being set 1,55 yen above Friday at 153,60/70.

IMF talks

In some senses it is the silly season for currencies with the world's bankers and money men on their way to Washington for the annual meetings of the International Monetary Fund and the World Bank.

On Friday the Group of Five meet ahead of the other meetings and the stage seems to be set for confrontation.

While previous years saw the Mexican debt crisis, pressure from poor countries to get more cash this year sees a war of words bewteen Washington, Tokyo and Bonn.

America wants to let the dollar fall so that the rest of the world will be encouraged to buy their goods; but they have to do this with the agreement of Germany and Japan, which with massive trading surpluses are not prepared yet to drop their interest rate patterns as their side of the deal.

Bonn and Tokyo are both sceptical about the effects of interest rate falls, saying their economies are too small to rescue America from its serious deficits in trade and the Federal budget.

Foreign exchange dealers get jittery at these times and they were not helped by the week-end meeting of Common Market finance ministers in Gleneagles, Scotland, where they decided to tell America that stable exchange rates were preferable to continued decline of the dollar.

Rate up

A policy of official intervention was proposed at Gleneagles but the Bundesbank, chief player on the scene, did not enter the market as the rate went back up to Dm 2,03 from the record 65 month low of Dm 1,9860

In Asia there was panic short-covering which continued in early U S trading.

Mr Gerahrd Stoltenberg, German finance minister, refused to elaborate on the Gleaneagles meeting during a Bonn press conference

Until the meetings are concluded this month the foreign exchange markets are likely to be disturbed.

Meanwhile gold and the rand showed healthy signs.

The morning fix in London was $442,75 — its highest fixing since May 18,1983. During the day it reached $448 in Europe and then settled down at $ 435,50 at the afternoon fix.

The rand was quietly firm at midday at round 45,30/40 U S cents, the same as last Friday, and not moving as much as expected as the dollar rebounded because of a shortage of dollars.

At the close of dealings it was 44,90/45,00 U S cents.

Analyst Mr Alan Davison of Shearson Lehman said the next upside target for gold was $450, but he added that there could be resistance to any move through the upper $440s.

If the $450 hurdle is cleared, a move to $500 could follow swiftly, he added.

In New York the dollar opened sharply higher in response to the Gleneagles meeting.

Our correspondent in London said that the world currency markets are threatened with renewed uncertainty in the next few days, following growing evidence of a deep split between the Common Market and America over the U S dollar.

U S dollar

The ministers meeting at Gleneagles have apparently agreed to a joint stand to pressure the U S into action to halt the fall in the dollar.

At the same meeting, the Central Bank governors of the 12 decided on a joint intervention in the exchange markets from yesterday so as to prevent any further decline in the dollar against the West German mark.

THE ECONOMY

The bank has a headache and we have a golden egg

As that most jovial of optimists, Gerhardt De Kock, knows full well, the nastier the world's problems, the better for gold — and for us. DUNCAN INNES reports

Gerhardt De Kock ... The worst debt is behind

A MONTH ago when the threat of sanctions against us became an unpleasant reality, the economic mood of the country was downright miserable. Then the platinum price took off, rising over $200 (R500) in a month. Not to be outdone, gold also soared, rising by some $60 (R150). Suddenly the economic mood in the country changed — and euphoria became the name of the game.

But is it justified?

Firstly, it is unlikely that gold's recent move is just a flash in the pan. In April this year gold's prospects were looking good. It had been to below $300 and bounced back to trade between $315 and $330 and, subsequently, between $330 and $355. It was building a solid support base at these levels and looked set to break upwards — which is what it has now done.

There are good, fundamental reasons for this. Inflationary conditions are beginning to reassert themselves in the United States. This is partly because attempts to stimulate consumer demand in the States by lowering interest rates are likely to put upward pressure on domestic prices. The other part of inflationary pressure is coming from the declining value of the dollar against other currencies.

The problem the American economy faces is that it ran up a massive balance of trade deficit during the long ascendancy of the dollar on world currency markets. A strong dollar meant that America exported less and imported more.

Even though the dollar has been falling for a while, America still has a massive trade deficit. For the month of July the deficit was a record $18-billion (R45-billion), which translates into a whopping great annual deficit of $200-billion (R500-billion), up from last year's record of $148-billion (R370-billion).

To counter this the US authorities have embarked on a two-pronged strategy of lowering domestic interest rates and encouraging the dollar to fall in the hope of promoting US exports and inhibit imports. However, a spin-off of this policy will probably be that it stimulates inflation — which is good for gold.

Then there is the Western banks' financial exposure to the Third World. African, Asian and Latin American countries owe over $800-billion (R2 000-billion) to Western banks and governments. And as the Non-Aligned Movement made clear at its summit last week, Third World countries are questioning both the wisdom and possibility of repaying such enormous amounts.

John Maynard Keynes once pointed out that if you owe the bank a hundred dollars and can't repay it, you have a problem. But if you owe the bank one million and can't repay, then the bank has a problem. With over $800-billion in outstanding debts, Western banks have a problem — which is good for gold.

Add to this Western fears about the effect sanctions and political unrest will have on the South African economy — especially on the West's supply of gold and platinum — and you have a number of extremely good reasons why gold, and precious metals in general, seem set for a strong bull run. In other words, their prices are going to go up.

As most of the local press and that most jovial of optimists, Gerhard de Kock of the Reserve Bank, have not been slow to point out, all this is marvellous news for the South African economy.

Since every $10 rise in the price of gold is worth about $200-million (R500-million) to the South African economy if sustained for a year, a rise such as we have just seen from $350 to $420 would bring in an extra $1,4-billion (R3,5-billion).

This is more than we could reasonably expect from direct foreign investment in a year. So even if sanctions cut off our supply of foreign capital, a gold price of around $420 would still give us access to the kind of foreign exchange we will need to grow.

But can gold remain at $420 for a full year, which it has to do to earn us the full $1,4 billion?

Over the short term I expect the gold price to pull back a bit, possibly to around the $380 mark. It has gone up too far and too fast to sustain itself above $400 for much longer.

Furthermore, the dollar has taken a knock recently and seems set for a short-term upward correction, which would depress gold for a while. However, I expect the gold price to rally again towards the end of the year, reaching $500 early next year.

If this is correct, then we can look forward to major improvements in our foreign exchange earnings over the next year or two. But what are we to do with this sudden manna from heaven?

There are various options. The authorities can, for example, use most of it to pay off our own foreign debt. Or they can use it to pay off our own foreign debt. Or they can use it to stimulate the economy. Or they can use it to promote the government's reform policy. Or they can use it to control township resistance and to punch Messrs Mugabe *et al* on the nose.

Since these options are not necessarily in conflict with one another, we are likely to get some blend of the above: a sort of economic potpourrie. However, there are some signs which suggest the form this potpourrie might take.

De Kock has made it clear that he thinks the worst of the capital outflow, arising mainly from our foreign debt repayments, is now behind us. This suggests there will be an easing up on our debt repayments at least over the next half-year — even though we still owe $23-billion (R57,5-billion), which is only slightly down on the amount we owed this time last year.

Given the depth of our current recession, we certainly don't want to blow all our foreign exchange on repaying this debt. Yet an exposure of this magnitude is particularly worrying when bearing in mind that, if inflation takes off in the US, interest rates are likely to rise as well.

This means the interest payable on our debt will go up. In the light of this — and considering the development problems we face now and in the future — it makes sense to earmark a substantial proportion of our foreign exchange earnings to repaying this debt.

But if the authorities do not intend using the bulk of our foreign exchange for this purpose, what do they have in mind for it?

Certainly, some of it will be used to finance a growing war situation in South Africa and the region as a whole. A portion, too, will no doubt go towards financing the government's reform policy. But the bulk of it will probably be used to try and lift the economy out of its current recession — which is no easy task.

With business confidence still at an all-time low and sanctions threatening to close down a number of our traditional export markets, productive investment is unlikely to take off significantly, despite recent reductions in interest rates. In all likelihood, we should see a further decline in interest rates over the next few months and more attempts to stimulate employment and promote exports.

Although such measures will probably produce an economic upturn over the next year, it is starting from such a low base and in such a depressing political environment (locally and internationally) that it is unlikely to make any major dent in existing unemployment levels.

Instead, investors — especially the large institutions — are likely to direct their funds towards the stock exchange and into take-overs and mergers

Regarding the latter, it is far safer to take over an existing company with an established market than to risk a large capital outlay on a new product when demand is flat.

Liberty Life's recent take-over of Prudential Assurance and the link-up announced this week between the Natal Building Society and Norwich Union Life Insurance are pointers to the future — a future which will produce further domination by large corporations.

VETSAK

Strapped for cash

Vetsak acting GM Hannes Heyns says there is nothing disquieting or sinister in the fact that the central co-op has sought permission to delay publication of its financial report for the year to December 1985.

But he confirms that the co-operative giant is seeking extra cash. The report, for the 18-month period to the end of June, is now expected next month.

Heyns was responding to rumours in agricultural circles that the huge co-op was in ill-health after lean years of drought and the June departure of the previous GM MA Louw.

Impractical

He tells the *FM* the previous calendar year accounting period was impractical as it cut across the normal production cycle in northern summer-rainfall areas. The timetable has now been changed for purely practical reasons, he adds.

"It was extremely difficult to budget correctly for farmers' input demands while crops were still on the land and we had no certain indication of crop sizes," he says.

Heyns says Vetsak has asked member co-ops in the Transvaal, Free State and Natal for some R20m and that he is confident, at this stage, of receiving at least 70% of this amount. "This is normal procedure as central co-ops cannot issue shares or borrow on the financial markets," he says.

Registrar of Co-operatives Nico Pienaar confirms that he has granted Vetsak a six-month extension for its year-end report, and he now hopes to receive the report for the 18-month period ending June by October.

Pienaar also confirms that Vetsak has asked member co-operatives for financial contributions and says debentures are being issued to obtain additional capital.

Heyns, meanwile, remains positive about Vetsak's fortunes after "a few good months" and the rationalisation that has already taken place. "Good wheat prospects in the Free State," he adds, "should also help." ■

FIN MAIL

GOLD SALES

Coining it

26/9/86

The Krugerrand is dead, long live gold. While the European Economic Community sanctions package seems to have put the final nail in the Krugerrand coffin, at least as far as foreign sales are concerned, Chamber of Mines marketing arm Intergold is not sitting idly by.

Demand for fine gold for coinage and jewellery is strong in many parts of the world and Intergold is doing everything it can to encourage the trend. Among other benefits, gold held in personal collections will remove stocks from the bullion markets and help support the price.

Sales of the Krugerrand slumped to 786 000 oz last year from 2,6m oz in 1984 and 6m oz in 1978 and marketing support for the coin has been withdrawn by the South African gold mining industry.

Intergold now mints only 6 000 of the gold coins a week for the local market and only mints to order for foreign sales.

But, says chief executive Chick Hood, Intergold still has a responsibility to maximise consumption of South African gold, which represents almost 56% of free world production. It has thus turned its attention to promoting gold jewellery through extensive TV advertising, the exploitation of gold coin launches in other countries and to encouraging gold accumulation by private investors.

Hood says there's excellent potential for increased jewellery demand worldwide because of low inflation, low interest rates and a strong demand for luxury products.

Gold accumulation programmes, too, are gaining popularity. They are aimed at people who wish to protect paper investments, to secure their pensions or to build savings. The concept is simple: in fact, a physical gold unit trust.

Regular monthly savings are placed with the plan holder — a bank or any other financial institution — and the accumulated gold holding appreciates in value in line with the increase in the price of the metal. These plans are now offered in Europe, the US and Hong Kong, with the average participant accumulating 45 oz of gold at the current price.

Intergold acts as a catalyst in the field, creating demand through advertising campaigns featuring the name of the selling institution, and by providing the expertise to set up plans.

However, the most lucrative area still looks to be the promotion of gold coins. Even if they're not minted in SA they consume South African fine gold.

Winfried Kilp, investment division manager of Intergold in Switzerland, says 15m people were first-time bullion coin buyers in the Seventies and that there is potential to win three to four times as many buyers with the introduction of new coins in the next six months. Among these are the Japanese Emperor, the Australian Nugget, the American Eagle, and the Luxembourg Lion.

More than 10m Emperors are to be minted this year, consuming some 200 t of fine gold, or 15% of the estimated world supply to the market. The Western Australian Development Corporation which is to market the Nugget has set a "conservative" sales target of 300 000 oz-500 000 oz a year, but Kilp says this may well be exceeded by 50%.

Eagles are to be re-introduced after more than 50 years and it is estimated that the treasury will capture half of the US gold coin market — some 3m oz-4m oz a year. And, while estimates for the Lion have not yet been released, Kilp says the Luxembourg project would require sales of at least 100 000 oz a year to be commercially viable.

In addition, China is slowly increasing sales of its Panda, with a target of 3 t this year, Taiwan will mint about 15 t of coins to commemorate Chiang Kai Shek's birth and South Korea is producing gold coins for the 1988 Olympics.

Consolidated Gold Fields reports that before the introduction of Krugerrands, the use of gold for official coinage was 45 t a year. Since then, legal tender gold coin production has averaged 170 t a year, with peaks of 290 t in 1974, 1978 and 1979. Now the Japanese demand alone will exceed the average and, with clever marketing, SA is set to sell more fine gold than it did before Krugerrand sanctions. ■

High taxes killing jewellery craft

By YVONNE STEYNBERG

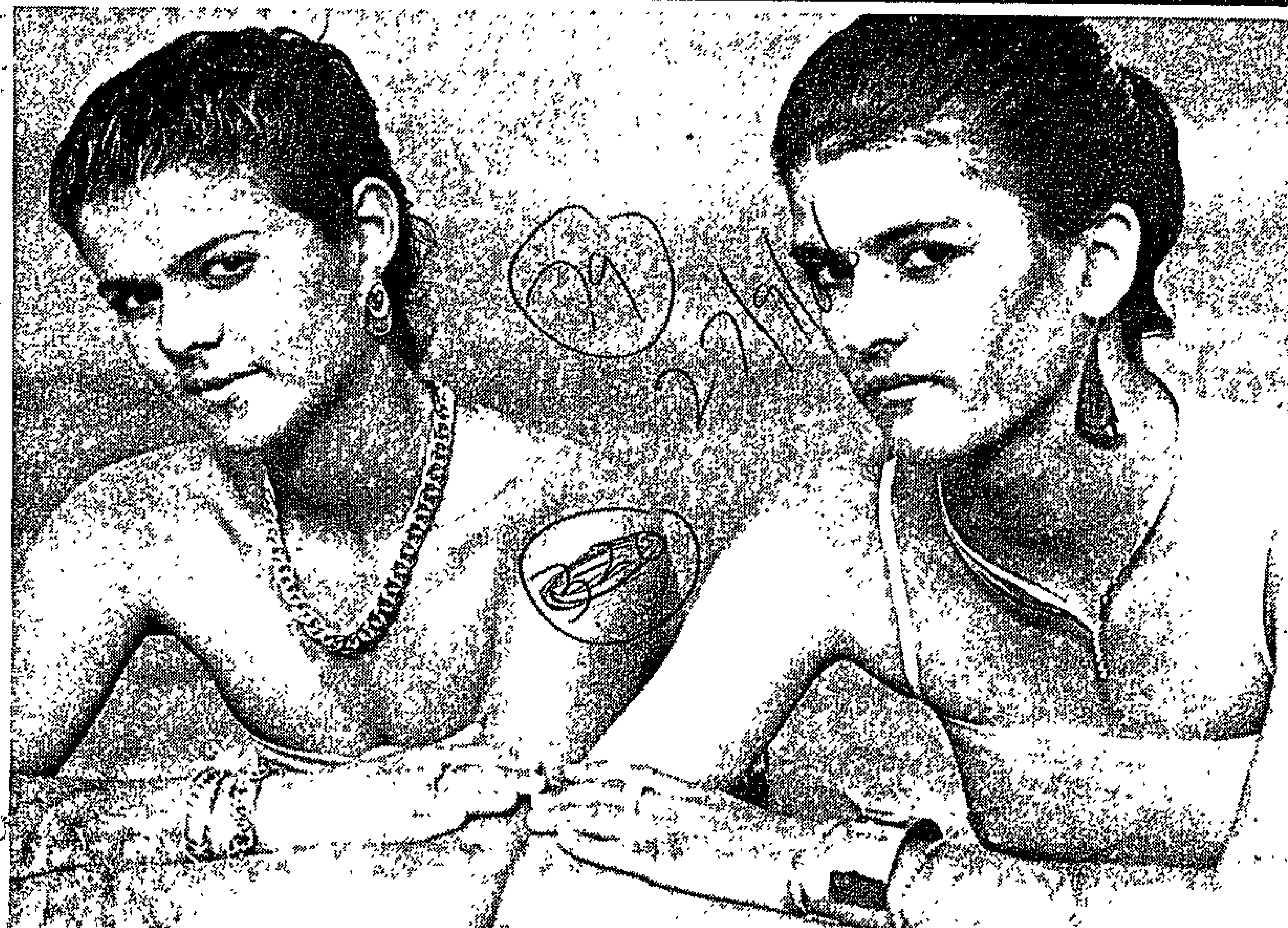
HIGH taxes are preventing South Africa from developing a major jewellery manufacturing industry, jewellers say.

They believe an "outdated" 35% *ad valorem* tax on locally manufactured jewellery should be scrapped in the interests of the economy, so that more of the country's gold could be put to better commercial use, creating job opportunities and encouraging small business ventures.

Most of the fashionable heavy gold chains sold in South Africa are imported from Italy.

Mr Derek Smith, chairman of the Retail Jewellers' Association of the Eastern Cape and director of the national executive of Retail Jewellers of SA, said the duty on local manufacturers was the heaviest in the Western world and should be scrapped.

It had been a sore point with jewellers for many years, and contributed to the loss of expert craftsmen who were leaving the country.



TWO pretty girls wearing expensive gold jewellery. BRIGET BIDDULPH, 14, (left) is wearing imported jewellery. HYLETTE GERBER, 15, is wearing gold jewellery which was designed and made locally.

The jewellers' complaints have been highlighted following the statement by Dr Louw Alberts, Director-General of Mineral and Energy Affairs, at the Gold 100 Conference in Johannesburg that South Africa's gold could be worth up to 1 000% more if the manufacture of jewellery, thin wires, alloys and sheets was encouraged.

He said the jewellery tax structure was outdated and recommended a strong home base supplying South Africa's needs and serving as a platform for expansion overseas.

Dr Alberts said South Africa should be one of the largest jewellery manufacturers in the world, considering its wealth of raw materials.

He accused the gold mining industry of failing to encourage local industries to use gold.

Mr Smith said Mr Tim Davidson, director of the Jewellery Council, was taking the matter up "at the highest level".

At present gold was used by jewellers mainly for rings, bracelets and simple chains.

"This does not make sense when you consider that the Governmment is spending huge sums training people with artistic leanings to become self-employed artisans and craftsmen," said Mr Smith.

A Port Elizabeth jeweller said it would be very expensive, if not impossible, to make by hand chains like those currently being imported.

Italian manufacturers had worldwide contracts for jewellery worth millions of rands, and one machine costing R700 000 was a worthwhile investment in such circumstances, he explained.

There would have to be help from the Government if a large, viable jewellery manufacturing industry was wanted in South Africa.

GOLD

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Sunny skies again?

Twice during the Seventies, the gold price gave the South African economy badly needed succour, ushering in foreign capital, economic growth, greater employment and a measure of security for an uneasy workforce.

But for some 40 months, starting in February 1983, when the price rose all too briefly above US$500/oz, it seemed that SA had been deserted by a potent god. In a period when the country seemed to be heading into one of its darkest hours, the dollar bullion price was unable to sustain a level much above $340/oz, and was lodged for much of the period at substantially less than this.

Contrary to many expectations, gold regained its lustre in July, when the price launched into a steep upwards path, and by last week was fixed comfortably above $430/oz. On Monday afternoon, gold was fixed at $427/oz, some 25% up in little over two months. Does this mean that the metal will again bring relief from SA's economic and social problems (as well as promising wealth to investors)?

Many reasons have been offered by both local and overseas commentators for bullion's resurgence. These include purchases of gold, particularly by Japan, for use in coins, the oil price rise from its low point below $10/barrel, awareness of a speculative market in precious metals fuelled by platinum's run-up, worries about the US economy's weakening growth prospects, and perceptions in international markets that supplies of gold from SA could be hampered by political unrest (*FM* September 12).

American consultant Thomas Wolfe, in giving the US perspective on the gold price at the recent Gold 100 conference in Johannesburg, was not attaching much credence to inflation theories. As a result of the gold price drop in 1980 and the rise and fall of the silver price, he said, there is a residual attitude that gold is a volatile, high-risk, mainly speculative investment.

"The earlier feeling nurtured by inflation in the late-Seventies, that gold might be useful as an inflation hedge, has pretty well faded away in the relative price stability of recent years," he said. "The fact is that Americans have had no serious experience with inflation and have suffered no lasting adverse consequences from inflation. The inflation surge of the late-Seventies was brief, virtually without precedent, and has had no lasting ill effect on fixed income investment."

A number of uncertainties — such as the waning strength of the US economy, increased bullion purchases for coins, and the potential disruption of South African production because of sanctions and other political factors — appear to have nudged the gold price into a bull phase. Whether it will be sustained is equally uncertain.

Warren Myers, vice-president, international research, at New York stockbroker Merril Lynch, says the market was given an underlying firmness by Japanese purchases of coins. When combined with economic factors, this left the market ripe for a swing in perceptions.

"About two months ago, when US trade figures were announced, the Swiss came in as heavy buyers of gold," says Myers. "It seems the Swiss were saying that on those (trade) figures it looked as if the dollar was going to continue declining. The Swiss were already heavily invested in Swiss francs and DMs, so they decided to increase the gold holdings in their portfolios."

An indication of the views being taken in Zurich came from Rolf Schriber, senior vice-president of Credit Suisse (another Gold 100 speaker): "We believe that the situation in the gold market will continue to improve and that the average price over the next 12 months will be above $400/oz — with some ups and downs, of course," he said.

Schriber argued that for investors in gold, the main factor would continue to be the expected future course of inflation. "Inflation and interest rates are unlikely to rise to the same levels as in previous cycles," he added. "What will matter, however, is not the size of the movement, but the direction."

However, with bullion now consolidating after its run-up to the best levels seen since May 1983, two questions dominate the international gold markets:

□ Is gold enjoying the born-again status of a hedge against uncertainties — ranging from inflation to wobbly equity and bond markets and the international debt mountain? or

□ Has the ride simply been the result of professional arbitrating within the narrow volatile platinum market, with its supply-side jitters over South African production which ignited the price?

For the first time since the dollar started its long fall from the February 1985 peak, gold has outperformed the major hard currencies. The yen price is up 19%, while in terms of D-marks, Swiss and French francs, it has gained 16%-17% And, with sterling undermined by poor trade figures in August, the pound price has gained 28%.

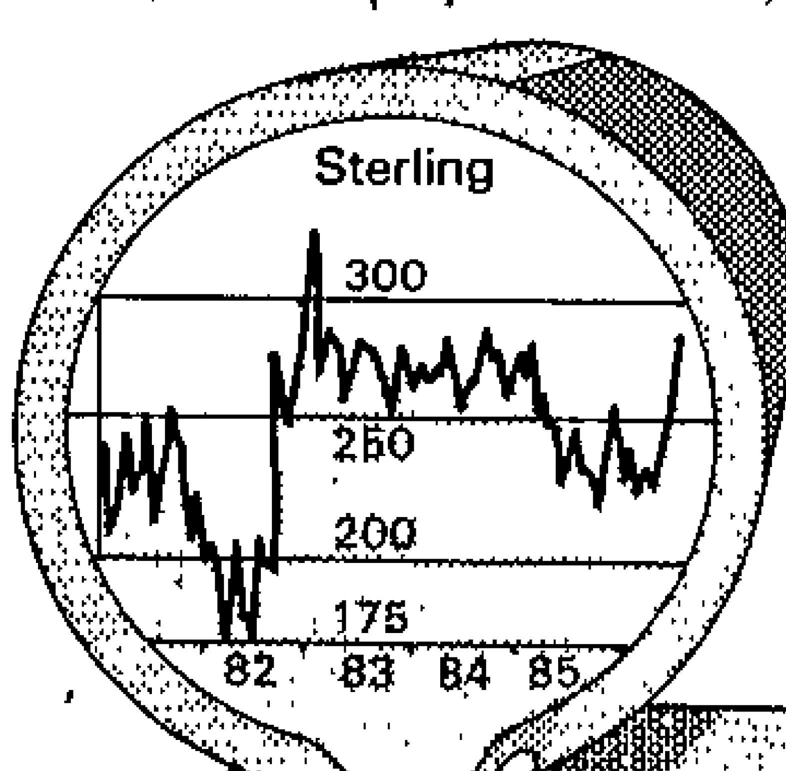
Analysts who attributed gold's sprint to Japanese buying of the final 100 t for their Hirohito diamond jubilee coin issue (220 t in all) were confounded by the latest import figures from Tokyo. They showed August shipments had fallen to 19 512 kg from 87 340 kg in July — lifting the eight-month total to 451 817 kg, almost four times the comparable 1985 figure and in line with earlier forecasts of 500 t for the whole of 1986.

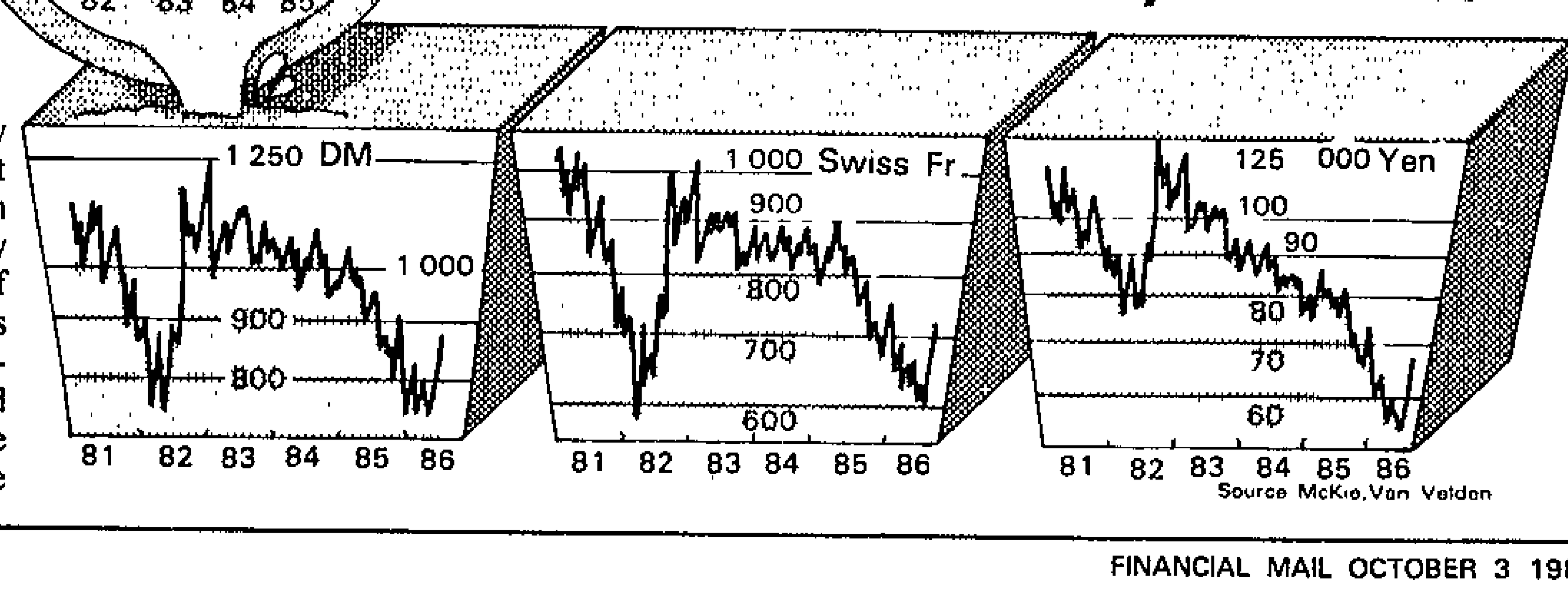
There are, of course, continued rumours in the market that Emperor Hirohito's wish that every household in Japan should have a coin will require another 50 t-100 t to increase the issue. In addition, there has been talk that Taiwan has plans to mint and distribute its own official gold coin.

But most London bullion dealers report that physical demand has drooped in the last few weeks.

On the supply side, the evidence is cloudy. European refiners, from Degussa in Germany to Johnson Matthey and Engelhard in the UK, are reporting a rise in quantities of gold bars and jewellery coming to them for recycling. But, while the increase has been

Gold breaks out in key currencies





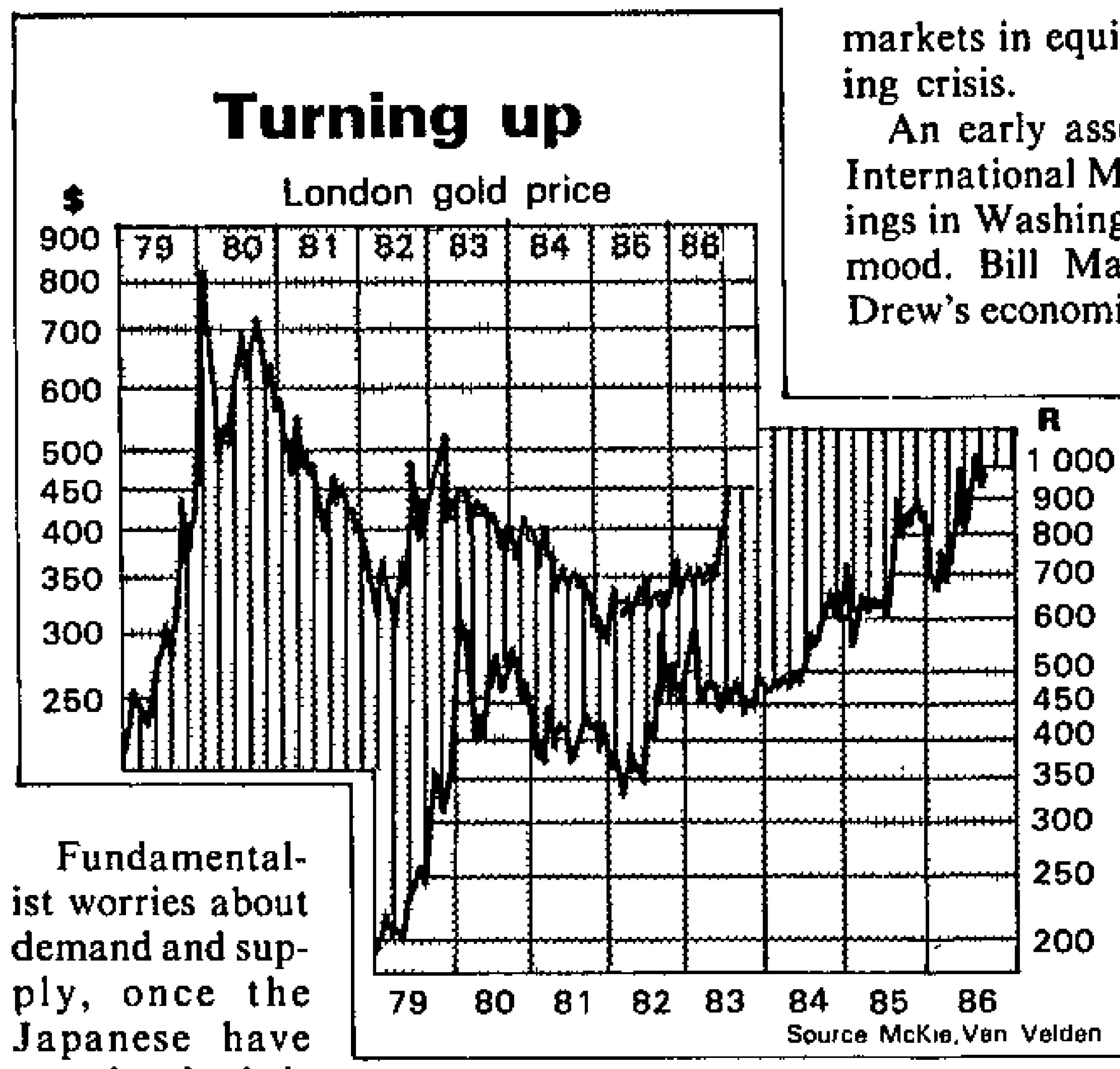
Source McKio,Van Velden

considerable, the absolute amounts do not yet amount to a flood: as much as 12 t of small bars in August against a few kilograms a month earlier, chiefly from the Far East.

And cash offers equivalent to $414/oz for 22 carat jewellery in London's Hatton Garden have not attracted queues of sellers. In addition, the Krugerrand quoted at $434-$437 in London (against gold at $436-$437,50 and the Maple Leaf at $444-$447) is another close contender for recycling.

The tightness of supply is far from clear. No Soviet selling has been reported since July, by which time it was estimated that the Soviet Union had already disposed of 250 t, more than during the whole of last year. Nor can it be confirmed that SA has adopted a policy of letting the market come to it, rather than offering gold on a steady basis at the fixings in London and Zurich (*FM* September 26).

Even so, most fundamentalists, such as George Milling Stanley of Consolidated Gold Fields, see little supply-demand argument to support the rise. Exceptions include Rhona O'Connell at stockbroker James Capel, who believes that with increasing central bank diversification of reserves out of dollars, there will be a net deficit this year of 50 t-90 t after taking into account East bloc sales and secondary supplies. O'Connell also believes that by behaving more staidly than platinum in both the up and down swings, gold has "confirmed its credibility" as an investment.



Fundamentalist worries about demand and supply, once the Japanese have completed their coin programme, tend to be swamped by the uncertainty hedge argument. Its advocates outnumbered the more cautious voices by 3:1 in a *FM* telephone poll of London opinion last week.

The points made have become a familiar litany in the market for some months: the dollar; a resurgence of inflation once the oil price stops falling and money supply keeps rising in an attempt to boost growth in the main Western economies; tired-looking bull markets in equities; and the potential banking crisis.

An early assessment of the mood at the International Monetary Fund (IMF) gatherings in Washington this week underlined the mood. Bill Martin, of brokers Phillips & Drew's economics unit, reported that the US Federal Reserve's concerns about growth "dominate its worries about inflation."

Bond markets were right to conclude that in the long term "inflation in the US has not been licked." And the Fed, Martin said, would probably "accommodate inflation up to 4% in 1987" — almost double the current rate. As for talk about help from the rest of the world to stimulate growth, turn the US trade deficit and stabilise the dollar, Martin said policy co-ordination talks are "regarded as an elaborate charade."

Against this background, chartists in London have few doubts about the trend. Short-term targets of $450 and $500 after a period of consolidation in the $430-$440 range are commonplace. And Brian Marber, of Marber Associates, says the recent rise has "the same drive as the bull markets of 1970-1974 and 1976-1980." ■

FIN MAIL 3/10/86

GOLD SHARES

When the bad times are good

Views on gold's upward progress hinge on the important level of $400/oz. A drop below this could trigger a selling spree and bring the bull run to an end. But fears of rising US inflation and acceptance of a low-level if endemically poor South African political climate could mean that the game is still worth the candle.

Those investors who climbed into gold shares at mid-year, when sentiment in business and investment circles was at an exceptionally low ebb, have been richly rewarded. In one of the fastest bull markets seen on the JSE gold board in many years, the All Gold index soared by 73% from 1 188 on June 16 to a peak of 2 061 on September 19.

In the inevitable correction, the index has since weakened to close at 1 843 on Monday, a decline of nearly 12% — but that still leaves the index up by 55%. Reasons for the surge are not difficult to find. When the rand started sliding against the dollar in the second quarter of the year, that pushed the rand price of gold upwards. Both the rand price and investor sentiment were boosted further when the bullion price suddenly moved off its perch around US$340-$350 in early August. Bullion's breaks through $380/oz, $400/oz and then $420/oz kept the bulls in full cry.

Profit margins on gold mines have leapt. This is underlined by the accompanying table which lists breakeven points in costs in rand/oz of gold produced for the June quarter. Average breakeven for the industry was only R422/oz, and few were above R600/oz.

McKie van Velden's Boshoff . . . correction ahead?

Monday's gold price of $429/oz translates into a rand price of aboutR950/oz at the rate of US45c, which compares with the average price received in the June quarter of R757/oz.

Distributable earnings from which dividends are paid are calculated after taxation and capital expenditure, both of which are likely to increase on these gold prices. On many mines, though, prospective profits and dividends will both soar if the rand price remains above R900/oz, rising in some cases by a much greater rate than the 25% increase in the profit margin. This will apply particularly to those mines which have avoided hedging contracts and will therefore receive the full benefit of the price increase.

Three main factors will probably determine where the share prices will go from here: the trend in the dollar gold price; the rand/dollar exchange rate; and the actions of overseas investors. While profit-taking may well extend further during the present correction phase, analysts are not expecting much selling by local institutions unless the gold price collapses again.

As was shown at the recent Gold 100 conference in Johannesburg, there is no shortage of bullish views on bullion; nor is there any great bearishness among Johannesburg brokers on the shares (is there ever?). But some of the ardour has cooled.

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FOREIGN DEBT

Third currency boost

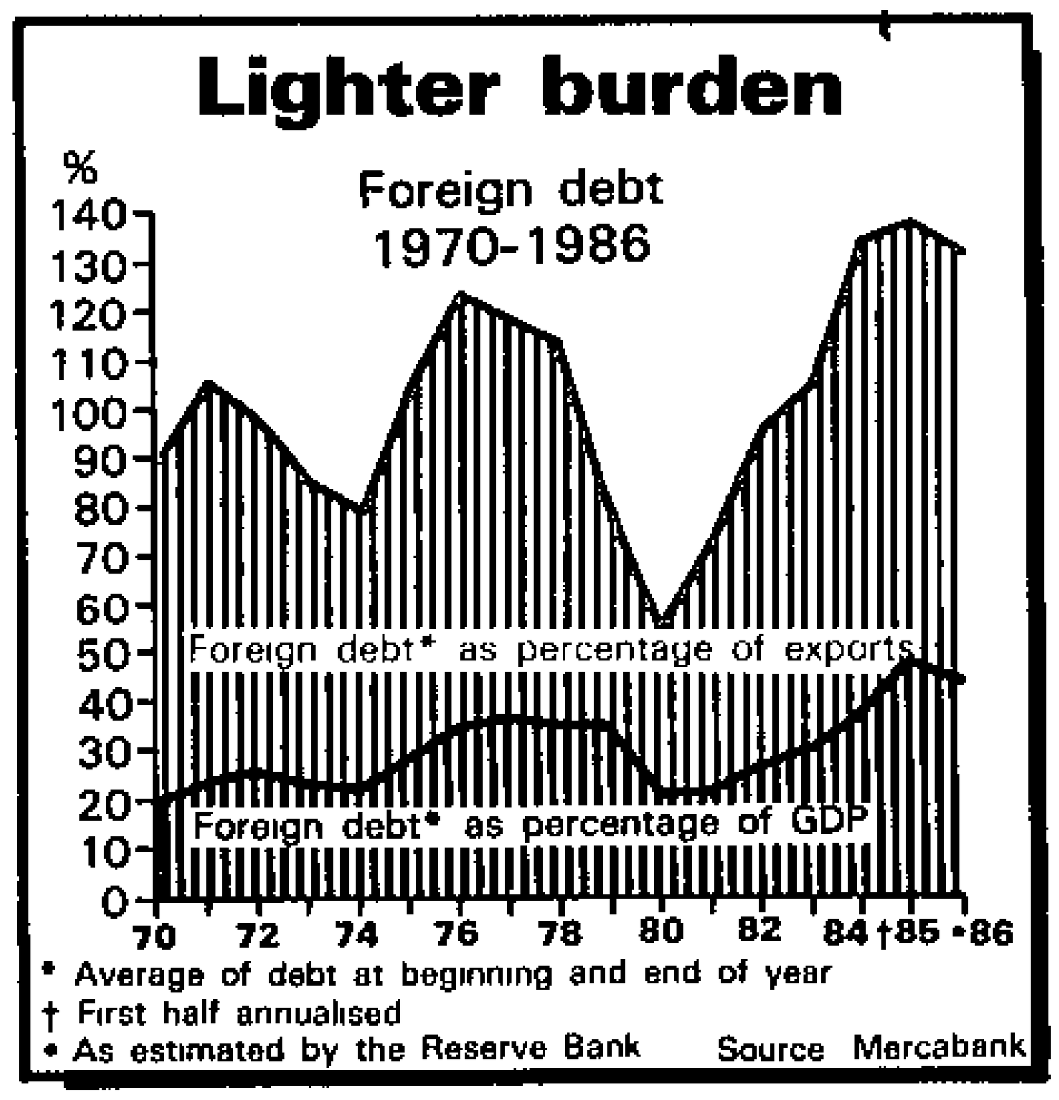
Despite repaying an apparent US$2,3 billion of foreign debt, SA's burden is barely dented. According to the Standstill Co-ordinating Committee (SCC) the rand's weakness against third currencies is largely to blame for foreign debt having to be revised upwards.

At the rand exchange rate ruling on August 31 1985 the total debt as at June 1986 would have been $21,4 billion. Unfortunately, it is the present rate that counts. And on current exchange rates, the June 30 figure is more like $23,2 billion. This is within a whisker of the $23,7 billion of debt originally identified in August last year.

The paltry $500m reduction might appear surprising in view of the dollar's underlying weakness. Unfortunately, however, the extent of our debt commitments in non-dollar-denominated currencies was seriously underestimated.

Reserve Bank Senior Deputy Governor Japie Jacobs says more than half of the debt is in dollars, but he is non-committal about the exact proportions in other currencies. It can be safely assumed a major chunk is in DM, yen and sterling. Anglo American Corporation's economist Jim Buys expresses the general view that "while we are all aware of the impact of currency fluctuations on the debt commitment, it is greater than I thought."

As fewer banks than expected rolled over



their loans at the higher interest rates being offered, the repayment this year is likely to exceed the R2,3 billion (of which $500m was in the net) that was expected to be repaid under the February interim arrangement.

Jacobs says foreign credits and the Reserve Bank's own foreign transactions have not all been rolled as expected. "More has been repaid than initially assumed." Despite that, "SA's reserve position has improved markedly since the second half of the year," he says. There was a R500m rise in net reserves in the second quarter alone, according to the Bank's latest *Quarterly Bulletin.*

The foreign debt burden as a proportion of exports (including gold and services) has dropped from 138,1% in 1985 to 131,3% in the first half of 1986 (annualised); and as a proportion of GDP has also dropped from 48,3% in 1985 to 43,9%. Interest payments were 10,5% of exports (including gold and services) in the first half of this year (annualised) compared to 10,8% in 1985.

Of the revised $23,2 billion total debt, some $4,4 billion matures in 1987 (half of which is out the net). This is significantly less than the $6,1 billion that matures in the second half of 1986 (including $2,2 billion out the net). In 1988 only $1,9 billion of debt matures (of which $700m is out the net).

This revised structure, reflecting higher debt commitments, Jacobs explains, is due to foreign exchange movements and also indicates the extent to which new trade credits and project-related finance are still available.

The *Bulletin* considers that a continuing large current account surplus, together with an anticipated decline in net capital outflows, "holds out prospects for a more comfortable" debt management.

But the February arrangement merely put SA on parole and if political progress is the criteria used — and it is the major factor together with growth prospects — then Director General of Finance Chris Stals has a tough task ahead. Local bankers agree that the credit squeeeze — arguably the most effective form of economic pressure exerted on SA so far — shows no sign of easing.

Standard Bank's Manfred Schutte detects "no change in the mood of foreign bankers towards SA. The atmosphere is cool to say the least. The fundamental issue is politics and the world is not yet satisfied on this score."

Similarly, Nedbank's Merton Dagut says pressure is considerable. Foreign bankers are likely to adopt a "repay more or we withdraw trade credit" attitude. He adds there is pressure to widen the definition as to what is to be repaid.

Another banker suggests SA has the upper hand in any future agreement. "It is difficult to tie overseas assets, and bankers don't own guns and aircrafts. The greater evil is to call all the loans in."

Jacobs strongly denies the sides are on a confrontation path. "There is no doubt the mood is better." He reckons the April 1987 talks "will be decided on the facts. It is not in the Banks' own interest to rock the boat. After all, SA is one of the few countries that can repay debt."

But any talk about a future arrangement is purely speculative. It is still early days and

SPEAKING TECHNICALLY

With the gold price over $440 last week and the current account surplus running at an annual R6 billion ($2,7 billion at Monday's exchange rate of US45,2c), small wonder that some foreign banks took the negotiating opportunity to press for additional debt repayment.

They did this at last week's review meeting in London, between SA and a technical committee representing major creditor banks.

Some asked for an extra 2,5% to be added to the agreed repayment of 5% or $700m of the debt maturing inside the standstill net. The February arrangement was based on an average gold bullion price of $340 per ounce and a current account surplus of $2,25 billion at a rand value of US45c.

The talks are believed to have been conducted in an "amicable" way — according to one source close to the banks. "There was neither a showdown nor much debate about increasing the interim deal while SA dangled the carrot that a sustained higher gold price could change the situation." He adds that bankers are "pretty happy" with the way the interim arrangement is working out.

Reserve Bank Senior Deputy Governor Japie Jacobs' version is that the talks "turned out as expected and there was no dissapointment either side. Views were exchanged in a positive atmosphere. SA made no promises but did say the position would be reviewed next year."

He adds that it is often forgotten that the much talked-of boost of $20m for each dollar's rise in the gold price is at an average annual gold price and is obviously not realised if the price is at a level for one day or one month.

"In addition, account must be taken of accelerating growth which could reduce the current account surplus through stimulating imports," he says.

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(79)

Bankers' eyes on SA gold bonanza

Dispatch Correspondent

JOHANNESBURG — A major fight is shaping up as international bankers try to get their hands on South Africa's recent gold bonanza.

South Africa's creditor banks are widely expected to demand a payment of another 2,5 per cent on debt caught inside the "standstill net" at this week's meeting in London with the Standstill Co-ordinating Committee (SCC).

This amount would come on top of the five per cent — roughly $400 million — that South Africa agreed to repay by June next year in terms of the interim debt arrangement negotiated in April this year.

Originally billed as a mid-term economic review — to gauge South Africa's economic performance six months after the April deal was struck — this week's London meeting has taken on a new significance in view of the dramatic rise in the gold price in recent weeks.

It is understood, however, that the South African delegation, led by the SCC chairman, Mr Chris Stals, will stick to the interpretation that the meeting is "merely technical".

An official source said: "They will resist pressure from bankers for any additional payments."

But a London banking source said "The negotiations will be pretty tough."

Gold closed yesterday in London at $436,50-$437,50 — $6,50 higher than Friday's close — in a day of hectic trading that saw the metal fixed in the morning at a three-and-a-half-year high of $442,7 and rise above $445 before falling back.

Yesterday's rise in the gold price clearly has not made things easier. Every one dollar in the gold price earns South Africa roughly an additional $20 million in foreign exchange a year.

Although South Africa's official gold and foreign exchange reserves have increased in past weeks to above $2 billion, they are still lower than before the imposition of the standstill in September last year.

A South African official said: "South Africa is merely replenishing reserves lost last year."

But it is understood that the creditor banks will point to strategic stockpiling of oil which, they believe, should be included in calculations of South Africa's reserves

Aid plan for frontline states

JOHANNESBURG — Extensive US and Allied economic aid to the frontline states, aimed at reactivating the beleaguered Beira Corridor, is set to be included in President Ronald Reagan's response to Congress's anti-South African sanctions bill this week

The move is part of a new programme worked out between Washington and its European partners to reduce frontline state dependence on South Africa.

It was foreshadowed in July by the Secretary of State, Mr George Shultz, who said in testimony to the Senate foreign relations committee that the corridor linking Zimbabwe and the Mozambican port of Beira was "an economic if partial alternative to dependence on South Africa for states as far away as Zaire, which now sends 43 per cent of its mineral and metal exports through the South African road and railway system".

The Deputy Minister of Foreign Affairs, Mr Ron Miller, last night described as "totally in- [illegible]" the Rea-

Strategic metals prices surge on sanction fears

NEW YORK — Prices of strategic metals rose last week on fears that South Africa would retaliate against US economic sanctions by cutting off sales.

However, many experts said a strategic-metals embargo might be more damaging to South Africa than to its intended victim, the United States, and that South Africa was therefore unlikely to declare one.

The steep rise in metals prices — platinum, for example, has soared to near $600 an ounce on the spot market from $350 as recently as January — was mainly a product of fear and the mob psychology of the trading pits, some experts said.

"Markets go up on fear and down on reality," said Mr Peter Cardillo, a metals analyst for Josephthal & Co.

Prices are so high that if South Africa actually declared an embargo, he said, "Platinum might go down."

Platinum did fall slightly on Friday, down $7 an ounce to $589,60 on the New York Mercantile Exchange for contracts for delivery this month.

Platinum had risen the daily limit of $2[illegible] an ounce on Thursday just before the Senate joined the House of Representatives in overriding President Ronald Reagan's veto of the sanction Bill.

The threat of a metals embargo overshadowed the immediate impact on the US of the sanctions imposed by Congress. Several analysts said the impact of those sanctions in the US should be slight.

Among other things, the Bill sharply restricts new US investment in South Africa and bans exports to South Africa of militarily useful goods such as oil, munitions and nuclear technology.

Also banned are computer shipments to the police and military.

The Bill prohibits imports of South African iron, steel, arms, ammunition, military vehicles and farm products, and, after 90 days, uranium, coal and textiles.

"We don't need any of the stuff," said Mrs Bette Raptopoulos, a senior metals analyst for Prudential-Bache Securities Inc.

"The Congress made a point of banning things that we can get elsewhere." — AP.

Gold Fields' pre-tax profits break record

8/10/86 BUS DAY 79

ADAM PAYNE

GOLD FIELDS of SA (GFSA) gold mines achieved a record for the group with pre-tax profit of R624m in the September quarter.

This was R25m higher than the previous record of R599m in December last year.

Features of the mines' quarterly reports are the considerably higher rand gold price received, the big increases in profits before tax, but only moderate increases over June in after-tax profits.

Gold production increased because of improved yields. The higher dollar gold price during the second half of the quarter increased average earnings per kg by 26%.

The average price received was R29 960/kg (R932/oz) compared with R23 743/kg (R738/oz) in June (R31 109/kg 10 days ago).

Total working profit rose by R191m (49%) over the June quarter but tax rose 86% to R345m (R186m). After-tax profit at R278,8m was up only 10%.

Working costs rose an average 5% to R91,46 a ton. Adjustments in wages for unskilled and semi-skilled workers in July contributed to higher costs.

Yield on average was fractionally up at 8,2g/t (8g/t).

The markedly lower capital expenditure of R97m (R135m for June) is typical of the first quarter of the financial year.

Costs were kept constant at Kloof and Deelkraal but were up 9,7% at Doornfontein, 8,5% at Libanon and 6,5% at Venterspost.

Reports from the mines follow:

Kloof: For the first time the mine became top profit-earner in the group. Its steady rate of working costs — with an increase of only 0,37% — could have resulted from an over-provision for black workers' leave allowances in the June quarter.

The mine was down on labour at the beginning of the quarter, whereas West Driefontein was down 28% on labour two weeks ago because of men taking paid leave under the new leave scheme.

Kloof's earnings per share (EPS) doubled with lower capex and higher profit largely because of a higher yield of 14g/t (13g/t).

The mine is driving on 23 level to Leeudoorn ventilation shaft.

Driefontein Consolidated: Earnings a share were 34% up at 94c. Yield improved strongly to 10,1g/t (9,3g/t) at the East mine.

The West mine had problems with seismic activity on the Carbon Leader Reef.

Libanon: Costs were up largely because of a fire in a Ventersdorp Contact Reef stope in the Harvie-Watt shaft area. The fire zone has been sealed and stoping contractors moved to other areas of the mine. About 10% of the mine in a high-grade area has been affected.

No decrease in the tonnage milled is expected, but there has been a reduction in the overall mine grade. Work resumed two days ago in areas that had been affected by ventilation closures.

Venterspost: The mine increased EPS by 54% to 105c a share. Yield was high. Profit before tax was up 185% but after-tax profit rose by only 6%.

Doornfontein: Yield dropped to 5,7g/t (6g/t) but has recovered to 6g/t since the end of the quarter. The mine has been running out of ore reserves on the Carbon Leader. However, it has been saved by the higher gold price, which has made Main Reef payable.

Profit before tax was up but after-tax was down by 15%.

Deelkraal: Yield fell to 4,9g/t (5,1g/t) but has recovered in the past week to 5g/t. The mine plans a shaft in the southern part of the lease area.

Tax, costs limit profit to R278m

Cape Times 8/10/86

Gold price boost for GFSA

79 / 2

By AUDREY D'ANGELO
Assistant Financial Editor

THE weak rand and strengthening dollar price for gold combined to give Gold Fields of SA a record pre-tax profit of R624m (R438m) in the three months to September.

Revenue rose by R207m to a record R919,5, based on an average price for gold of R29 960 a kg — 26% above the R231 743 paid in the previous quarter.

But higher tax and operating costs combined to limit the rise in after-tax profit to 10,5%. Combined after-tax profit was R278,8m (R252,3m).

'Gold price rise'

A spokesman for the group said that, although the rand had strengthened, it was hoped that the gold price would also rise to maintain the higher level of earnings.

"As long as the gold price goes up and the rand at least remains stable, without rising, we shall be alright."

He said the price currently received was above R31 000 a kg.

The spokesman said a R16,2m rise in working costs, to R342,1m (R325,9m) was mainly due to pay rises for unskilled and semi-skilled workers in July.

Gold output was higher at 30 642kg (29 951kg), mainly because of higher grades.

The average milling rate remained the same but the gold content rose to an average of 8,2 (8) grammes per ton.

Kloof had done particularly well before tax and the State's share of profits. Yield was up by about a gram and working profit rose to R169m (R106m). But after-tax profit rose only to R84m (R78m).

At East Driefontein and West Driefontein costs rose by 5,4% and 5,7%. Pre-tax profit was R344m (R251m) and after-tax profit R124m (R110m).

Doornfontein lifted pre-tax profit by 41% to R24,5m (R17,4m). But after-tax profit was 15% lower at R19,5m (R23m).

Consolidated results

Vlakfontein lifted pre-tax profit by 20% to R1,9m (R1,6m) but profit after-tax was up by only 5% to R870 000 (R827 000).

But Deelkraal, which is not yet liable for mining tax, lifted working profit by 66% to R25m (R15m) and total profit to R27,7m (R18,2m).

Consolidated results for the gold producers in the group were: Working profit R577,3m (R386,3m). Net sundry revenue R45,3m (R49,7m). Tax R344,9m (R185,5m). Net profit R278,81m (R252,3m). Capital expenditure R97,3m (R135,2m).

Markets Round-Up

Argus 13/10/86

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Gold at $433,67

GOLD traded at $433,67 an ounce in London today, up from Friday's $431 London close, reports Reuter.

The rand was quoted at $0,4475 in Johannesburg today, unchanged from Thursday's close

The US dollar firmed against the Japanese yen on the Tokyo foreign exchange market today, closing at 154,78 yen after last Thursday's 154,23.

The dollar sank at the weekend after a West German central banker said his country did not intend to reverse the US currency's downward trend.

It was reported that Claus Koehler, a director of the West German central bank, said the Bundesbank's recent dollar purchases on the open market were aimed at slowing the dollar's decline rather than changing its fundamental direction.

Rand Mines	Tons milled '000	Yield g/t	Cost R/ton	Cost $/oz*	Rev $/oz*	Cost R/kg	profits R/kg	Net after '000	Profits after capex '000	EPS after capex cents
Blyvoor	588	5 73	91,08	199	383	30 552	15 887	19 565	14 487	60
June	589	6,15	84,00	190	357	25 700	14 676	18 402	13 702	57
Harmony	2 141	3,47	75,28	271	375	29 911	21 637	67 758	19 524	73
June	2 076	3,52	68,53	271	363	25 763	19 462	59 729	16 668	62
Durban Deep	602	3,10	79,15	320	377	30 063	25 515	9 782	6 003	258
June	602	3,22	73,47	317	348	25 005	23 682	5 212	2 014	(87)
ERPM	715	3,31	104,41	396	377	30 234	31 592	(336)	(22 392)	(202)
June	664	3,37	98,92	409	355	25 530	29 375	(1 486)	(18 320)	(165)

* Standard Bank average exchange rate $0,4028

14/10/86

Higher rand gold price a boost for Rand Mines

BUSDAY (79)

CHERILYN IRETON

THE sharply higher rand gold price enabled mines in the Rand Mines stable to increase their earnings in the September quarter, despite lower grades and higher costs.

Star performer was again **Harmony Gold Mine** which, after receiving R29 911/kg (R25 763/kg) for gold sales, increased its earnings — after tax and capital expenditure — by 17% to 72c a share (against earnings of 62c a share in the previous quarter).

The Free State gold producer had a 13% increase in costs to R161m as a result of salary and wage increases.

Capital expenditure rose to R48,2m (R43m), taking expenditure for the six months to September to R91,3m. Virtually all of this has been devoted to the new Harmony No 4 shaft complex, where commissioning of the new gold plant started last month.

Blyvooruitzicht (Blyvoor) had a less successful quarter. A fire in the upper western section of the mine disrupted operations in August and caused a 14 000-ton production loss.

Nonetheless, the higher revenue from gold sales helped lift earnings — after tax and capex — to 60c a share (57c). Taxed profit (before capex) rose by R1m to R19m.

The fire also affected tonnage milled, which fell to 588 000 tons (589 000).

Grades dropped from 6,15g/t to 5,73g/t but the directors say the lower yield is in line with forecasts because Blyvoor has been mining increasing quantities of the lower-grade main reef.

During the quarter, unit costs shot up from R84 a ton to R91,08, and a payment of R3,6m was made to Driefontein Consolidated in terms of the existing tribute agreement.

Durban Roodepoort Deep (Durban Deep), aided by a higher gold price of R30 063/kg (R25 005/kg), moved further into the black during the September quarter.

Profits after tax and capex almost tripled to R6m (R2m), giving earnings of 258c a share compared with 86c in the June quarter.

The milling rate was unchanged at 602 000 tons, but a drop in grades from 3,22g/t to 3,10g/t caused gold production to fall to 1 867kg (1 938kg).

Durban Deep's milling results could have been better were it not for an accident with an upcoming skip in the No 6 shaft area in August. The accident caused considerable damage and prevented 32 000tons of ore from being hoisted.

East Rand Proprietary Mines (ERPM) has increased its loss (after tax and capex) to 202c a share compared with a 165c loss in the June quarter.

Higher costs of R74m (R65m) were blamed for the losses.

During the quarter ERPM had a tax reversal of R2,6m, which left losses at R336 000 against the R1,5m loss reported in the June quarter.

ERPM continued its gold-hedging operations, selling 747kg forward for the fourth quarter of this year, at the minimum price of R30 624/kg, and 373kg for the first quarter of next year, at a minimum price of R30 840/kg.

Higher gold price hoists Rand Mines profit by 18%

(79)

14/10/86. STAR

Financial Staff

Boosted by a sharp rise in rand gold prices the four mines in the Rand Mines group raised their total after-tax profits by 18 percent to R96,8 million in the quarter ended September 30.

Harmony was once again the main contributor, accounting for 70 percent of the group's bottom-line profits.

The combined success of the four mines — Harmony, Blyvooruitzicht, ERPM and Durban Roodepoort Deep — was achieved despite costs going up by R35 million, due mainly to wage and salary increases.

Unit costs for the group were 8,6 percent up at R83,30 a ton.

All four mined lower grades but this was slightly offset by a three percent increase in tonnage milled to just over four million tons. This resulted in gold produced remaining almost unchanged at 15 051 kg.

The gold price received was 17,6 percent higher than in the previous quarter at R30 123 a kg and this enabled the group to increase its pre-tax profits by 23 percent to R133 million.

Although capex was up 17 percent, the taxman increased his takings by 36 percent to R36,2 million.

Harmony increased its tonnage milled by three percent to 2 141 000 tons. This more than offset a slight drop in grade from 3,52 g/t to 3,47 g/t and helped to boost gold production by 140 kg to 7 449 kg.

Gold revenue rose by 18 percent from R188,3 million to R222,8 million, while uranium revenue increased by R3,5 million to R11,9 million, giving a total revenue for the quarter of R234,7 million (R196,7 million).

Total costs went up 13 percent from R142,3 million (R68,53/ton) to R161,2 million (R75,28/ton), leaving a working profit of R73,5 million (R54,5 million).

Tax and state's share was just under R10 million, leaving after-tax profits of R67,8 million (R59,7 million).

Capex was R48,2 million and virtually all of it went on the new Harmony 4 Shaft complex, where commissioning of the new gold plant started in September.

Blyvoor lost 14 000 tons of production as a result of a fire in August and tonnage milled dropped to 588 000 tons. Coupled with a drop in grade from 6,15 g/t to 5,73 g/t, gold production was down from 3 622 kg to 3 371 kg.

Pre-tax profits rose from R42,2 million to R48,4 million which, after tax of R28,8 million (R23,8 million), left after-tax profits six percent up at R19,6 million.

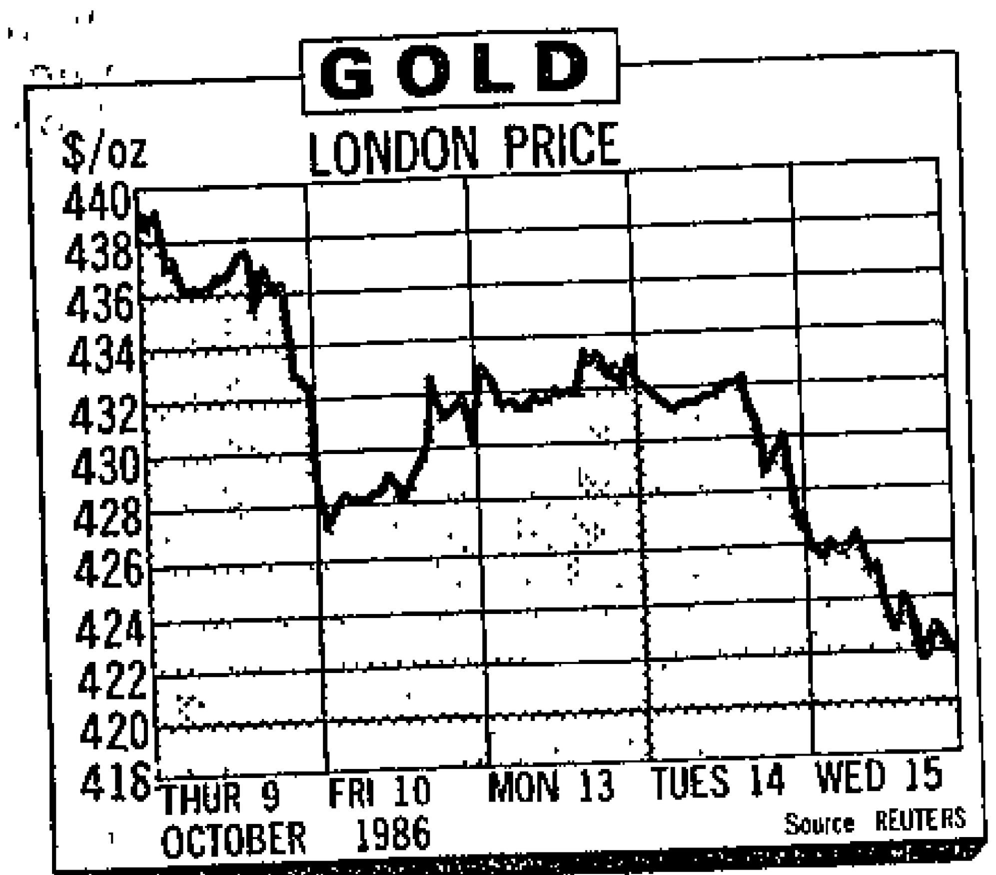
Costs at **Durban Roodepoort** went up from R44,2 million (R73,47/ton) to R47,7 million (R79,15/ton) but a higher gold price of more than R5 000 a kg helped increase its revenue to R56,1 million (R48,5 million). As a result, working profit doubled from R4,2 million to R8,5 million.

With no tax payable, bottom-line profits rose from R5,2 million to R9,8 million.

Because of a sharp rise in costs, **ERPM** posted a loss despite a higher milled tonnage and increased gold production. Even the higher gold price, which rose by R4 700 to R30 234 a kg was insufficient to cover costs, which rose by R9 million to R74,7 million (R104,41/ton).

The mine therefore showed a working loss of R3,2 million against a loss of R8,6 million in the June quarter.

Sundry revenue of R312 000 and a tax reversal of R2,6 million brought the bottom-line loss to R336 000 against a loss of R1,5 million in June.



JSE golds take battering

16/10/86 (79) BUS DAY

LIZ ROUSE

THE JSE gold board was hammered yesterday when small investors took fright at the sharp fall in the gold price.

Better-than-expected growth in US retail sales lifted the dollar and depressed precious metals.

The all-gold index fell 69 points (3,5%) as high-priced stocks declined 2,8% and sensitive marginals recorded losses of up to 10%. Platinums and mining houses softened and the industrial board appeared to have reached a turning point. The overall market index was down 40 points, a drop of 2%.

At yesterday's London afternoon fixing, gold fell to $422 from $428,80 at Tuesday's fixing and $432,60 on Monday. It opened at $422,30 in New York.

Dealers said the price fell largely because of concern over the failure of Opec ministers to reach agreement on oil production levels.

A further decline in the oil price would ease fears of inflation, which helped bolster the gold price over the last three months.

16/10/86 BUS DAY (79)

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Reserve Bank poised to boost gold reserves

GERALD PROSALENDIS
Economics Editor

THE Reserve Bank will soon begin replenishing its gold holdings for the first time since 1981 after increasing its holdings of foreign currency to a record high in rand terms.

The Bank's dollar holdings began rising sharply in July this year from R700m to top R1,5bn at the end of September. The authorities now intend converting surplus dollars into gold by unwinding gold swaps negotiated earlier this year.

These swaps, involving about $300m, were negotiated in February and March to accumulate sufficient dollars to repay an initial $400m on the $13,6bn foreign debt caught inside the standstill net.

"We have in recent weeks been building up foreign exchange reserves at a healthy tempo and now have a surplus of dollars," says Reserve Bank Governor Gerhard de Kock.

"This means we might buy back the gold we sold earlier this year instead of rolling the facility over. We would like to take back some gold and increase the quantity of bullion we are holding."

SA's gold reserves dropped to a low of 3,76m ounces in July this year from 12,35m ounces in September 1981. The country's gold stock was 3,9m ounces at the end of September this year.

The move into gold suggests the Bank distrusts the dollar — it could depreciate further — and believes that gold could hold above $400 for some time.

If sanctions start to bite, it would be to SA's advantage to strengthen its gold holdings. Rhodesia, during UDI, held large gold balances in Switzerland to ensure an uninterrupted flow of trade credits.

This apparent about-turn in policy switches the focus away from repaying debt to replenishing reserves.

The authorities are not unduly concerned about giving priority to repaying foreign debt. SA has already repaid $3bn in 18 months, they argue.

"Banks are receiving interest and some capital redemption on loans held inside the standstill and we do not see any reason to accelerate this," says De Kock.

17/10/86

Goldfields' 29% revenue jump

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By Dave Edwards

THE Goldfields results show an overall increase in gold revenue of 29%.

Other mining-house quarterly results are to be released in the coming week, and these can be expected to echo this clear signal.

Working costs for the group rose by only R16,2-million — a mere 5%. This low figure is largely due to distortions created at June year-end.

It seems likely that this low figure will not be representative of the year as a whole nor will it be representative of the forthcoming quarterlies.

Taxman

In fact, containment of working costs must be a major item on most boardroom agendas this year, and the full round of results should give an idea of the trend.

From the shareholders' perspective the Goldfields results also highlight the fact that the taxman is forever at the door and takes an increasing cut as capital expenditure falls.

In Goldfields' case capex has fallen significantly, close to 40%, a result of the gearing-up of new projects at the start of a financial year resulting in an increase in after-tax profit of only just over 10%.

There's a lesson here somewhere!

On release of the quarterly figures the mine shares showed some immediate adjustment.

KLOOF firmed from 3 775c to 3 900c on its top-of-group performance helped by a ore-yield increase from 13 to 14g/t. After-tax profit, however, increased by only 10%.

VENTERSDORP rose from 4 100c to 4 300c and DOORNFONTEIN — 5 500c to 5 65c — also rose substantially even though after-tax profit at the former mine was stagnant and at the latter mine fell by 19%.

LIBANON, too, went up slightly to 8 000c with a marginal drop in after-tax profits following a fire on the 20 level, and despite an announcement that the area is only now being re-entered. The lowered yield grade will therefore still take some time to correct.

VLAKFONTEIN fell from 880c to 865c on news that more outside dump material was being treated, with a consequent lowering of dump grade from 1,2 to 1,1g/t.

DRIEFONTEIN CONSOLIDATED was also marginally down on news of increased seismic activity in the western section.

Gold shares mostly lower

25/10/86 STAR

79

Gold share prices closed mostly lower on the Johannesburg Stock Exchange in uncertain trading on the sharp decline in the bullion price, but losses were limited due to the lower financial rand, dealers said.

Ranfontein ended R5 down at R425 but Vaal Reefs finished unchanged at R382 after easing earlier, while cheaper issues lost up to a 100c, as in Loraine at R25,50.

Mining financials were mostly easier in sympathy with Anglos down 50c at R65,50 but Cons Gold firmed 50c at R48.

Platinums had Impala Down 50c at R51,50 but off an earlier low of R51,25, while Vansa Vanadium lost 20c at 330c and diamond share De Beers 25c at R36,25. The Krugerrand fell R20 at R1,210.

Industrials closed mostly unchanged. Davgra featured with a gain to 250c after reinstatement. Trading in the share was suspended Thursday after it had risen to 150c ahead of news released yesterday that the company has taken over two subsidiaries of Lougant Holdings.

In London gold producer shares ended the day lower, after a sharp fall in the bullion price. The metal was fixed at $410,50 in the afternoon compared with Thursday's close of $423,25/424,00, dealers said.

Heavyweights lost as much as $4,50 early on but buying at these levels brought most issues off their lows. Randfontein finished $4 down at $80 after reaching a low of $79,50, while Amgold was $3,50 off at $65,50 after $65. In cheaper issues, Kloof was 22c easier at 653 after 643.

Financials were also lower with Anglos 37,5c off at $12,50. De Beers closed 20c down at 697.

In Harare the market closed the week firm. In Industrials substantial turnover was recorded in Delta 20c higher at 460. Hunyani 150 and ZSR at 40 were the only other deals. The mining sector was more active, Rio Tinto featured, trading at 370 also in good turnover. — Sapa-Reuter.

US ban will hit new gold issues

34/10/86 BUS DAY

Economics Reporters

THE US ban on new investment in SA will probably make share issues of new gold mines inaccessible to American investors.

But the sanctions Bill, signed into law on Monday by President Ronald Reagan, should not bar them from existing shares on US markets.

The Office of Foreign Asset Control will clarify the question of investment in SA shares later this week when it publishes its formal interpretation of the sanctions package for public comment.

The issue has been uncertain since Congress voted to override Reagan's veto of the Bill on October 2. Because the wording of the Bill is vague, simply prohibiting any new investment in SA, stockbrokers have been cautious in their dealings in gold shares. Two major US investment banks, Merrill Lynch and E F Hutton, temporarily suspended purchases of SA shares.

Ivor Jones partner Doug Brooking says: "At first, we found ourselves frozen out of dealing with our US counterparts."

And even now, says Ferguson Brothers Hall Stewart partner Paul Ferguson, the practical outcome remains uncertain.

But local brokers say they now have indications the new law will be less severe than originally feared, and will allow investors in New York to trade freely in the over-the-counter American Depository Receipts (ADRs) representing SA shares that already exist.

David Borkum Hare economic consultant Michael Brown says: "It doesn't look like the intention of the Bill was to prevent US investors from holding SA shares." Rather, he and others say, the law is aimed at restricting new capital inflows into SA.

This means investors would not be allowed to take part in any new rights issues, from either new or existing companies.

Brokers remain concerned about the effect of the sanctions Bill because trading in SA gold shares on the New York over-the-counter market typically accounts for the largest part of worldwide volume.

A ban on the purchase of any SA share, including those already issued, could therefore severely depress gold share prices.

"Malbak will be exactly the same as it always has been — a number of portfolio directors will report to Grant Thomas."

It may be thought that Malbak is moving very fast, but Zirker emphasises that "Malbak will never run faster than it can operate, we intend to continue on the growth path." Earnings will obviously continue to benefit from acquisitions. *Pat Kenney*

LIBVEST

Invest in Libvest

Liberty Life chairman Donald Gordon certainly believes in taking advantage of high stock markets to raise funds. First there was the Liberty Life rights issue, then the UK subsidiary had a rights issue in London, and now Libvest, an investment company whose assets are mostly shares in the Liberty group, is to be listed.

There is no doubt of its success. At 200c, the issue price is under net asset value (218c post-issue) and deliberately pitched at a level the average investor can afford. The issue is less likely to attract institutional investors, who can buy Liberty Life directly and probably have substantial holdings already.

The question is how high the price will be bid up. Though the insurance sector has fallen into disfavour, Liberty has a premium rating. With the high prices of some new issues and the charisma Gordon has acquired, some brokers suggest the share could come on at 280c; others think 240c would be more reasonable, admitting that this is not a reasonable market for new issues.

With forecast earnings of 9,3c, earnings yield on 280c would be 3,3%, against 3,2% for Liberty; but, point out analysts, Libvest should be on a higher yield, as much of its investment is in Liberty Life convertible preference shares.

So the premium would be for "Gordon's ability to deal," as one analyst put it. But it is not clear how or what these dealings will be. Says Libvest director Farrell Sher: "Obviously nothing will be done to the detriment of Liberty Life — we will never allow a conflict situation with Liberty. We know the sort of investments we relate to and they might well be companies associated with the group, but we have nothing specific in mind."

Nevertheless, to justify the premium there will have to be some action (what one broker calls "intelligent dealing") with the R74m cash raised by the issue, or the price could fall back to reflect only earnings on present investments.

With Gordon's well-known "intelligent dealing" ability, though, this seems unlikely, even though there are fewer and fewer potential deals in SA of a size that would interest him. *Pat Kenney*

FIN MAIL 24/10/86 79 2

GOLD QUARTERLIES

Taxman moves in

The main feature of the gold mining September quarterly results was the hefty increase in tax provisions. What one executive terms

MARKET TALK

Frasers doing well

While its price rose from 425c last December to 675c at the end of last month, Frasers has been a weak spot of late, and is now down to 600c. Preliminary figures for the year to September show turnover 29% up, pre-tax profit 50% up, and earnings 42% up, at 58,6c a share (41,5c). The tax charge rose 8,2% to 47%, mainly because of higher tax rates in Lesotho.

Good as these figures are, they represent a slowdown in second-half earnings growth and are at the bottom end of analysts' expectations, the most optimistic of which were as high as earnings of 80c.

The interim dividend, declared only a couple of months ago, was raised from 4c to 7c. The company said this was in part to reduce the disparity between the two payments, but it will be disappointing if the final is not at least maintained at the historic 11c. A total of 18c would yield 3%, slightly above average for the stores sector.

Even a total of 20c would be three times covered, and yield 3,3%. If disappointment at these figures pushes the price down further, there could be useful short-term recovery potential. *Michael Coulson*

E W Tarry without GM

General Motors (GM) made no bones about its pull-out being due to trading losses, though with a political rider (see *Business*).

E W Tarry, one of the largest GM dealers through subsidiary Williams Hunt (WH) and a member of the W & A group, could be involved in the management buy-out. Irrespective of this, for shareholders in Tarry and Hunts (an intermediate holding company between Tarry and W & A) there is "not much downside and potentially a lot of upside," according to MD Brian Joffe. GM SA has contracted to supply WH with Opel, Suzuki and Isuzu products for five years, but WH can give 30 days' notice of its intention to find another dealership, if this becomes necessary.

Even in a worst case situation, Joffe points out, Tarry's earnings without a motor dealership would be about the same as last year; WH's assets amount to somewhat under 20% of Tarry's total (less than 5% of Hunts' total). *Pat Kenney*

Rooiberg cuts production

The share price looks shaky after the September quarterly and this week's announcement on production cutbacks. The counter was hovering at 715c at the close on Tuesday following news that the mine is still losing money and, in an attempt to return to profits at a time of depressed tin prices, has cut production 38%.

Over the previous few weeks the share had inexplicably doubled from 400c to 800c before starting to weaken.

Rooiberg is to close down its A mine complex, consisting of the A, B and Vellefontein mines, placing them on a care and maintenance basis while continuing operations at the C mine complex. In 1985, the A mine complex produced 633 t, 37% of total output of 1 703 t tin in concentrate. Rooiberg's sales for 1985 amounted to 1 612 t, of which some 60% was exported.

The company lost R1,1m in the June quarter and a further R618 000 in September. It reduced costs from R16 527 a sales ton in the March quarter to R14 124 in June, but these rose marginally in September to R14 246. Controlling mining house, Gold Fields of SA (GFSA), claims the cut in production and planned further reduction in overhead costs will return Rooiberg to profits at current tin prices.

Sales revenue averaged R13 000/t in the September quarter compared with R11 929/t in June but prices during October have dropped back towards R12 000/t because of the stronger rand. GFSA says a recovery from current prices of about £3 885/t is not expected until world stocks of about 80 000 t are significantly reduced, which could take two-three years. *Brendan Ryan*

Midas shows touch

With its sparkling interim performance, Midas may have dispelled any remaining doubts about the state of the motor spares market, and its pre-eminence in that market. Earnings for the six months to end-August rose 52% to 13,7c (9c), on the back of a 44,4% increase in turnover. For the full year, the group seems set to beat convincingly the 27,9c EPS forecast in the prospectus.

"Our expansion programme has accelerated because of increasing demand," says MD Georg von Loeper, who notes that changes in the structure of the vehicle market have been to Midas' benefit. The second-hand market has grown by almost a third this year; this, combined with the tendency among car owners to delay replacing ageing vehicles, has led to a veritable boom in spares.

"We had planned 80 outlets by February, but already have 82, compared with 53 last February." Budget is for 150 outlets by 1988. The share trades at 385c on a prospective p:e of 12,8, a rating that Midas consultant Eric Levine believes is out of line for a company showing over 50% growth. *Neville Glaser* his major shareholder — the Receiver of Revenue — cleaned up because profit margins soared with the move in the gold price to an average of about R30 000/kg from the previous quarter's R24 000/kg.

Tax provisions were also boosted because September is the first quarter of the new financial year for mines with a June year-end, such as all the Gold Fields of SA (GFSA), Anglovaal and JCI producers.

The first quarter is traditionally slow for capital expenditure outlays as mine managers watch budgets carefully. The implication is that capex on these mines will spurt over the next six months to catch up the lost ground, so some of the hefty tax provisions will be written back.

Among individual mining houses the main shock was provided by Loucas Pouroulis's **Golden Dumps**, which reported a 24% drop in grade at **Consolidated Modderfontein** from 5,27g/t in the June quarter to 4,01g/t. The results also showed an all-round drop in the amount of development work, particularly on the Black Reef at the North-East Prospect (NEP) shaft, the high-grade sweetener that over the past two years has made the mine's fortunes.

According to a Golden Dumps spokesman, grade was lowered purely to take advantage of the higher gold price and will be increased slightly if the gold price remains around R30 000/kg for the current (December) quarter. He says the drop in development at NEP should not have occurred but resulted from emphasis being placed on other development, principally Black Reef at the new No 1 circular shaft.

Some analysts are concerned that Cons Modder is running out of high-grade reserves and, with the operation due to start paying mining tax soon, prospects do not look attractive at such low grades as shown in the September quarter. Cons Modder's NEP Black Reef ore reserves showed an average gold value of 7,2g/t at June 30 compared with 16,6g/t a year previously.

At **South Roodepoort**, grade dropped by 10% to 3,72g/t from 4,14g/t in the June quarter.

At **Anglo American Corporation** the most noticeable aspect was the effect on gold production of industrial relations problems on certain mines.

Because of labour unrest and increased rockbursts underground, **Western Deep Levels (WDL)** expects gold production will only be slightly higher than last year's 37,5 t. Chairman Peter Gush estimated in his annual review that production would rise 10%, which means the mine will lose some 3,75 t expected production, worth more than R100m. That is something WDL can ill afford given its high cost structure, because of the depths at which the bulk of mining is carried out.

Elandsrand was also hit by rockbursts and illegal labour stoppages. Its production is now expected to increase only marginally on 1985 levels, which means some 500 kg of gold production worth R15m will not be earned compared with earlier expectations.

Star performer in the group was the **Simmergo** division of **Ergo**, where the treatment plant seems to have at last overcome the problems which beset operations during the past 18 months. Simmergo pushed up gold production to 521 kg (previous quarter 494 kg) while acid production moved up to 7 439 t (6 738 t), despite drops in plant throughput.

Simmergo more than doubled operating profits to R6,2m (R2,6m) and paid a royalty of R1,9m to **Simmer & Jack**, compared with R258 000 in the June quarter.

Vaal Reefs took advantage of the higher average gold price to lower average grade 2,3% to 7,04g/t from 7,21g/t previously.

SA Land has decided not to instal the proposed pyrite flotation plant, which is now considered uneconomic. This means that instead of capex hitting R4,8m for the financial year to December the company will recoup about R1m.

At **Freegold**, the main point of interest was the promising outcome of initial development on the Basal Reef at Erfdeel, where production is due to start next year. Results of 19,9 g/t gold over a channel width of 75,9 cm gave an encouraging 1 510 centimetre grams a ton (cm g/t). Anglo cautions these results are from a very limited area. area.

In the **Rand Mines** stable, star performer was **Durban Roodepoort Deep**, which pushed distributable earnings to 258c a share (87c). The share price has had a good run because of this marginal producer's gearing to the gold price and also because of its expansion prospects (*FM* August 29). The mine maintained tonnage milled despite an accident in the No 6 shaft which meant 32 000 t ore could not be hoisted.

Blyvooruitzicht lost 14 000 t production because of a fire in the upper Western Section, which has been sealed off.

At **JCI**, **Randfontein Estates** earned the going gold price for the first time in about 18 months now that its foreign exchange hedging programme has ended. It received R30 173/kg compared with R22 462/kg in June, when the average industry gold price was about R24 000.

Western Areas has reduced its exposure on forward gold sales and forward currency dealing to "a portion" of gold production from the previous position, described as a "significant portion" of gold production. The mine had a poor quarter with underground

GOLD EARNINGS

	Year end	•EPS(c) Jun	•EPS(c) Sep	••Accumulated Earnings	(c) +Declared
ANGLO AMERICAN					
Elandsrand	Dec	26,7	39,1	89,6	55
Ergo	March	40,1	52,6	92,7	—
Freegold	Sep	55,0	101,2	319,0	335
Vaal Reefs	Dec	545,2	526,4	1 513,1	900
Western Deep	Dec	130,7	158,6	381,5	255
ANGLOVAAL					
ET Cons	June	42,8	104,9	104,9	—
Hartebeestfontein	June	32,3	42,3	42,3	—
Loraine	Sep	65,8	37,8	203,8	—
GENCOR					
Bracken	Sep	18,4	40,2	108,2	•100
Buffelsfontein	June	219,7	189,6	189,6	—
Grootvlei	Dec	26,1	46,2	106,9	60
Kinross	Sep	66,9	117,8	385,2	380
Leslie	Sep	13,4	16,2	66,1	60
Marievale	Dec	12,7	11,4	32,7	25
St Helena	Dec	78,1	68,7	253,6	160
Stilfontein	Sep	63,7	25,3	128,1	115
Unisel	Sep	45,1	65,2	209,2	190
WR Cons	Dec	22,4	16,7	67,1	40
Winkelhaak	Sep	104,0	158,7	518,1	495
GFSA					
Deelkraal	June	7,9	18,5	18,5	—
Doornfontein	June	29,8	69,4	69,4	—
Drie Cons	June	70,0	94,0	94,0	—
Kloof	June	18,0	36,2	36,2	—
Libanon	June	109,7	129,3	129,3	—
Venterspost	June	67,8	105,6	105,6	—
Vlakfontein	June	13,8	14,5	14,5	—
JCI					
Randfontein	June	239,0	536,2	536,2	—
Western Areas	June	1,9	(31,4)	(31,4)	—
RAND MINES					
Blyvoor	June	57,1	60,4	60,4	—
Durban Deep	Dec	86,6	258,2	339,8	—
ERPM	Dec	(165,2)	(201,9)	(458,4)	—
Harmony	June	62,0	72,6	72,63	115
INDEPENDENT					
Cons Modder	June	19,9	23,7	23,7	—
South Rood	June	60,4	95,7	95,7	—

• = Earnings after tax and capital expenditure. •• = Distributable earnings for the mine's financial year to date. + = Total dividends declared to date.

production problems as tonnage milled dropped to 946 000 t (988 000 t), of which the contribution from surface dumps was unchanged at 21 000 t (22 000 t). Western Areas has also lost its long-running tax dispute with the Receiver and been forced to provide an extra R2,4m tax.

Of the **Gencor** mines, **Beatrix** showed a further increase in yield to 6,5 g/t, building towards analysts' predictions that yield in the early years could run as high as 7 g/t.

Kinross lost about 80 000 t production as a result of the disaster in which 177 miners were killed. This will be reflected in the December quarter because the September quarter showed slightly increased mill throughput of 535 000 t (525 000 t).

St Helena is recovering from the serious rockburst in February and had to take only 15 670 t off low-grade surface dumps (38 012 t).

Buffelsfontein showed further drops in production to 733 000 t (751 000 t) and grade to 7 g/t (8,1 g/t) because of ore reserve problems in the Strathmore shaft.

At **GFSA**, the worrying cost escalations at **Doornfontein** continued, with working costs up 10% to R114,6/t (R104,4/t). Doorns' costs are up 32% on the R86,8/t of the 1985 September quarter — horrifying for a house with a reputation for keeping tight control over costs.

Libanon took a knock in grade to 5 g/t (5,6 g/t) because of a fire in a high-grade Ventersdorp Contact Reef (VCR) area, since re-opened.

Kloof's grade recovered to 14 g/t from 13 g/t as a new high-grade VCR longwall came into production.

In the **Anglovaal** group, **Hartebeestfontein** moved grade up marginally to 9,9 g/t (9,8 g/t) and production to 793 000 t (773 000 t) but profits were beheaded by an 88% jump in tax provision to R107m. Capital expenditure dwindled to R6,5m (R36,3m) in the first quarter of the new financial year.

Moving to the independents, **Rand Leases** will start trial milling in its new metallurgical plant this quarter, while **Sub Nigel** says commissioning of its No 1 shaft is three months ahead of schedule and its reduction plant is on schedule for completion in March next year.

Southgo has pegged another 118 precious metal claims in the Noydedale area which will provide additional reserves.

Egoli's West Witwatersrand Gold Holdings provided R5,5m for the acquisition of mining rights below the 305 m level at certain sections of Randfontein Estates' old Randfontein section as well as full use of the No 16 shaft and its infrastructure.

Waverley's heap leach plant is still battling and could only manage a slight improvement in yield to 0,27 g/t (0,26 g/t).

Brendan Ryan

DATES TO REMEMBER

Last day to register for dividends:
Friday Oct 31: AT Coll 174c; Confed 11c; Farm-Ag 12c; Garcon 8,3c; Garlick 26c; Mobile 46c; NDH 7,5c; Nictus 2,5c; Rentbel 2,5c; SPL 2,8c; Trencor 150c; Umdoni 3c; Wit Coll 280c.

Meetings:
Monday Oct 27: Safren (Cape Town).
Tuesday Oct 28: KWV Bel (Suider-Paarl); MCM (Harare).
Wednesday Oct 29: Nictus (Randburg); Rand Leases (Florida).
Thursday Oct 30: Dundee; Seardel (Cape Town); Tej (Steenberg).
Friday Oct 31: Concor; Ed L Bate (Boksburg North); Mermine (Randburg); Metro; Sasol (Sasolburg); Welfit Oddy (Port Elizabeth).

All meetings are in Johannesburg unless otherwise stated.

GOLD QUARTERLIES

	Gold											Uranium				Profit	
	Produced kg		Cost R/kg	$/oz*†		Revenue R/kg	$/oz†	Milled 000 t*		Recovery g/t*		Milled 000 t*		Recovery kg/t*		Gold R'000	Uranium & other R'000
ANGLO AMERICAN																	
Elandsrand	3 050	(3 084)	12 202	152	(157)	30 128	378	472	(499)	6,5	(6,2)					53 951	3 059
Ergo	2 108	(2 089)				29 325	369	5 391	(5 974)	0,4	(0,4)	5 391	(5 974)	0,07	(0,07)	31 931	
Freegold	26 489	(27 324)	16 888	210	(214)	29 596	372	5 701	(5 594)	4,7	(4,9)					338 838	36 974
Vaal Reefs	20 749	(20 761)	11 391	142	(149)	30 109	378	2 949	(2 881)	7,0	(7,2)	2 346	(2 328)	0,21	(0,21)	379 695	69 531
Western Deep	9 155	(9 203)	12 716	158	(154)	30 140	378	1 461	(1 359)	6,3	(6,8)					160 093	5 787
ANGLOVAAL																	
ET Cons	887,27	(807,39)	10 262	128	(160)	29 648	369	91	(84)	9,7	(9,6)					17 201	767
Hartebeestfontein	7 851,00	(7 560,41)	10 364	129	(139)	30 303	377	793	(773)	9,9	(9,8)	793	(773)	0,15	(0,15)	156 538	8 816
Loraine	2 234,25	(2 267,88)	19 145	238	(239)	30 044	374	398	(398)	5,6	(5,7)					24 352	3 591
GENCOR																	
Bracken	794	(764)	17 955	223	(237)	29 622	365	245	(225)	3,2	(3,4)					9 994	448
Buffelsfontein	5 615	(6 089)	15 902	198	(193)	30 394	377	733	(751)	7,7	(8,1)	733	(751)	0,22	(0,18)	81 532	−6 986
Grootvlei	1 403	(1 367)	19 564	243	(276)	29 873	370	463	(445)	3,0	(3,1)					14 510	267
Kinross	3 218	(3 179)	11 675	145	(157)	29 755	362	535	(525)	6,0	(6,1)					58 778	2 510
Leslie	863	(850)	21 065	262	(280)	29 688	366	358	(350)	2,4	(2,4)					8 083	585
Marievale	241	(253)	25 025	311	(286)	29 009	355	86	(86)	2,8	(2,9)					1 073	60
St Helena	2 212	(2 610)	18 750	233	(222)	29 499	372	543	(580)	4,1	(4,5)					23 864	2 498
Stilfontein	2 018	(2 254)	23 964	298	(276)	28 350	355	426	(426)	4,7	(5,3)	590	(558)	0,11	(0,11)	8 946	−1 708
Unisel	2 384	(2 401)	8 960	112	(118)	30 257	372	348	(348)	6,9	(6,9)					51 820	−48
WR Cons	950	(1 001)	25 786	321	(322)	27 801	344	510	(520)	1,9	(1,9)					1 950	−557
Winkelhaak	3 624	(3 462)	10 306	128	(146)	29 629	364	606	(602)	6,0	(5,8)					71 747	2 471
GFSA																	
Deelkraal	1 850,1	(1 912,5)	15 694	195	(213)	29 282	364	375	(375)	4,9	(5,1)					25 230	2 436
Doornfontein	2 086,2	(2 195,2)	20 100	250	(244)	30 542	380	366	(366)	5,7	(6,0)					21 890	2 598
Drie Cons	15 184,5	(14 686,0)	9 070	113	(124)	30 003	373	1 425	(1 425)	10,7	(10,4)	239	(223)	0,09	(0,10)	317 850	4 404
Kloof	7 560,0	(7 023,0)	7 684	96	(115)	30 053	373	540	(540)	14,0	(13,0)					169 467	9 763
Libanon	2 189,5	(2 435,6)	16 549	206	(192)	29 706	370	435	(435)	5,0	(5,6)					28 915	3 410
Venterspost	1 545,7	(1 442,7)	21 711	270	(305)	29 820	371	390	(390)	4,0	(3,7)					12 623	1 538
Vlakfontein	225,6	(255,6)	16 254	202	(178)	30 542	380	210	(210)	1,1	(1,2)					1 329	599
JCI																	
Randfontein	6 624	(7 005)	13 624	170	(167)	30 173	375	1 656	(1 592)	4,0	(4,4)	795	(822)	0,17	(0,18)	109 786	11 248
Western Areas	3 784	(4 150)	23 899	297	(298)	26 780	333	946	(988)	4,0	(4,2)	174	(182)	0,39	(0,37)	11 701	6 782
RAND MINES																	
Blyvoor	3 370,9	(3 622,0)	15 888	198	(191)	30 552	380	588	(589)	5,7	(6,2)					49 433	−1 042
Durban Deep	1 867,5	(1 938,4)	25 516	317	(319)	30 063	374	602	(602)	3,1	(3,2)					8 492	1 290
ERPM	2 363,1	(2 235,7)	31 591	393	(411)	30 234	376	715	(664)	3,3	(3,4)					−3 205	312
Harmony	7 449	(7 309)				29 911	372	2 141	(2 076)	3,5	(3,5)	1 194	(1 377)	0,06	(0,07)	77 721	
INDEPENDENT																	
Cons Modder	617,1	(802,5)	14 614	179	(150)	30 947	379	154	(152)	4,0	(5,3)					10 077	498
South Rood	305,0	(347,7)	18 174	229	(228)	30 659	386	82	(84)	3,7	(4,1)					3 808	570

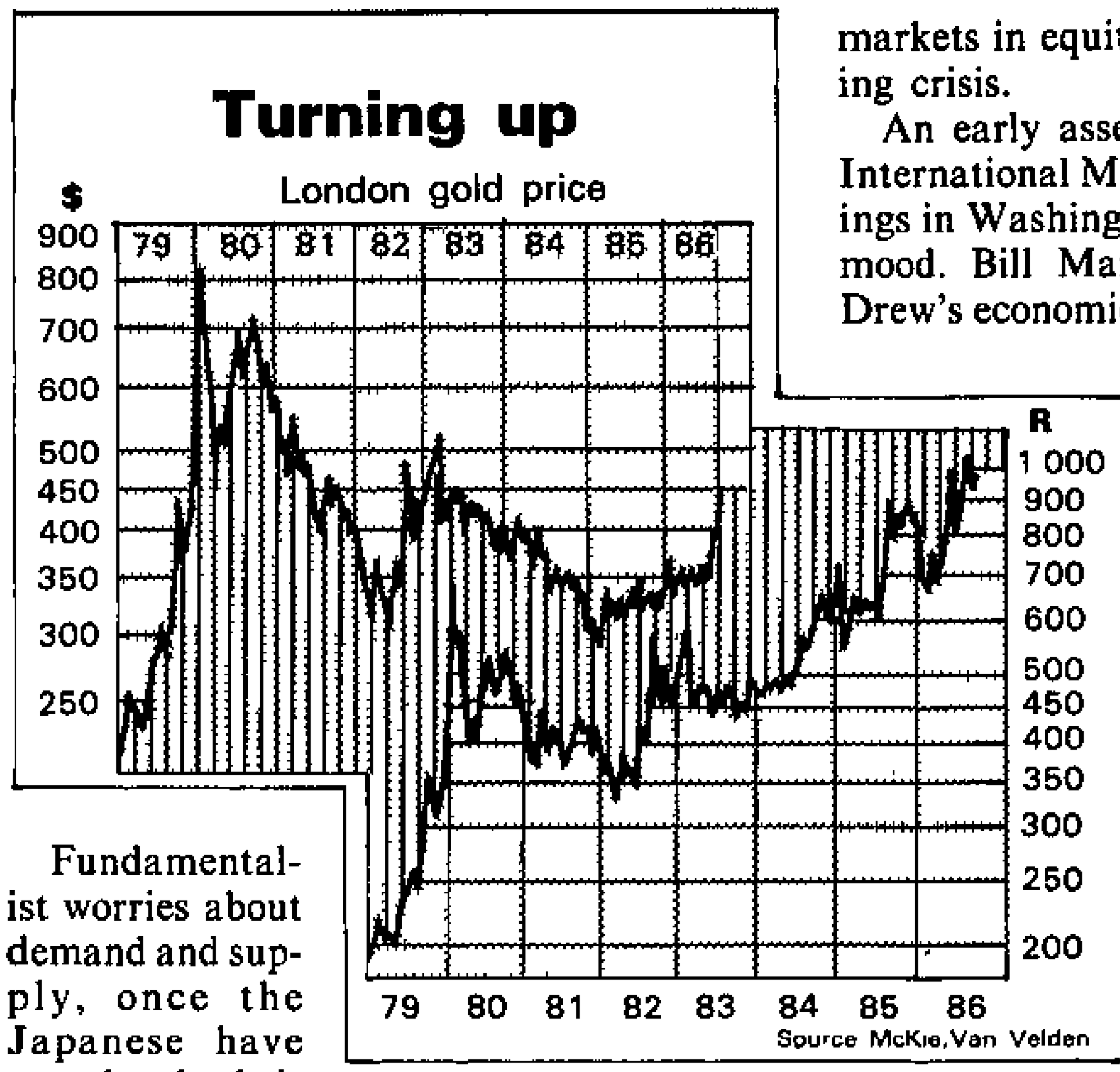
* Figures in parentheses refer to previous quarter † Calculated at R1=$0,40 when dollar figure not given by mine
§ Deliveries to Joint Metallurgical Scheme.

considerable, the absolute amounts do not yet amount to a flood: as much as 12 t of small bars in August against a few kilograms a month earlier, chiefly from the Far East.

And cash offers equivalent to $414/oz for 22 carat jewellery in London's Hatton Garden have not attracted queues of sellers. In addition, the Krugerrand quoted at $434-$437 in London (against gold at $436-$437,50 and the Maple Leaf at $444-$447) is another close contender for recycling.

The tightness of supply is far from clear. No Soviet selling has been reported since July, by which time it was estimated that the Soviet Union had already disposed of 250 t, more than during the whole of last year. Nor can it be confirmed that SA has adopted a policy of letting the market come to it, rather than offering gold on a steady basis at the fixings in London and Zurich (*FM* September 26).

Even so, most fundamentalists, such as George Milling Stanley of Consolidated Gold Fields, see little supply-demand argument to support the rise. Exceptions include Rhona O'Connell at stockbroker James Capel, who believes that with increasing central bank diversification of reserves out of dollars, there will be a net deficit this year of 50 t-90 t after taking into account East bloc sales and secondary supplies. O'Connell also believes that by behaving more staidly than platinum in both the up and down swings, gold has "confirmed its credibility" as an investment.



Fundamentalist worries about demand and supply, once the Japanese have completed their coin programme, tend to be swamped by the uncertainty hedge argument. Its advocates outnumbered the more cautious voices by 3:1 in a *FM* telephone poll of London opinion last week.

The points made have become a familiar litany in the market for some months: the dollar; a resurgence of inflation once the oil price stops falling and money supply keeps rising in an attempt to boost growth in the main Western economies; tired-looking bull markets in equities; and the potential banking crisis.

An early assessment of the mood at the International Monetary Fund (IMF) gatherings in Washington this week underlined the mood. Bill Martin, of brokers Phillips & Drew's economics unit, reported that the US Federal Reserve's concerns about growth "dominate its worries about inflation."

Bond markets were right to conclude that in the long term "inflation in the US has not been licked." And the Fed, Martin said, would probably "accommodate inflation up to 4% in 1987" — almost double the current rate. As for talk about help from the rest of the world to stimulate growth, turn the US trade deficit and stabilise the dollar, Martin said policy co-ordination talks are "regarded as an elaborate charade."

Against this background, chartists in London have few doubts about the trend. Short-term targets of $450 and $500 after a period of consolidation in the $430-$440 range are commonplace. And Brian Marber, of Marber Associates, says the recent rise has "the same drive as the bull markets of 1970-1974 and 1976-1980." ■

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GOLD SHARES

When the bad times are good

Those investors who climbed into gold shares at mid-year, when sentiment in business and investment circles was at an exceptionally low ebb, have been richly rewarded. In one of the fastest bull markets seen on the JSE gold board in many years, the All Gold index soared by 73% from 1 188 on June 16 to a peak of 2 061 on September 19.

In the inevitable correction, the index has since weakened to close at 1 843 on Monday, a decline of nearly 12% — but that still leaves the index up by 55%. Reasons for the surge are not difficult to find. When the rand started sliding against the dollar in the second quarter of the year, that pushed the rand price of gold upwards. Both the rand price and investor sentiment were boosted further when the bullion price suddenly moved off its perch around US$340-$350 in early August. Bullion's breaks through $380/oz, $400/oz and then $420/oz kept the bulls in full cry.

Profit margins on gold mines have leapt. This is underlined by the accompanying table which lists breakeven points in costs in rand/oz of gold produced for the June quarter. Average breakeven for the industry was only R422/oz, and few were above R600/oz.

Views on gold's upward progress hinge on the important level of $400/oz. A drop below this could trigger a selling spree and bring the bull run to an end. But fears of rising US inflation and acceptance of a low-level if endemically poor South African political climate could mean that the game is still worth the candle.

McKie van Velden's Boshoff . . . correction ahead?

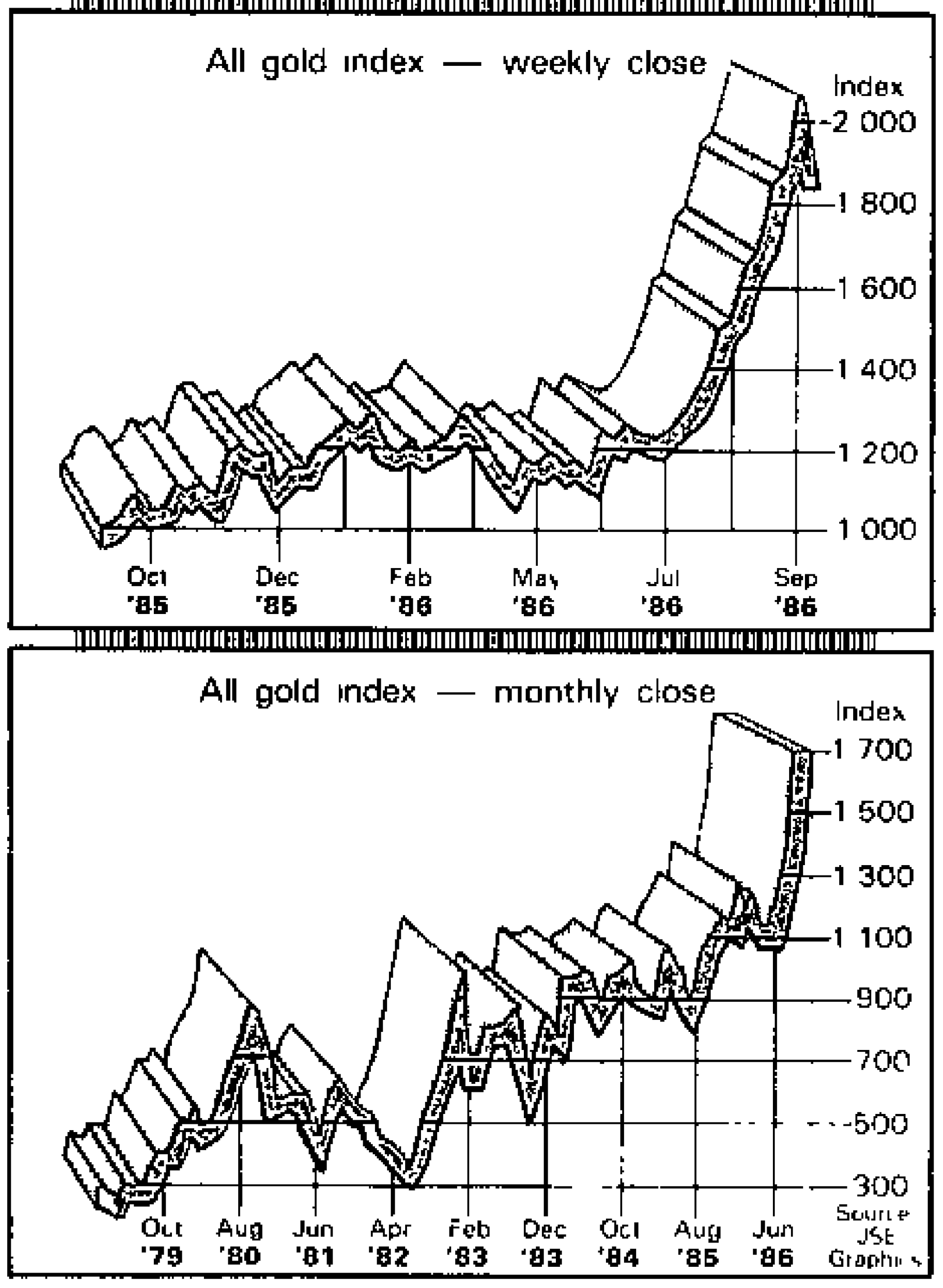
Monday's gold price of $429/oz translates into a rand price of aboutR950/oz at the rate of US45c, which compares with the average price received in the June quarter of R757/oz.

Distributable earnings from which dividends are paid are calculated after taxation and capital expenditure, both of which are likely to increase on these gold prices. On many mines, though, prospective profits and dividends will both soar if the rand price remains above R900/oz, rising in some cases by a much greater rate than the 25% increase in the profit margin. This will apply particularly to those mines which have avoided hedging contracts and will therefore receive the full benefit of the price increase.

Three main factors will probably determine where the share prices will go from here: the trend in the dollar gold price; the rand/dollar exchange rate; and the actions of overseas investors. While profit-taking may well extend further during the present correction phase, analysts are not expecting much selling by local institutions unless the gold price collapses again.

As was shown at the recent Gold 100 conference in Johannesburg, there is no shortage of bullish views on bullion; nor is there any great bearishness among Johannesburg brokers on the shares (is there ever?). But some of the ardour has cooled.

Steep climb



since January 1981, then \$23 billion could be looking for a "safe home."

At W Greenwell, analyst Peter Davidson said that while the surge in demand for shares came from SA and European holders sold into the rise "a lot of people are now coming back, although interest is limited."

John Ferryhaugh, at Alexander, Laing and Cruickshank, said: "Even after the jump, a share like Vaal Reefs is still offering a prospective earnings yield of 14%. The Germans, Swiss and French are interested again and the Japanese, who funded 30% of the US budget deficit and have taken a hammering on treasury bonds, are switching some money into gold. There is a feeling that while the unrest in SA will plod along, the shares are still a reasonable investment with the financial rand discount remaining close to 50%."

A lot now hinges on what happens to the US gold funds. Money is starting to come in — but not to any great extent, according to John van Eck, president of International Investors Incorporated (III) in New York. He told the *FM* that while the \$900m III fund, which is 47% invested in South African shares, had seen its net worth per share rise 48% since mid-July, August sales of \$12m compared with repurchases of \$15m.

By contrast, its gold resources fund (which holds no South African shares) was enjoying a net inflow in spite of a more modest 28% increase in net worth. "We haven't seen too much so far but the big institutions are starting to look at gold and a few smart people are diversifying their risk by investing in gold. Next year US inflation could be 3%-4% and what about 1988-1989? And the uncertainties about the banks are still with us."

James Capel's Baring ... big money looking for a 'safe home'

Bullion has been consolidating above \$420/oz, offering encouragement to those who hold the shares; but this is the indicator that now needs to be watched closely. An unexpected fall could well temper these views — and quickly too.

Andrew McNulty and John Cavill

IMF AND WORLD BANK MEETINGS

Crisis and paralysis

The *FM*'s Washington correspondent, Jim Srodes, reports on the issues crystallising at the latest International Monetary Fund and World Bank meetings in the US.

The annual joint meetings of the World Bank and International Monetary Fund (IMF) are part medieval trade fair, part debating society, and part shopping-spree for the 5 000 finance ministers, central bankers and commercial bank loan officers who crowd the Shoreham-Sheraton hotel complex in Washington DC.

It would be hard in the best of times for a single dramatic solution to the problems of the economic free world to emerge during the week of debates, cocktail parties and impromptu hallway conferences.

Therefore it does not sound like particularly urgent news that the latest annual World Bank and IMF meeting was notable for the paralysis which gripped it, impeding any real decisions being taken on genuine crisis issues.

The trouble is that this year's annual meeting in Washington was the most crisis-threatened session since the Mexican government sprang its first bank loan default on an unsuspecting Bank-Fund meeting in Toronto in 1982.

Well, the Mexicans are back again; this time with a total debt burden swollen to US\$97 billion (against the \$70 billion overhang of four years ago) and the De la Madrid government is demanding \$12 billion more from the World Bank, the IMF and the commercial banks.

Worse, the industrial countries themselves are in trouble. Interest rates are being kept too high by all the industrial nations, trade is drying up for rich and poor nations alike and a cloud of stagnation and despair hangs over the world economy.

Still worse, there is no disagreement over remedies, no hopeless search for what to do. No one, for example, talks about the IMF's old schemes to diminish gold's role in foreign exchange markets — neither are those who talk about gold's re-enthronement taken very seriously.

No, everyone agrees that interest rates must be cut and that the US must move to reduce its horrifying trade deficit, and take some credible steps toward shaving back its equally horrifying budget deficits. Everyone agrees that everyone else must act. But no one acts. And there it stands.

Nowhere is the impasse at the World Bank-IMF conclaves in starker relief than in the meetings that went on all week at the US Treasury. There the Group of Five (G5) — the richest governments in the world — installed the finance ministers of the US, Britain, France, Germany, Japan (the G5) as well as Canada and Italy, in an effort to reach some common cause that would restore world confidence.

There are two points worth noting about the deadlock that gripped the G5 finance ministers and kept them from doing more than issuing a summary of each others' positions, much less agreeing on a common strat-

Gold caught in tug-of-war

BUSDAY 3/10/89

(79)

LIZ ROUSE

GOLD was subject to a tug-of-war last week between a stronger dollar, which was a significant bearish factor, and expectations that oil prices would rise, a bullish factor.

Gold sales by the Soviet Union through Zurich could also have contributed to gold dipping below the psychogically important level of $400 for the first time in two months.

Most analysts saw the short-term outlook as bearish, as the price hinged on the stronger dollar. But it is not certain if the dollar would maintain its strength.

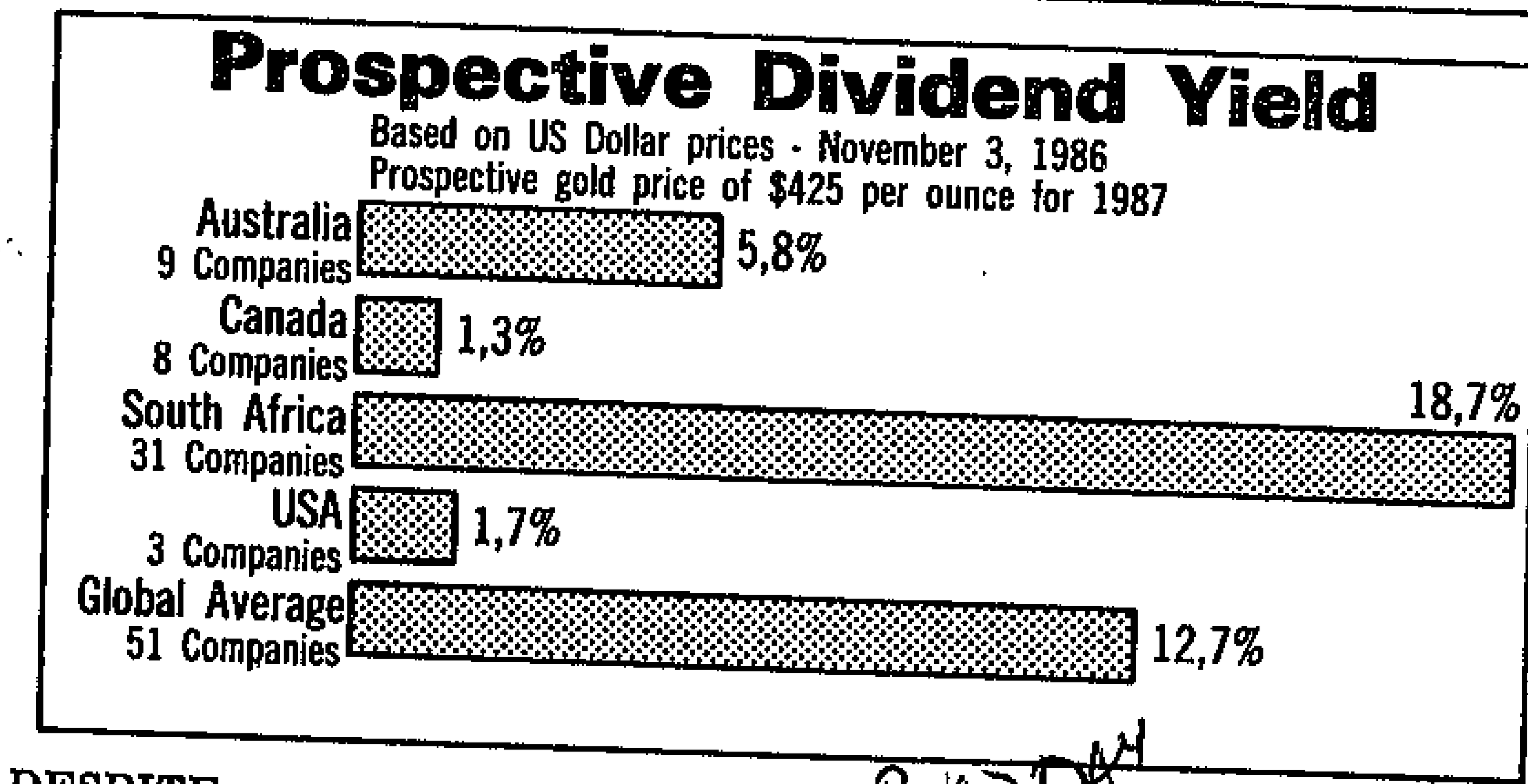
An encouraging factor was that gold moved above the critical mark so quickly on Friday, although part of the recovery could be attributed to short-covering.

Johannesburg analysts had expected the metal to decline rapidly to about $385 after breaching the $400 level.

The final quote was $400,50/$401,00 in London on Friday. Gold was fixed at $401,50 in the morning and $401,00 in the afternoon.

The European quoted low, shortly after the morning fixing session, was $397,50.

However, gold recovered to $407,50/$408,40 in New York and traded at $405,90/$406,40 in Hong Kong.



BUS DAY 7a 14/11/86

Gold set for a lustrous future

CHERILYN IRETON

DESPITE scary, short-term fluctuations, the gold price should average more than $420 in 1987, says international gold analyst Warren Myers.

Myers, vice-president of international research at Merrill Lynch, told delegates at the conference yesterday that the world was in a bull market in gold and gold shares.

With these conditions, gold shares would do well in the short-term — depending on the local gold price.

"In a very weak currency, such as the rand, the local gold price has all the trappings of a classic bull market," said Myers.

"In the September quarter, the SA gold mines were in aggregate, more prosperous than during any previous quarter, and that includes the March 1980 quarter when the price of gold hit $850 an ounce and averaged around $630 an ounce for the three-month period."

But for SA to continue to capitalise on the weaker rand, a higher gold price was needed. This would help alleviate some of the political problems facing SA, Myers added.

On a global scale, Myers said many international fund managers were shunning South African shares and diverting funds to Australian, Canadian and US gold mine shares.

"I cannot agree with those who excise SA mines from their share portfolio as SA still produces some 56% of newly mined Western gold and is likely to remain a dominant producer for the remainder of this century at least."

Between the end of July and mid-September 1986, the JSE all gold index climbed by 76% (in US dollar terms).

"This is the stuff of gold share bull markets. A 76% increase in value in less than three months should be enough incentive to retain some balance on this issue," added Myers.

Eight SA gold mines featured in Myer's assessment of the world's 16 top gold mines. They were Western Deep, Southvaal, Kloof, Libanon, Vaal Reefs, Deelkraal, Elandsrand and Loraine.

Active Russian

SELLING TRIMS GOLD

W/t ARGUS 1/11/86 79

By NEIL BEHRMANN

LONDON. — Gold prices hovered around the $400 mark this week because of aggressive Russian sales, London and Swiss bullion dealers say.

The market was also nervous because better-than-expected trade figures boosted the dollar and alternative investment havens such as the stock and bond markets.

The Russians were so active that they had open telex lines to the bullion dealers asking for bids.

Mr Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner and Smith in London, said: "This was very confusing.

"Normally the Russians are shrewd operators and sell secretly and in strong markets."

Clear stocks

Dealers could not disclose volumes because the Soviet Union sells in several centres, including New York and Hong Kong.

But in October and November last year they were also selling actively, so dealers believe that economic committees have decided to clear metals stocks, including gold, before the year-end.

The Bank For International Settlements estimates that communist bloc countries, mainly Russia, sold 250 tons last year, 100 tons more than than in 1984. Sales estimates for 1986 range between 200 and 250 tons.

The Russians were on a gold selling spree earlier this year. Analysts estimated that in the first two months alone 50 to 60 tons were sold.

Japan's imports

But until the past week, the Russians have been discreet, say Swiss and London bullion sources. They bought gold at times and helped the price surge through $400 a few months ago.

"While they were buying in one centre, they could have sold in another," said a Swiss dealer.

Japanese gold dealers estimate that Japan's gold imports from the Soviet Union could total around 25 to 30 tons this year, according to current customs statistics.

Swiss dealers say the Russians began selling when they offloaded some gold when the price was trading between $430 and $440 in September. But the selling accelerated ahead of the dismissal of Saudi Arabia's minister of oil, Sheikh Ahmed Zaki Yamani.

Some dealers believe the Russians knew about the impending change because they are significant exporters of oil. A decline in oil prices would dampen Soviet export revenues and have a negative impact on gold prices.

Metals and Minerals Research Services estimates that communist bloc gold sales could reach 300 tons this year. But the consulting firm says the supply estimate will include sales of 100 tons by China.

Most of China's gold sold in the middle of the year went to Japan, which imported 491 tons in the first nine months of this year, against 197 tons in the whole of 1985.

FIN MAIL 21/11/80

FOREIGN EXCHANGE

79

Down with gold

88

With the gold price slumping under $400/oz (largely because of platinum's fall below $500) the rand has been unable to stay above US45c, the level it reached on Friday. When the *FM* went to press on Tuesday it was around US44,7c.

Citibank says the short-term implications of a lower gold price are "difficult to assess since corporate interest has been very low." Should demand for dollars re-emerge it will be up to the Reserve Bank to decide whether to defend any particular level. "Given the current scenario we anticipate that US45c will be the top and a good level to buy dollars, whilst US44c might be easily defended."

Mild elation

The falling gold price interrupted a relatively good week in the market. Standard Bank talks about "a mild element of elation" pervading the market as the rand breached US45c, aided by a weakening dollar and, at that time, a steady gold bullion price.

Volkskas believes the rand is "holding up relatively well against the sharp retreat in the gold price."

The rand did not depreciate as much against other currencies. On Friday, before the fall, it was DM90,75 and 72,7 Yen (£1 was R3,16). By Tuesday it was down to DM89,63 and Y72,37 (£1 was R3,20).

Barclays says the Bank "was largely subdued," but picked up (as a proportion of total volume) from Friday to support the currency against a falling gold bullion price.

Assuming a gold price of $400, Standard calculates that, over and above so-called "rand support," the Bank should make some $160m available each week to cater for debt servicing, other invisible payments and importers' needs. One should thus distinguish between "supporting" the rand — using gold and forex reserves to bolster the currency — and injecting the sales proceeds of bullion: "Only the former can theoretically be defined as official support."

Standard says that though short-term gold may continue to ease, downward pressures on the rand will probably be counteracted by Bank intervention. Says Barclays: "The Bank is likely to maintain its presence, but it is not expected that this will ward off pressures on the rand altogether."

Standard feels that importers with longer-term commitments would not be exposed to undue risk by staying out of the forward market at current levels (US44,6c) but could consider short-term cover. "Exporters could consider staying out of the forward market." ■

5. WAGES

5.69 AVERAGE MONTHLY EARNINGS IN CONSTANT (1980) RANDS - MANUFACTURING LEATHER : 1960 - 1985

YEAR	TOTAL	AFRICAN	ASIAN	COLOURED	WHITE
1960	221.75	141.82	240.91	188.55	581.31
1961	230.96	148.21	180.07	210.57	591.75
1962	231.40	154.67	188.60	199.75	617.44
1963	238.12	156.77	231.77	202.95	647.33
1964	244.47	152.61	192.44	238.17	609.02
1965	232.65	150.62	525.59	211.86	534.54
1966	225.58	156.53	302.30	198.64	538.71
1967	225.61	155.49	195.12	207.32	548.78
1968	237.24	156.16	273.27	210.21	618.62
1969	236.15	151.60	224.49	212.83	638.48
1970	241.00	155.12	221.61	213.30	722.99
1971	248.04	161.88	195.82	211.49	785.90
1972	242.65	154.41	232.84	196.08	818.63
1973	246.09	154.36	239.37	212.53	812.08
1974	244.49	164.33	214.43	210.42	765.53
1975	243.82	166.08	266.78	206.71	787.99
1976	248.36	167.42	250.59	200.05	832.42
1977	263.09	174.61	254.43	212.60	841.07
1978	250.58	171.49	240.37	209.54	752.58
1979	242.56	176.58	194.41	202.12	808.91
1980	235.88	170.40	218.93	192.50	833.75
1981	229.24	160.10	231.84	191.94	832.25
1982	237.68	170.14	202.92	214.52	796.67
1983	244.02	174.27	215.99	216.58	868.07
1984	243.75	171.06	210.51	213.76	882.05
1985	230.87	152.75	215.62	210.33	839.27

SOURCE : CSS, S.A.Statistics.

5. WAGES

5.70 AVERAGE MONTHLY EARNINGS IN CONSTANT (1980) RANDS - MANUFACTURING FOOTWEAR : 1960 - 1985

YEAR	TOTAL	AFRICAN	ASIAN	COLOURED	WHITE
1960[1]	..	..	..	..	..
1961[1]	..	..	..	..	..
1962[1]	..	..	..	..	..
1963[1]	..	..	..	..	..
1964	262.88	171.22	234.75	225.66	509.80
1965	219.71	147.78	166.76	198.50	479.38
1966	243.28	159.46	199.46	211.36	541.45
1967	240.85	152.44	201.22	213.41	560.98
1968	261.26	174.17	231.23	207.21	633.63
1969	241.98	160.35	209.91	198.25	594.75
1970	252.08	166.20	224.38	196.68	670.36
1971	263.71	180.16	232.38	214.10	731.07
1972	259.80	164.22	227.94	210.78	754.90
1973	252.80	172.26	232.66	212.53	823.27
1974	254.51	166.33	240.48	220.44	829.66
1975	265.02	180.21	250.88	219.08	848.06
1976	265.14	172.59	247.55	222.26	847.01
1977	274.36	187.93	250.80	234.04	757.59
1978	266.21	199.01	247.51	229.82	715.62
1979	256.94	212.41	242.10	219.54	686.88
1980	261.65	207.54	257.00	223.04	730.73
1981	252.86	189.18	253.31	216.53	810.28
1982	255.88	186.26	256.45	222.54	826.04
1983	268.36	207.30	260.05	234.42	944.05
1984	268.01	208.05	263.22	236.44	869.43
1985	253.92	205.74	254.95	219.99	752.95

1 figures for these years included in Clothing.

SOURCE : CSS, S.A.Statistics.

Gold, platinum prices plummet

17/11/86 BUS DAY (79)

LIZ ROUSE and REUTER

GOLD has slipped below the $400 mark as precious metals slump on world markets.

The New York gold price fell to $396,75/$397,75, finishing at about $398,80, down from the London Friday afternoon fix of $408,25. The metal closed in Hong Kong on Saturday around $398.

And platinum futures plunged the daily limit of $25 on Friday as speculators continued to sell contracts in a fast-moving market at the New York Mercantile Exchange.

The New York platinum price plummeted to $502,30, down $30,70 on the London Friday afternoon fix. Platinum for delivery in January ended at $509,90, falling $53 in the week to three-month lows. The decline has been attributed to speculators unloading stocks on rumours of SA restricting supplies.

As far as gold is concerned, a fall through the resistance point of $403 is considered by some analysts to be the crucial mark for a potential decline to $385.

The metals' decline mean that Diagonal Street — which coped in a professional manner last week with a huge US sell-off of gold and other mining shares to transmit funds ahead of the US Congress deadline for new investment — faces another uncertain week.

Good local absorption of non-residents' stocks and a decline on the financial rand to about $22,50, which dried up foreign selling, stabilised the JSE all-gold index at 1 898 on Friday after last week's low of 1 831.

However, a lower finrand (which

● To Page 2

Gold plunges below $400 mark

(79) BUS DAY 17/11/86

● From Page 1

cushions declines in mining shares) and short-covering by precious metals operators might brighten the picture today.

New York traders said weakness in the gold market spilled into platinum amid an absence of the type of supportive news concerning SA that fuelled a speculative buying binge last summer.

Brokers push fresh theory on gold price

ADAM PAYNE 26/11/86

AT A time when many analysts doubt the strength of the gold price, London stockbrokers James Capel have advanced a fresh theory as to why the outlook for the price is encouraging.

They base their argument on the SA Reserve Bank's recently-announced policy of withholding from the market a part of newly-mined production, and of unravelling gold/currency swaps.

In mid-October, Reserve Bank Governor Gerhard de Kock said SA might start to increase its gold reserves. However, moves had apparently already started.

In August, the gold reserves rose by 140 000 ounces, or 4,4 tons, with a further 110 000 ounces, or 3,4t added in September — in other words a little under 47t annualised.

Capel says: "We doubt that these increases, individually relatively small by SA standards, represent reversed swaps.

"SA's daily production on a 260-day year is in the region of 2,6t. The swap amounts were significantly larger.

"The increases in August and September, therefore, represented gold purchased from the mines as usual, but not onsold to the international market."

This could have been part of the reason for the strength of the gold price, which rose to $435/oz on September 22 from $360 at the beginning of August.

Sanctions benefiting Swaziland

MBABANE — Swazi Commerce, Industry and Tourism Minister Derek von Wissel says economic sanctions against SA are benefiting Swaziland's investment climate.

Von Wissel told a productivity workshop at the Royal Swazi Sun convention centre that many investors pulling out of SA were now coming to Swaziland.

This was because of the country's "excellent tax and other incentives", as well as its record of political stability, harmonious labour relations and its available workforce.

Another factor that drew investors to Swaziland was that English was one of the two official languages, which was vitally important to the business and commercial world.

Gold will have to wait for platinum to settle down

29/11/86. SMC 79

By Neil Behrmann

LONDON — The slump in the gold price to below $380 retraces a large proportion of the gains seen since late July this year.

Dealers said there was a major slide in New York because gold penetrated "critical chart points".

As gold slid, "stop-loss orders" came into force as speculators and commodity funds bailed out of the market.

The market was particularly nervous as delivery dates on futures contracts fell due.

Dealers believe the gold market will settle only when the illiquid and volatile platinum market calms down.

In only eight trading days platinum prices slumped $110 to $484 an ounce.

The pressure on platinum knocked gold and also silver, which fell from $5,80 an ounce to $5,21 in the same timespan.

From their peak in September platinum has dropped 33 percent, gold 14 percent and silver by 13 percent.

Platinum slumped because speculators realised that South African production had increased during the past six months.

Speculators had mainly bought platinum and to a lesser extent gold because they believed that violence, sporadic strikes on the mines and the threat of sanctions would disrupt supplies from South Africa. Instead the mines sold more metal at higher prices.

Nervous market

A Swiss banker expected gold to consolidate in the $370 to $380 range once the speculative panic was out of the way.

The nervous gold market is a reflection of world financial markets which are swaying between fears of deflation and worries about inflation.

"The US economy remains balanced on the razor's edge between a debt deflationary decline and an inflationary run," says Mr Arnold Moskowitz of Dean Witter Reynolds.

"The US economy entered the decade of the 1980s with excessive debt levels and it will take years to unwind these problems,"he says.

"The risk is that these debt problems may get out of hand and cause massive bankruptcies.

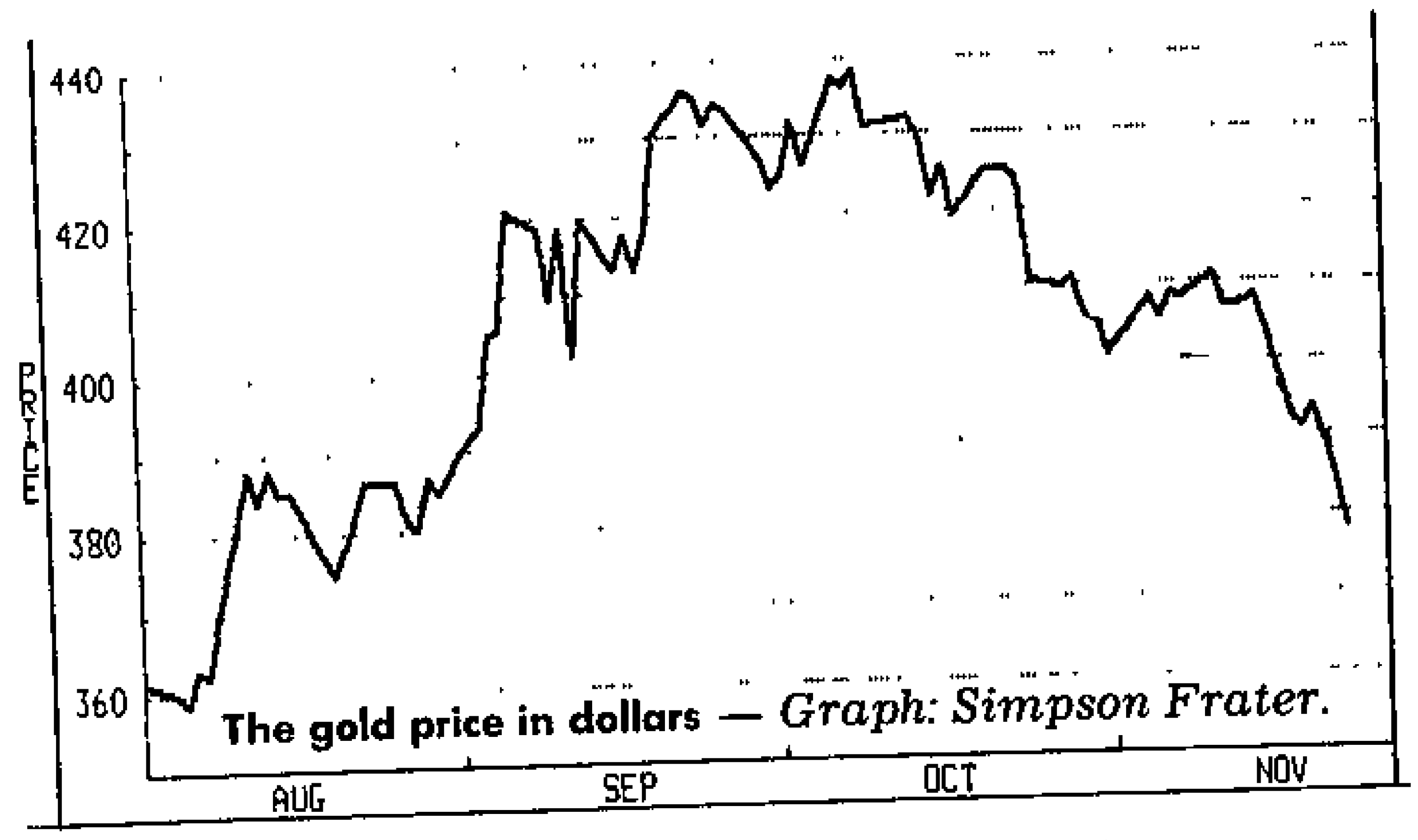
"The overall debt problem is heightened because more financial institutions are threatened with insolvency."

If the debt problem is contained and liquidated in an orderly manner, then this period of debt deflation favours the financial markets, says Mr Moskowitz.

Sufficient pessimists in the United States and elswhere, say Swiss bankers will continue to buy gold as insurance against the worst scenario. With US banks failing at the rate of one a day, say Swiss bankers, funds will find their way into the gold bolt hole.

Meanwhile the latest Organisation For Co-operation and Development statistics shows that in the 12 months to August there was deflation in Japan and West Germany, Netherlands and Luxembourg.

Inflation in the United States was only 1,6 percent, France 2 percent and the United Kingdom 2 percent.



The gold price in dollars — *Graph: Simpson Frater.*

Bullion analysts are forecasting the gold price will continue to fall this week, especially as it has breached the important $380 level.

They do not see a rally until the price hits lower levels and suggest this could be some time off.

The gold price opened at $379,45 in Hong Kong this morning, slightly up on Saturday's close of $379,11.

The slight increase is an indication that bullion might stabilise during the day's trading.

CMT 70-13 28/11/86 (74)

Gold price boosts Anglo dividend by 25%

Own Correspondent

JOHANNESBURG. — An improved gold price has contributed to a 25% interim dividend increase for Anglo American Corporation (Anglo).

The R21bn mining house has lifted its interim dividend to 62,5c (50c previous year) from earnings of 176c a share (140c) in the six months to September.

Chairman Gavin Relly expects the results for the year end to show a similar improvement.

At the halfway stage, equity accounted earnings — which include a portion of the retained profits of associated companies — had risen by 27% to R579m or 254c a share.

Anglo's net worth at the end of September was 9 369c a share, almost double its value of 5 469c calculated the at the previous half year. Yesterday the share was trading at 6 750c.

The increase in profits was chiefly due to the higher gold price, which boosted investment income to R400m (R304m). Increased dividends from De Beers, its platinum and ferroalloy interests also contributed to the satisfactory growth.

The higher gold mine dividends reflect a 22% in the rand gold price in the first six months of 1986, during which period it averaged about R758 an ounce (R622). The rand gold price was boosted by the continuing weakness of the rand in relation to the dollar and the 11% increase in the dollar price to $343 an ounce ($310).

Trading income rose 5% to R235m due to an increased contribution from Amcoal. Other net income shot up from R6m to R43m.

Taxation, which rose to R182m (R140), wiped out much of the benefit from the higher profits.

Dollar nosedive gives gold a lift

BUSDAY .79

2/12/86

GERALD PROSALENDIS
Economics Editor

THE growing political imbroglio over US arms shipments to Iran yesterday pushed the dollar to its lowest level in six years and gave gold a fillip, briefly lifting it above $400.

The dollar, which had traded comfortably above DM2,0 only a month ago, dropped to DM1,9555 on foreign exchange markets yesterday, bringing to a convincing end the supposed bullrun which began in mid-October, but which had run out of steam by last week.

Later in the day, it recovered to around DM1,9650 in response to dealers' fears that they would be caught short if central banks began buying the currency to prevent it being totally routed by the German mark.

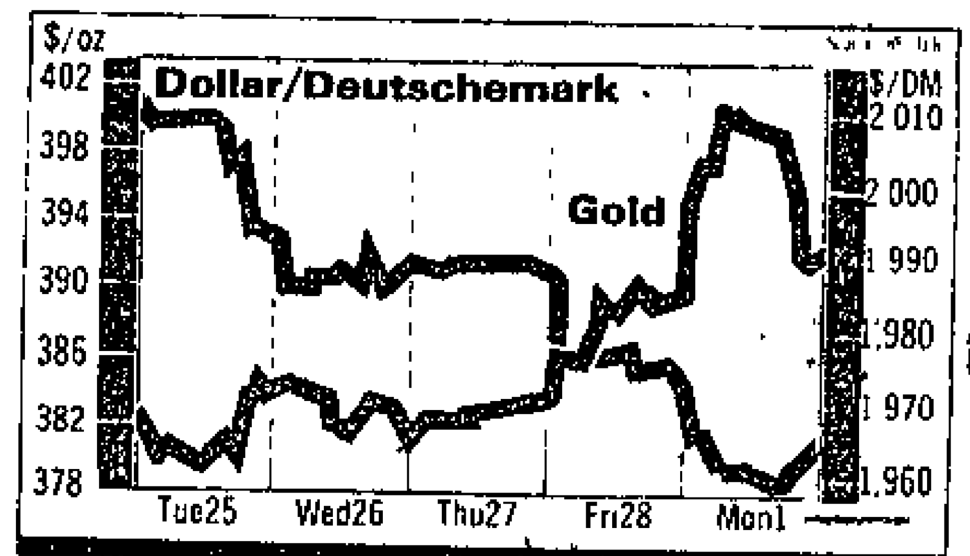
The underlying weakness in the dollar is based on persisently lacklustre US economic data.

But it was uncertainty about US President Ronald Reagan's political future, following the Iranian arms debacle, that plunged the dollar into its present nosedive.

In response to the shaky dollar, gold leapt $10 to a London morning fix yesterday of $399,60 before easing to an afternoon fix of $395,55. At one stage the metal briefly pierced the important $400 mark.

Analysts said the sharp rise in the gold price was not matched in New York because of differing perceptions across the Atlantic of the fall in the dollar and the seriousness of Reagan's crisis.

The rand rose marginally in response to a weaker dollar and firmer gold price to close yesterday at $0,4545, up from an opening of $0,4522 and Friday's close of $0,4505.



THE movement of the dollar and the gold price form a fascinating mirror image as this graph shows. As the dollar lost value, so the gold price rose.

dL news 13/12/86 (79)

World rush into gold on way, says top US banker

From JOHN SPIRA

JOHANNESBURG. — The world is on the verge of the biggest transfer of wealth in all of history — from those who hold paper to those who hold gold.

This is the view of Mr John Exter, former vice president of the Federal Reserve Bank of New York in charge of international banking and gold and silver operations and later senior vice-president of Citibank (then First National City Bank).

Mr Exter, now a consultant, exposed as a myth the theory that gold would not increase in value in a deflationary world environment.

TUMBLING DOWN

According to Mr Exter: "Volcker is watching the United States economy slip relentlessly into a deflation which, with Reagan's blessing, he wishes to avoid at all costs. That is why he is locked into an exponential curve of Federal Reserve credit creation.

"If ever he stopped creating that credit, stopped buying ever more government securities, the whole house of cards would come tumbling down and the dollar economy — indeed, many other economies too — would tumble into a deflation far worse than that of the thirties. And he and Reagan would get the blame.

"Today, no matter how much credit his Fed creates, it cannot prevent the banking system from contracting and destroying purchasing power — which is deflationary."

Mr Exter explains: "People buy gold in both inflation and deflation. In inflation because of greed and in deflation because of fear — fear of default.

"Even in the Great Depression people bought gold. We had a scramble for liquidity. As banks first began failing in 1930 and 1931, depositors were content to take their money out of weak banks and put it into strong. But as the number of failures picked up, more and more of them demanded Federal Reserve notes.

"Then, in September 1931, Britain went off gold and the pound fell against all currencies remaining on gold, which meant that the price of gold in pounds rose significantly. Soon depositors in American banks began demanding gold. They were not satisfied with Federal Reserve notes because they feared the price of gold would rise in dollars as it had in pounds and Roosevelt proved them right.

"Both countries depreciated their currencies for competitive reasons but Britain floated the pound because of a huge external drain of gold, while Roosevelt raised the gold price partly because of an internal drain."

Money, Mr Exter points out, has three functions: A standard of value; a means of payment and a store of value.

The best money serves all three functions. Yet none in the world is doing so today.

"Since 1971, paper currencies the world over have been standards of value and means of payment but all have been poor stores of value — at least until the recent slowdown of inflation.

"Gold, meanwhile, has been neither a standard of value nor a means of payment but has been far and away the best store of value. No wonder central banks, who still own some 35 percent of all gold in the world,still cling to that gold and have recently begun increasing it."

Mr Exter contends that the dollar system has gone into a period of contraction that is affecting other currencies, too.

"Very few market participants realise what is going on and fewer still realise the consequences of contraction.

"Real rates of interest are more important than nominal rates. Nominal rates have fallen a lot, yet real rates have risen because the rate of inflation has fallen even more. As we slip into actual deflation, the rate of deflation will have to be added to the nominal value of interest to get the real rate.

"Falling prices and large trade deficits are obviously bad for business because they squeeze profits and destroy values. No wonder I look in disbelief at our soaring stock and bond markets. Most participants have yet to recognise the consequences.

"Once they do those markets will tumble. Also we will have more and more runs on our banks and thrifts. Once the scramble for liquidity gets under way, only a tiny fraction will have to go to gold to make its price soar."

He points out that no currency can be a reserve currency unless its central bank pursues an expansionist policy that produces chronic payments deficits which foreigners voluntarily finance by building up holdings of that currency.

He foresees that the creditors of the illiquid dollar will start a run. Foreign dollar creditors will be attracted to gold. Only those who travel in the US or in countries where inflation causes the dollar to circulate will have any use for the dollar.

GET OUT OF DOLLARS

"The overwhelming majority will want to get out of dollars altogether and back into their own currencies or out of currency altogether and into gold.

"Foreign central banks who now hold about $250-billion to back their currencies would be even more tempted to buy gold.

"We have already seen the rush out of paper money into gold in the inflationary late 1970s. The rush in the deflationary 1980s will be even greater."

SUNTIMES 14/12/86

(79)

Precious metals offer a haven

By Dave Edwards

INVESTORS chased precious-metal shares this year as a hedge against the fallen rand.

Thirty-eight companies in this year's Top 100 are in mining or have strong mining connections — and all but one are tied to sanctions-proof gold or platinum and diamonds.

The loner, which squeezed in, is Associated Manganese (97).

Most of the qualifying gold shares continued the gradual appreciation which started in mid-1985 and continued through to October 1986.

Stable

The early trend was fuelled by a stable dollar price of gold and a falling rand. But from the third quarter of 1986 the dollar price of gold jumped and the rand stabilised — an enthralling combination which pushed overall gold-share prices up.

The JSE All-Gold Index, which had hovered around 1 200, raced to an all-time high of 2 000 points in early October — the Top 100 evaluation year ended on September 30.

Subsequently the dollar price of gold slumped — but it was too late to substantially affect this year's results.

In the same time, platinum followed a similar pattern to gold.

Realisation that the Western world was almost totally dependent on South Africa cast platiunum in the trigger role for gold dollar-price movements.

Lower grades

In the third quarter of 1986 the dollar price of gold rose by 25% and caused investors to reappraise the potential of several lower-grade mines. Chief among them was Rand Leases (25), which rose by 200%.

Vlakfontein (83), a dump operator, went up by 147% and Loraine (18), long considered a marginal, rose by 110%.

Other shares to show nearly 100% price gains were ET Cons (9), Venterspost (80), Western Areas (78), Western Deep Levels (47) and Winkelhaak (87).

Although a vibrant third quarter may have been sufficient to push many gold mining shares into the limelight those companies with a solid year long performance have carried off the top prizes.

Freddev (2) hived off its share portfolio, acquired Southern Mining, and that stimulated investors into a buying frenzy which resulted in a gold exploration company outperforming a stack of gold mines.

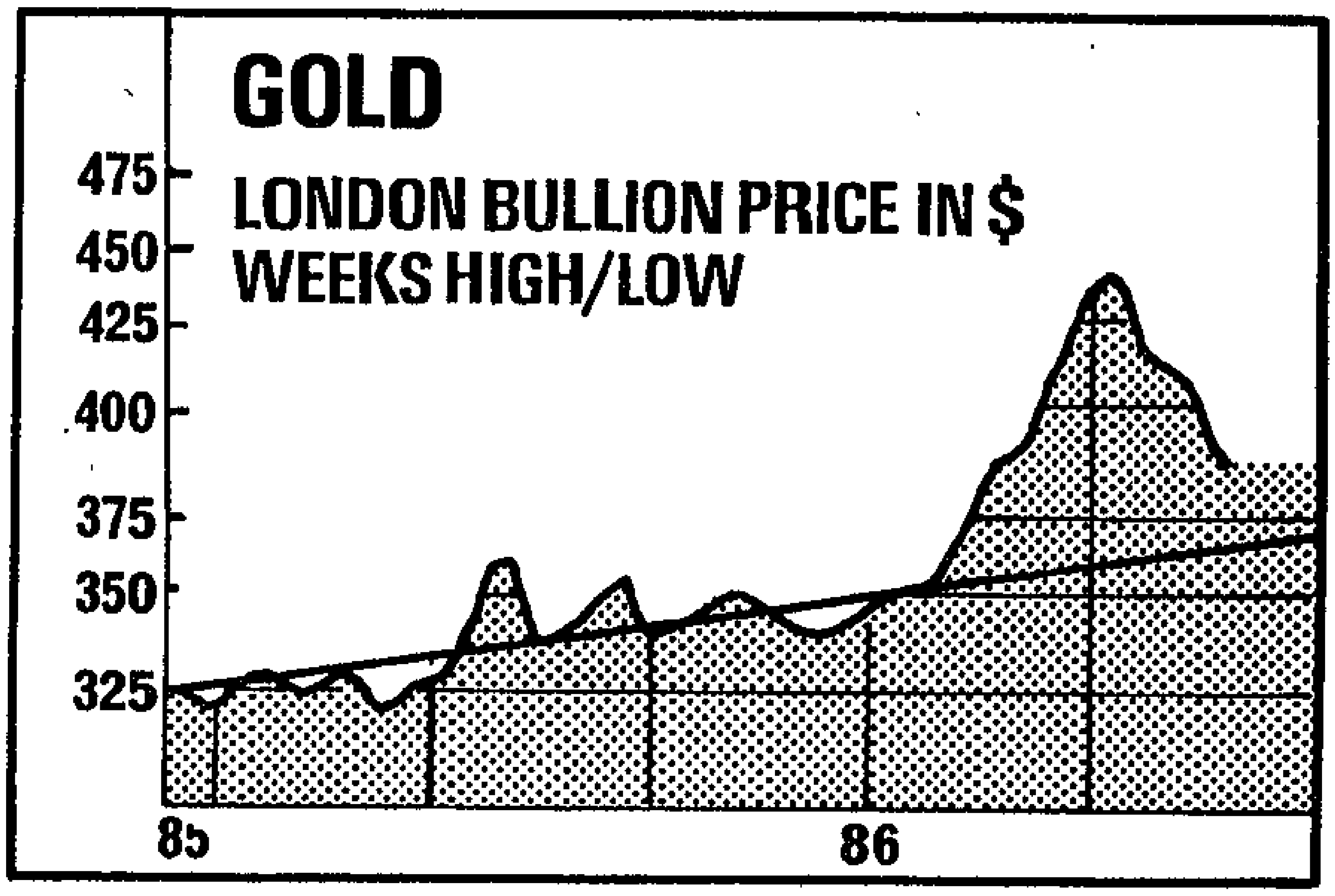
Merger

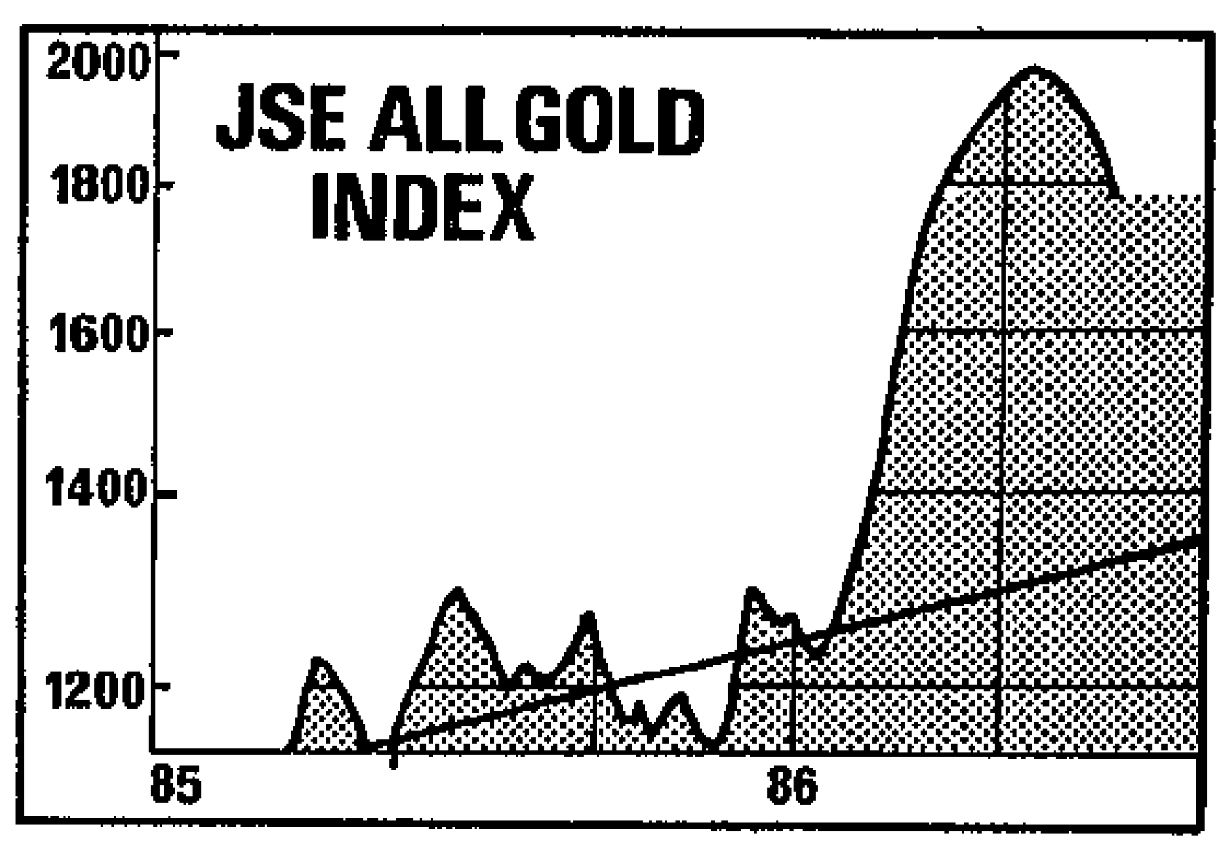
Rustenburg Platinum (5) and Impala Platinum (20) rose on the back of the platinum price which soared in reaction to fears that South Africa might restrict sales.

Consolidated Modderfontein (6) reached the top echelon, spurred by expectations of a beneficial merger with Springs Dagga.

Randfontein Estates (7) has appreciated considerably in the past year in line with its production expansion and mechanised mining programme.

Eastern Transvaal Consolidated (9) has been on an upward trip, stimulated by low working costs and investor expectations of enlarged ore reserves.





Houses

With the gold mines performing so well, most mining houses also joined the list.

Johnnies (13) ranked head and shoulders above the rest with a performance founded on an impressive mining portfolio. Freddev (2), Rustenburg Platinum (5), Randfontein Estates (7), De Beers (56) and Western Areas (78) all made their contribution.

Gencor (31) is the second mining house to have achieved a strong upward readjustment of share price after a major organisational change. Significantly, all the Evander mines were in the Top 100.

Anglovaal (38) and Anglo American (46) are not far behind Gencor, but Gold Fields of SA (86) seems slightly out of touch.

Mining Holdings were also well represented, Duiker (43), Wit Deep (48), Mid Wits (62) and Amgold (70) doing well.

All in all this has been a precious year.

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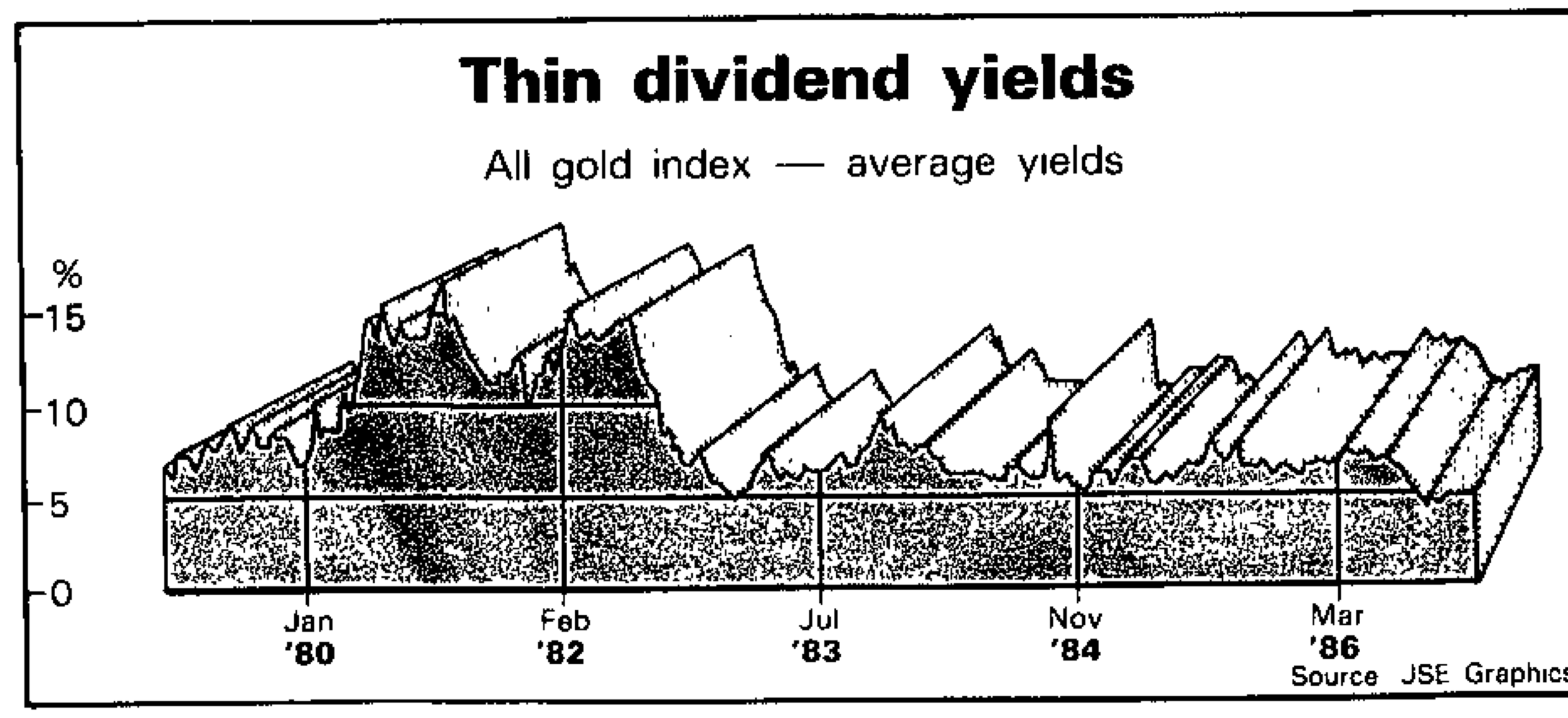
FINMAIL 26/12/86 (79)

GOLD SHARES

Thin value

Gold shares are set to continue to offer ultrathin yields. Aside from those which show potential for "dividend-stripping," few if any offer much incentive to investors who are interested in dividend income. Analysts currently feel that most of the shares are expensive, and that the uncertain prospect of the dollar gold price resuming its upward march now represents the best motivation to invest.

The JSE Actuaries All Gold index has weakened from the peak of 2 061 set on September 19, but not by much; at last week's level around 1 890, it is lower by some 8%. Since the September quarter when the gold mines earned record profits, the rand gold price has dropped, while working costs, capital expenditure and taxation have all remained on a rising trend.



During the September quarter, the gold mining industry received a rand gold price of R929/oz. This is an average figure which is distorted by figures at those mines which have continued to hedge sales. Quite a number actually received prices closer to R950/oz. But with the December quarter virtually completed as the *FM* went to press, a realistic average figure for the three months was about R911/oz, certainly no more than R918/oz.

Effects of the cost squeeze are shown when comparisons are made with the September 1985 quarter. Although the rand gold price of gold rose over the 12 months by 34%, the industry's cost figure in R/oz increased by 27% to R457/oz and total tax and lease payments leapt by 31% to R1,1 billion.

In that period capital spending rose by 21%, in line with historical trends. Higher revenue normally leads to increases in expenditure. The implications for the mines' distributable earnings are not encouraging. Indeed, analysts feel that for some this figure will be slightly lower in the current quarter than at the end of last year.

As has already been shown by some of the announcements so far, dividend declarations over the December and January period will, in many cases, end up looking disappointing after the high expectations of a couple of months ago. Not all analysts have set their sights too high. Some point out that GFSA, for example, generally adopts a conservative dividend policy anyway, and the house's management could have been expected to adopt an even more cautious approach on retentions once the gold price softened.

There will always be exceptions to this trend. Among them are the fairly small number of producers which are bringing production expansions on stream, or are looking at rising recovery grades. These include Elandsrand, Western Deep Levels, Randfontein, Southvaal, Ergo, and Rand Mine Props. Some low-cost, low-grade producers are still enjoying excellent profit margins on the strength of the higher gold price, while certain of the large mines have the flexibility to adjust production enough to ensure that dividends remain high.

For the rest, we are looking at a lot of mines that have gone ex-growth. This does not mean that the share prices will necessarily drop. Dividends have yet to be declared and paid, with Anglo American's mines due to declare theirs only in late January. A lot of investors who bought shares on the way up will want to hold on, at least until the dividend is paid. Others would still consider it worthwhile to buy for current dividend payments, and in this connection such shares as Buffels, Beatrix and Freegold are cited.

There are still widely held views that the US dollar will continue to weaken, forcing the dollar gold price back up towards the mid-$400/oz range by, say, the second quarter of 1987. If it doesn't happen, gold shares could be expected to slide into a weaker trend. But even that may be too pessimistic a view. To local investors, gold shares may not offer much value for the present, but they remain good rand hedge investments. Many still believe the rand will remain weak.

Also, the scenario is bedevilled nowadays by the financial rand, which analysts are finding difficult to forecast. There is a growing feeling that the financial rand market has become a lot bigger than is generally realised, and now involves far more players than foreign traders of South African equities. It is bound to contribute to erratic fluctuations in gold share prices that may be unrelated to the value of the shares. Investors who buy in the new year should be prepared to ride out some stormy weather.

Andrew McNulty

As our production leadtimes are abnormally long over the festive season, no stockmarket prices and indices appear in this issue, and nor will they be published in the January 2 issue. We regret any inconvenience.

GOLD – 1987

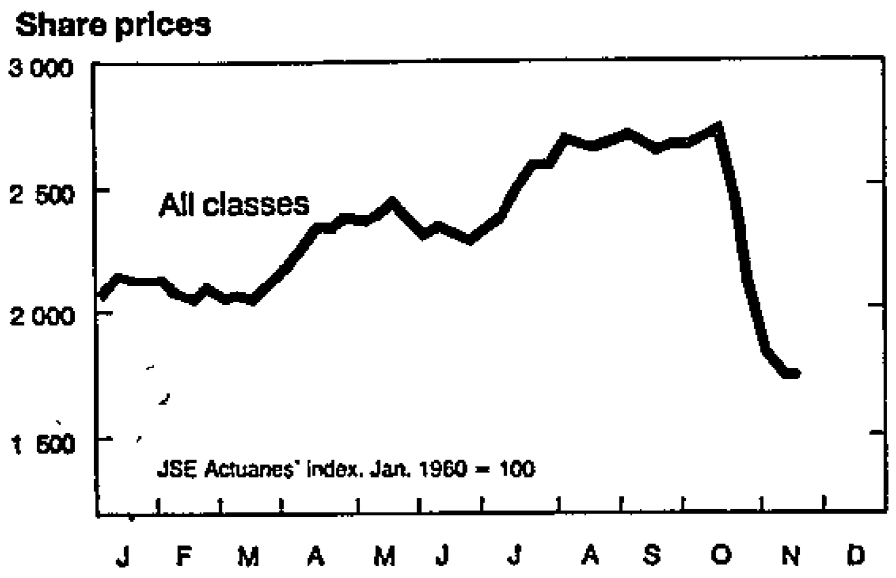
JANUARY – OCT. → DEC.

ECONOMY

The rot that lies behind the twinkling gold price

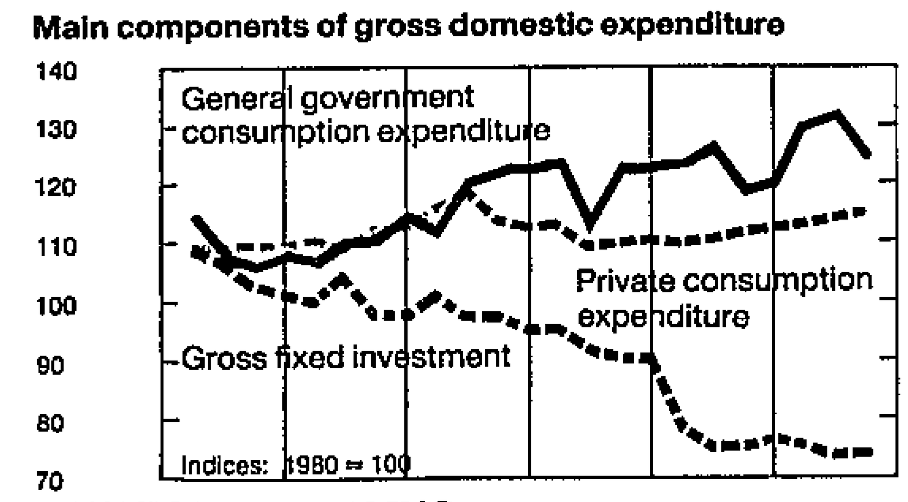
BUSINESS BAROMETER

Share prices



SHARE PRICES
Figures in the Reserve Bank's December Quarterly Bulletin published this week indicate the extent of the long stock exchange boom which preceded October's crash.Between February 1985 and the end of September this year the average level of share prices rose by 149 percent. In comparison, the total increase in share prices in the 1960s stockmarket boom, from January 1966 to May 1969, was 152 percent.
Share prices increased by nine percent, 11 percent and 13 percent in the first, second and third quarters of this year respectively. R4,2-billion worth of shares were traded in the first quarter of 1987, R4,8-billion in the second, R5,9-billion in the third and R2,6-billion in October alone.
In the stockmarket crash, share prices as measured by the JSE Actuaries' Index fell by 40 percent in the 13 trading days from 20 October to 5 November.

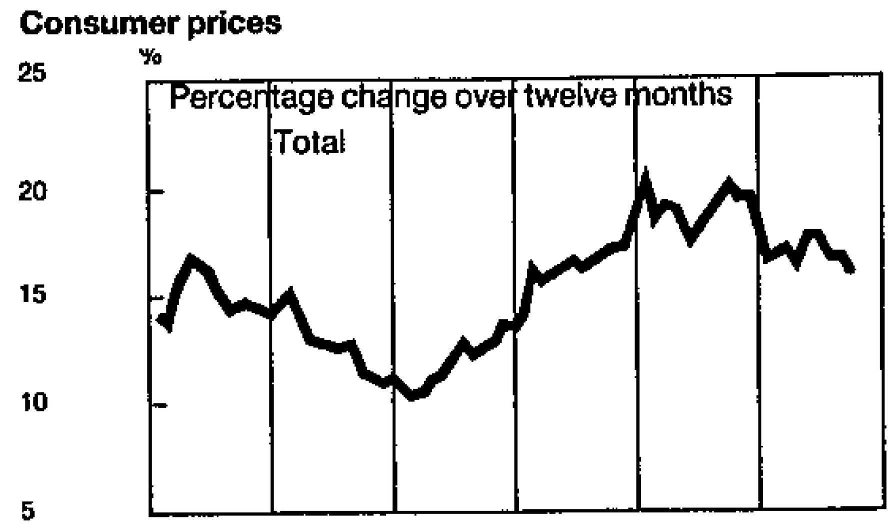
Main components of gross domestic expenditure



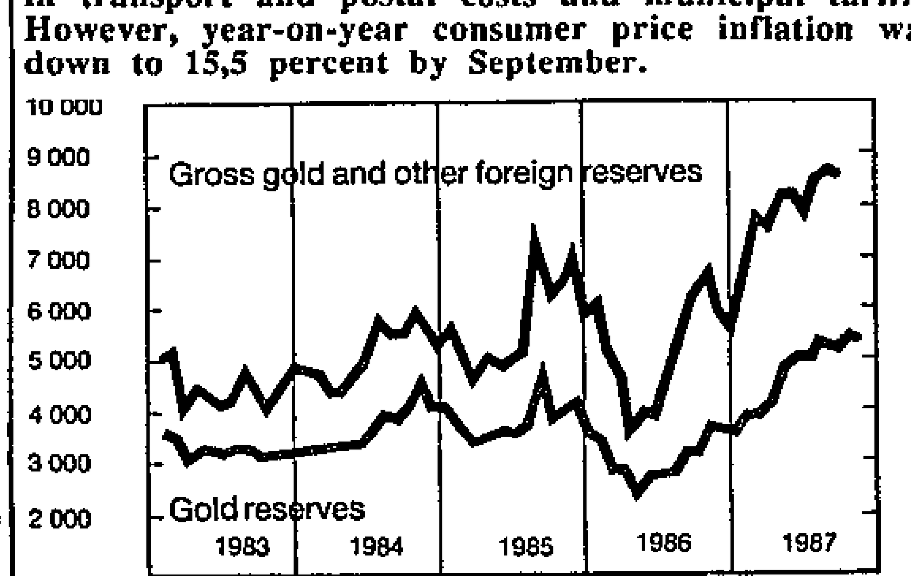
CONSUMER SPENDING
People are better off and they are spending more, according to the figures. Consumer spending by private individuals was 5,5 percent higher in real terms in the third quarter of this year than it was in the first quarter of 1986, says the Reserve Bank. Private consumption spending has risen for six consecutive quarters. Private disposable income increased by 6,5 percent in the third quarter, reflecting an increase in salaries and wages as well as a rise in personal income from property. Consumers spent more on durable goods and cars in the third quarter.

INVESTMENT SPENDING
Total fixed investment spending, which had risen in the second half of 1986, declined again in the first half of this year: at annual rates of five percent in the first quarter and nine percent in the second. However, it rose slightly in the third quarter, mainly because of private sector capital investment, particularly in manufacturing, agriculture and the financial services sector. Real fixed capital spending by the private sector increased at an annual rate of 13 percent in the third quarter - outweighing the decline in capital spending by government departments and public corporations such as Escom.

Consumer prices



PRICES
Quarterly inflation rates slowed down in the first half of this year, following very high inflation in 1986. Consumer prices went up by 26 percent over the third quarter of last year and over 20 percent in the fourth quarter. By contrast figures for this year were around 15 percent for the first and second quarter. However, price rises accelerated again at mid year, with the consumer price index rising by 16,9 percent in the third quarter, mainly due to increases in transport and postal costs and municipal tariffs. However, year-on-year consumer price inflation was down to 15,5 percent by September.



BALANCE OF PAYMENTS
South Africa has run a surplus on the current (trade) account of its balance of payments for almost three years. The surplus of exports over imports in the third quarter of this year was R5,4-billion - lower than the R7,2-billion of the first quarter.

The gold price zooms, taking the economy up with it. But what keeps it buoyant are a set of uncertainties. DUNCAN INNES reports

THIS year proved to be an exciting year for gold bugs.

A year ago the gold price was languishing below $400 an ounce, having briefly penetrated the $400 mark on the upside but failing to hold those levels.

Gold moved up swiftly to reach the $450 mark by late April and then set off in pursuit of the psychologically important $500 mark. However, this latter point proved elusive and gold pulled back, having touched $480 in May.

After a long period of consolidation above $450, gold finally breached $500 (reaching $503,50) on December 14.

Since then gold has again pulled back to around $480 and seems unsure about which way to go.

For South Africans the future course of the gold price is not simply of academic interest since it affects everyone. A rising gold price strengthens our whole economy, not just the gold sector, while a falling price has the reverse effect.

This year our economy managed to battle its way out of a severe recession, but the recovery is still fragile and a major drop in the price of gold could throw us into recession again. On the other hand, a continued increase in the price of the metal will provide further support for the recovery.

However, it is not easy to predict the future movement of the gold price.

Traditionally, the gold price responds to a wide range of factors, including trends in world inflation, the Third World debt situation, fluctuations in the US dollar and the price of oil, movements in world financial markets, political upheavals and fears about South Africa's future.

The trick in determining the future course of the gold price is to work out which of these many factors is likely to be the prime determinant at any given moment in time.

A number of commentators, for instance, thought that the National Union of Mineworkers' strike this year would cause foreigners to buy large quantities of gold because of the dangers the strike posed to the South African economy. But the gold price fell, suggesting that it was responding to different factors.

At the moment the gold price is being supported mainly by uncertainties within the world's financial markets following the collapse of the world's major stock exchanges as well as by the falling US dollar. The Third World debt situation remains a contributory supporting factor.

However, with the Reagan-Gorbachev *toenadering* temporarily removing world attention from the major political trouble spots around the world and with the South African government seemingly reasserting its control over the situation here, political factors are currently exerting downward pressure on the gold price.

So, too, is the oil price, which recently dropped by more than 15 percent from $18 a barrel to $15. Yet it is worth noting that this drop has not yet produced any major sell-off in gold.

Part of the reason seems to be that, although a falling oil price would usually be bearish for gold because it suggests a low rate of inflation world-wide, in this case it is leading to increased concern about the health of the economies of some of the world's major oil producers.

Saudi Arabia, for example, has been withdrawing reserves from American and Swiss banks, while Iran and Iraq are both depleting their reserves in their efforts to knock one another out.

Should the Opec economies deteriorate dramatically because of declining oil prices it could well set off another major round of financial collapse across the globe.

So, too, could the American government's policy of refusing to correct the large US budget deficit while simultaneously allowing the US currency to fall in order to tighten the screws on the Japanese.

With all this uncertainty around gold seems to have solid support and one would even be tempted to say that the price is headed a good deal higher.

The last time gold moved above the $500 mark, in January 1983, it didn't stay there very long before plummeting below $450. This had devastating consequences for the South African economy despite all the efforts by the then Minister of Finance, Owen Horwood, to talk the price up again.

Could history be about to repeat itself?

The chances are that gold will once again move above $500 in the near future. But it may struggle to stay there.

The previous high in 1983 was $515 and, in order to break through that technical resistance level convincingly, gold will have to move well above the $520 mark and stay there for a while. Failure to do so could lead to a significant pull-back in the price.

The worst fears of those who control the world's financial markets would be realised: that we are moving into a world-wide depression.

Weak dollar pushes gold

By AUDREY D'ANGELO
Financial Editor

GOLD reached its highest level against the dollar for nearly five years yesterday — rising to a peak of $503,25 in London. Although it fell back slightly on profit-taking and as a result of producer selling, it began to recover in London to close at $500 an ounce. In late trading in New York, gold dipped to $495,55.

The rand strengthened, to close in Johannesburg at $0,5158.

Gold shares rose on the Johannesburg Stock Exchange, with some gaining as much as R15 on the day. The All-gold Index was 2,9% higher at 1 841.

But there was no sign of "gold fever". Buying was cautious and moderate. Some was from Continental Europe but this faded when the financial rand strengthened to $0,3375 compared with $0,3325 on Friday, making South African gold shares less of a bargain for foreign investors.

The rise in the gold price was due more to the weakness of the dollar than a rush to buy the precious metal.

Gold is cheaper

Gold is bought in dollars on international markets. But the dollar has fallen steeply against the yen and strong European currencies.

So in spite of the higher dollar price, gold is in fact cheaper for British, German and Japanese buyers than it was in October this year and far cheaper than in February, 1983, when it last rose above $500 an ounce.

The rand has not strengthened against the yen, pound and DM.

So though travel to the US and exports from that country have become cheaper for South Africans, holidays in Britain and Europe are still expensive and there is no prospect of a fall in the price of West German and Japanese cars.

● SA economy 'healthy' — Page 3

BUSINESS BRIEF

Gold (Ldn close)	$500,00
Gold (NY close)	$495,55
Rand	$0,5155/62
FT index (close)	1312,40
BD 100	1616,30
Dow Jones	1907,66

The Times 15/12/87

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Argus 11/12/87

Rand hits year's high, gold at $494

Business Editor

THE value of the rand edged up to almost 52 American cents today and was quoted at a 12-month high of 51,65 cents in Johannesburg, up from 51,30 cents. The rand eased later to 51,40 cents.

It was boosted by a rise in the gold price above $490, which followed a fall by the dollar to new lows on news of a record United States monthly trade deficit of $17,6-billion for October.

The rand also gained slightly against sterling being quoted at R3,58 for £1 after last night's $3,59.

GOLD JUMPS $10

The financial rand rose to 33,50 US cents from yesterday's 32,88 cents.

Gold traded around $494 an ounce today in Hong Kong — a $10 jump in 24 hours.

The price slipped to $491,50 later at the opening in London, up $3,75 on yesterday's close.

Cape Times Appointments

Cape Times 10/12/87

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CAREERS CHOICE

How parents can help their children to choose a career

NIELS LINDHARD

WITH the holidays upon us, school-leavers' thoughts will turn to career choices after they have enjoyed their well-earned break. "Careers Choice" by Niels Lindhard is a guide for parents, teachers and other advisers and also informs parents how they can help children to choose a career.

After school, what next?

HOW much do parents actually know about today's career opportunities for young people? Parents are known to be one of the most important sources of advice when teenagers have to choose a career. But the problem is that careers are not what they used to be: a job for life or a number of jobs which follow after each other in a continuous pattern.

The careers of tomorrow will be one of the most unstable parts of a person's life. People can expect to have six to 10 jobs in their working lives and two or three different careers. Already, only one person in five in the USA will retire using his or her university or college education. Four out of five will change their original careers completely.

We all want success for our children, and helping them is a family operation which should be led and inspired by the parents. And what do we mean by success? Is it security, is it money, is it social status for the children? What do the children want? Security, money, status, or just to do their own thing? How do we guide them, will they listen? Are we hopelessly out of date in our knowledge about careers? What careers are there, and how does one choose? How do we help the young to come to a wise decision, and what is a wise decision anyway?

A relatively new book Careers Choice (College Tutorial Press, Cape Town, price R12) which was published a few months ago, discusses how parents can help their children to choose a career.

Author, Niels Lindhard gives parents many answers, but confirms that most parents will be out of touch with the new works of work. It tells you of the new approaches to careers guidance and how to assess your children's aptitudes and about the new world of work.

It also tells you how the next generation may have to plan for unemployment, and finally, in the last chapter, now that you know a great deal about careers, it asks you to take a hard look at your own.

WHAT SHOULD PARENTS DO?

Encourage your son or daughter from the age of 12 or 13 to think about careers. Let them know the choice is theirs but do not call for a "final" decision. Take them to as many workplaces as you can.

Give them many opportunities to learn about themselves from experiences and challenges. Develop their independence, curiosity, alertness, decision-making skills and relationship skills.

Give them other skills, an additional home language, using their hands, music, mechanical, computer skills. You can give them few better gifts than additional skills.

Give them advice in the form of information, encouragement and assistance to investigate by raising questions in their own minds to which they can seek their own answers.

WHAT PARENTS SHOULD NOT DO

There are two main things parents should avoid: they should not abdicate and they should not dictate. Abdicating means refusing any responsibility: "As long as Jenny is happy, I shall be happy." This is not good enough. Jenny has deserved more support, and she will probably be happy to have some guidance. She may be about to make some very unrealistic choices, and will need your help or perhaps some professional guidance.

Dictating is not worse, it is just as bad. To insist that a young person take up a career of your choice is to court disaster. Parents' ambition often gets in the way: "This is my daughter Rachel, the neuro-surgeon."

And finally, how about giving advice? Please don't. There is an old Hebrew proverb: "Do not confine the young to your own learning for they live in another time." And so, we as parents are not competent to give advice to people who live in another world.

Another of Mr Lindhard's books *Become What you Are* will be available in the shops in April. This book is about people's potential and how they can fulfull that potential by striving towards what they would really like to be and do with their lives.

Mr Lindhard has been running the Lifeskills Education Project at the Faculty of Education, UCT for five years. Formerly a careers adviser at the university for 17 years, he has written eight books on careers guidance, the best known is *Guidance in the Classroom*.

Moscow short of hard currency

Soviet gold sales rise dramatically

Cape Times 4/12/87

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From SIMON BARBER

WASHINGTON. — Soviet gold sales are rising dramatically and are likely to remain "heavy" for at least the rest of the decade, according to a CIA analysis released yesterday.

The sales, which tripled to more than 300 tons a year between 1984 and 1986, are being driven by shortages of hard currency due to the collapse of world oil prices and the decline of the dollar.

But David Giese, gold analyst with stock broking firm, Davis Borkum Hare, says he would be surprised if Soviet gold sales this year exceeded the expected 200 tons.

"We have definitely not seen anything in the market to suggest otherwise," he said, adding that his impression was that the international gold market was stabilising.

And he said that the gold price had managed to creep up to its current price of \$490/490,50, despite the fact that gold producers, including the Soviet Union, sold gold after the crash on the world stock market.

The CIA estimates total Soviet gold reserves at \$30-billion based on a price of \$400 an ounce.

Massive borrowing

Soviet hard currency problems are also reflected in massive borrowing from Western banks totalling \$6 billion over the past two years.

Increased borrowing and gold sales are an unusual combination: Previously Moscow has used gold sales toreduce its borrowing requirement.

Oil exports account for half of the Soviet Union's hard currency earnings. Since these exports are priced in severely depreciated dollars, the earnings have taken a double blow.

"Moscow must contend with a sharp erosion of its buying power caused by the likelihood that the US dollar could remain depressed vis-a-vis other Western currencies.

"The bulk of Soviet hard currency exports, such as energy and raw materials, will continue to be priced in dollars, while many imports, especially machinery and equipment, will be priced in non-dollar currencies."

The CIA analysis was published by the Joint Economic Committee of Congress as part of a major review of Soviet economic prospects under Mikhail Gorbachev to coincide with the Washington summit next week.

Rapid infusion

"The Soviets tend to use gold primarily as a financing mechanism rather than as a trade commodity like oil," the study notes.

"They generally sell more gold when they need a rapid infusion of cash, and less, even when prices are high, when they are in a good cash flow position.

"Thus, during the mid-70's when they needed to finance large purchases of equipment and grain while holding down debt, gold sales were high.

"Gold sales slumped between 1982 and 1984 — averaging under 100 tons a year — as record oil sales from the West obviated the need for extra cash.

"The decline in oil earnings sparked increased gold sales, estimated at almost 200 tons in 1985 and more than 300 tons in 1986."

The CIA predicts that the gold sales will remain unusually high even if Moscow keeps its real imports at levels comparable to the mid-70's.

This is premised upon continued borrowing, though at less than 1985-86 levels, the oil price remaining at around \$18 a barrel, and Moscow's contined inability to increase substantially non-energy exports, including arms.

Gold's shot in arm for SA

Cape Times 1/12/87

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By AUDREY D'ANGELO
Financial Editor

SOUTH AFRICAN business and investor confidence received a powerful shot in the arm yesterday as the gold price soared to its highest level since 1983.

Although it failed to reach $500 an ounce — and slipped on profit-taking to a close of just above $492 in London after reaching $497 — its rise pushed up prices on the Johannesburg Stock Exchange (JSE) and the rand closed higher at $51,35.

The rise was triggered by a further fall in the dollar and fears of rising US inflation.

Optimism returned to the battered JSE as the All Gold index surged 11,8% to 1 905 points, restoring some of the value wiped off shares in recent weeks.

Handsome profits were made on the day by owners of some quality gold shares, which rose by as much as R50.

Confidence

Significantly, dealers report that much of the buying of quality South African gold shares came from London.

The All Gold index has now regained almost 32% since plunging to a low 1 443 on November 5.

The increased confidence spilled over into other sectors. The Industrial Index rose 24 points to 1 460 and the Overall index 121 points to 1 925.

Investment consultants, who have been pointing out that the South African economy is fundamentally strong, said a stronger gold price had provided the impetus needed to get the market going.

But gold coin dealers in Cape Town were inundated with orders from investors preferring to buy gold than trust money to the share market.

exhibition held at the National Exhibition Centre, Cro

Gold breaches $460 barrier

CAPE TIMES 18/9/87 79

LONDON. — The dollar remained under pressure today, but statistics suggesting that the British economy was growing more strongly than had been thought buoyed sterling and the London stock market.

But a US report that fewer new houses were started last month suggested just the opposite for the American economy, dealers said.

Wall Street shares were mixed, while gold — a haven for investors who fear the dollar will weaken — was firmer.

Gold closed at $460/$460,50, just below the day's highs of $460,75/$461,25 and up from Wednesday's close of $458,30/$458,80.

"We are just sitting around and waiting," said one New York currency dealer.

"The underlying tone is bearish for the dollar, but nonetheless it's well supported at 1,81 marks."

Traders are waiting for next week's International Monetary Fund meeting in Washington, on the chance that new policies could emerge to change the so-far gloomy prospects for the dollar.

Gold futures closed higher in New York, on fresh buying by politically sensitive traders as fighting resumed between Iran and Iraq after a UN sponsored attempt to negotiate a truce apparently failed.

December gold was ahead $1,80 at $466,90 with the early support leading up to a high for the week of $468,40.

● In Zurich, a small burst of buying in New York after the Comex opening helped gold end here slightly above the previous close, dealers said.

Gold ended here at $460,00/50 an ounce, $1,1 above the opening and $1,70 above the previous close.

Platinum ended at $581/$586 an ounce, $1 above the previous close.

● In New York, gold closed at $459,80/$460,30. — Reuter

GOLD QUARTERLIES 79

Tarnished profits

The September quarterly results offer the first clear indications of the effect on production and profits caused by the three-week National Union of Mineworkers (NUM) strike during August. While mines managed to offset part of the costs in various ways, a number were seriously affected.

Anglo American Corporation's mines went for higher grade through limited high-grading of ore reserves, and the recovery of sweepings and vampings to compensate for lower tonnage throughput. Results varied from mine to mine, with **Western Deep Levels** (WDL) the worst hit. It was unable to increase grade from underground while the grade of the 710 000 t (June quarter — 485 000 t) milled from surface waste dumps fell to 1,31 g/t (1,35 g/t). Overall recovery grade dropped to 4,94 g/t (6,57 g/t)

Assuming a mine was completely closed for the duration of the strike, it should, in theory, have lost about 25% of its underground production for the quarter. WDL's underground production, measured by area mined, fell 34% to 142m² (215m²) while underground reef milled was 39% down at 624 000 t (1,03 Mt). Most of the workings are very deep, and the break in mining operations has allowed pressures at these depths to extensively damage the workings.

Vaal Reefs held up much better. Area mined was down 24% but tonnage milled from underground reef fell only 18,5%, indicating use of surface stockpiles, while overall recovery grade was increased to 6,74 g/t (6,43 g/t). That meant gold production dipped only 9% to 16 756 kg compared with WDL's drop in gold output of 34% to 6 586 kg.

The big question now is how fast the mines can return to normal output. It should be achieved in the current quarter while, say some sources, the industrial relations climate appears to have improved in the aftermath of the strike, which apparently has left NUM's organisation in disarray on many mines.

East Rand Gold and Uranium (Ergo) had a superb quarter, pushing tonnage throughput to 8,95 Mt (7,84 Mt), despite a two-week strike by most of the black work force at the Ergo and Daggafontein divisions. Daggafontein division appears to be an all-round success story: after only three months of operation, it has met its forecast yield and exceeded designed production capacity.

Ergo is installing additional pumping capacity at **Sallies** No 1 Shaft, which has rekindled speculation on resumption of underground mining operations at Sallies. Pumping capacity is a crucial factor for this project.

In the **Gencor** stable, effects of the strike were offset to varying degrees by use of reef stockpiles and surface waste dumps; these mines did not raise their grades. Unlike Anglo, Gencor does not break down its tonnage milled figures into surface waste material and underground reef.

Winkelhaak's area mined fell 26% but tonnage throughput was down only 14%; at **Kinross**, area mined dropped 29% but tonnage was only 20% down. **Buffelsfontein**, less badly affected by the strike than the Evander mines, increased throughput to 723 000 t (678 000 t) by using surface material and because it has stopped sorting the ore feed to

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the mills. The cost was a drop in recovery grade to 6 g/t (6,4 g/t)

Leslie has published very attractive borehole results north of its No 1 Shaft and is now developing towards the area. However, gold division CE Bruce Evans is cautious on the 2 500 cm g/t value revealed, pointing out that it is on Kimberly Reef, which is notoriously erratic, and also that nothing like this value has been picked up in nearby boreholes. This suggests the area is limited in extent.

After the grim September results from **Consolidated Modder**, Golden Dumps chairman Loucas Pouroulis had better be right in his prediction made in a recent presentation to analysts that the mine's results would start improving from the December quarter. Analysts were told that Cons Modder's results for the September quarter would be about the same as for the June quarter; instead, the yield has collapsed by a further 26% to 2,83 g/t from the June quarter's 3,84 g/t.

What is more, with the exception of the No 1 Shaft at Springs Dagga and the No 14 Shaft, development results are poor. Average value on the Black Reef at NEP Shaft has fallen to 4,1 g/t (6,5 g/t). At the No 1 Circular Shaft the average Black Reef value is down to 3,4 g/t (7,3 g/t). Development on Kimberley Reef at No 14 Shaft improved to 4,1 g/t (3,7 g/t) while the Springs No 1 Shaft is showing an average value of 6,1 g/t on Kimberley Reef. Cons Modder improved gold production to 701,1 kg (667,1 kg) thanks to tonnage milled of 247 875 t (173 838 t) caused by first-time inclusion of production at Springs Dagga.

South Roodepoort, by comparison, had a good quarter, pushing grade up to 3,12 g/t (2,92 g/t) which, coupled with higher tonnage throughput of 110 157 t (92 258 t) lifted gold production to 344,1 kg (269,3 kg). Operations at the Langlaagte section were included for the first time.

In the **Rand Mines** group, **ERPM** and **Harmony** battled despite managing to contain unit working costs to a creditable 3,2% increase over June quarter levels. Harmony's recovery grade fell to 2,93 g/t (3,31 g/t) but management says stoping operations are being moved to better areas and grade will

GOLD EARNINGS

79

	Year end	*EPS(c) Jun	*EPS(c) Sep	**Accumulated Earnings	(c) +Declared
ANGLO AMERICAN					
Elandsrand	Dec	21,8	13,5	56,2	50
Ergo	Mar	3,1	42,8	45,9	55
Freegold	Sep	65,9	65,8	278,7	310
Vaal Reefs	Dec	567,5	389,5	1 415,1	950
Western Deep	Dec	150,7	79,9	380,7	290
ANGLOVAAL					
ET Cons	June	39,1	75,5	75,5	—
Hartebeestfontein	June	22,1	39,5	39,5	—
Loraine	Sep	31,3	19,0	163,1	—
GENCOR					
Beatrix	June	29,2	15,0	15,0	—
Bracken	Sep	13,5	19,5	63,5	65
Buffelsfontein	June	190,8	113,8	113,8	—
Grootvlei	Dec	17,8	13,5	60,9	30
Kinross	Sep	93,2	72,4	313,4	345
Leslie	Sep	13,7	14,6	59,4	60
Marievale	Dec	(13,1)	(10,1)	(23,3)	—
St Helena	Dec	62,2	28,5	124,5	110
Stilfontein	Dec	48,8	47,2	93,5	40
Unisel	Sep	38,0	35,6	161,6	160
WR Cons	Dec	32,8	8,5	62,8	20
Winkelhaak	Sep	86,1	44,9	325,7	355
GFSA					
Deelkraal	June	14,4	21,3	21,3	—
Doornfontein	June	65,4	(3,6)	(3,6)	—
Drie Cons	June	87,2	113,5	113,5	—
Kloof	June	29,7	34,6	34,6	—
Libanon	June	61,7	101,0	101,0	—
Venterspost	June	63,8	97,4	97,4	—
Vlakfontein	June	(120,0)	(23,1)	(23,1)	—
JCI					
Randfontein	June	385,2	(92,6)	(92,6)	—
Western Areas	June	(15,7)	(34,2)	(34,2)	—
RAND MINES					
Blyvoor	June	43,4	43,5	43,5	—
Durban Deep	Dec	(166,4)	(180,5)	(482,2)	—
ERPM	Dec	(473,1)	(509,2)	(1368,1)	—
Harmony	June	44,2	55,9	55,9	115
INDEPENDENT					
Cons Modder	June	3,9	(16,1)	(16,1)	—
Modder B	June	(7,0)	(14,9)	(14,9)	—
Rand Leases	June	(27,1)	(15,7)	(15,7)	—
Southgo	Dec	(1,9)	(4,2)	(6,1)	—
South Rood	June	5,2	4,9	4,9	—
Sub Nigel	June	(41,2)	(3,8)	(3,8)	—

* = Earnings after tax and capital expenditure. ** = Distributable earnings for the mine's financial year to date. + = Total dividends declared to date.

(79) Sowetan 3/9/87

AN ECONOMIST with the First National Bank, Lynn Pikholz, today looks at the fluctuating price of gold, "a strategically important part of the country's economy".

FOCUS

Gold's healthy shine

EXTERNAL crises have often tended to draw attention to gold. The ones best remembered are the oil crises of 1973 and 1979 where the price of gold shot up nearly 100 percent within the spate of one year in both cases.

The gold price peaked in January 1980 at $850 an ounce. The annual gold price averages since 1983 have been below the $400 level rising steadily from $308 in 1984 to $327 in 1985 to $390,90 in 1986.

Suddenly in mid-1987 fears of another oil crisis emerged with rising tensions between Iran and Iraq in the Persian Gulf. It was this fear of sky-rocketing oil prices that triggered off a frenzy into gold.

Between July 31 and August 5 gold jumped approximately 20 dollars (from $457 to $476).

Tension

As tension in the gulf subsided, gold edged downwards towards the $460 level. The subsequent drop in price to $453 an ounce was an over-correction in the market place.

The $460 price is still thought of to be the longer-term base level from which the price should slowly rise.

The average price of gold (January to July 1978) presently stands at approximately $433. This compares favourably with the 1986 $390 average and it correlates strongly with rising oil prices.

Oil today fetches somewhere between 19 and 20 dollars a barrel — a far cry from the $10 a barrel days in 1986. But whereas during July the oil price was rising, it has recently seen a downward trend.

Both oil and gold prices are formed extremely emotively in markets. It was the political factors in the gulf that pushed the price of oil up above its market level sending investors rushing into gold.

The fundamentals (demand and supply for oil) point clearly to a downward movement in price. Opec nations have been cheating on their quotas resulting in an oil oversupply which will yield downward pressure on prices especially as the gulf-war subsides.

Fears of a substantial drop in the price of oil will probably result in a price war between nations, although it is unlikely that oil will go below $17 a barrel in the near term. Oil prices have already dropped below the significant $18 a barrel mark.

While a lower oil price is obviously better for inflationary purposes, it is certainly not good for gold, which thrives on crisis situations.

Yet, perhaps there is not too much reason to worry as gold is becoming an increasingly important part in investors' diversified portfolios.

The gold price has been seen against a weaker dollar to a greater than necessary extent. The historical inverse relationship between the dollar and gold was broken in the gulf in June when prices of both began moving in parallel — the dollar gaining ground as a "safe haven" currency.

Fear

Gold has appreciated significantly in Deutsche Mark and especially in Yen terms where it has reached an all time high. The fear of inflation both domestically and abroad is also fuelling interest in gold as a hedge against rising prices.

Even though gold prices have risen, the rand has not been allowed to appreciate accordingly as exporters are already disadvantaged as a result of a relatively higher rand, rising costs and sanctions.

The actual price of gold is critical for South Africa. At a time when growth in South Africa is holding its own (i.e. confidence, investment, exports and consumption demand) the dependence on gold is less obvious.

Under these circumstances we could probably weather a gold price of around $350 fairly easily. Yet with a 1,6 percent growth rate (2nd quarter 1987) and an economy that is battling to take off, we become much more dependent on "the barbarous relics of gold".

South Africa produces 50 percent of the western world's gold production. This figure becomes 33 percent when the Soviet Union and various smaller suppliers are taken into account.

Gold accounts for 40 percent of all exports earnings. Inflowing funds from gold exports have contributed greatly to the current account surplus.

This surplus is estimated to reach around R5-bn by the year end and it will enable the Government to make substantial debt repayments.

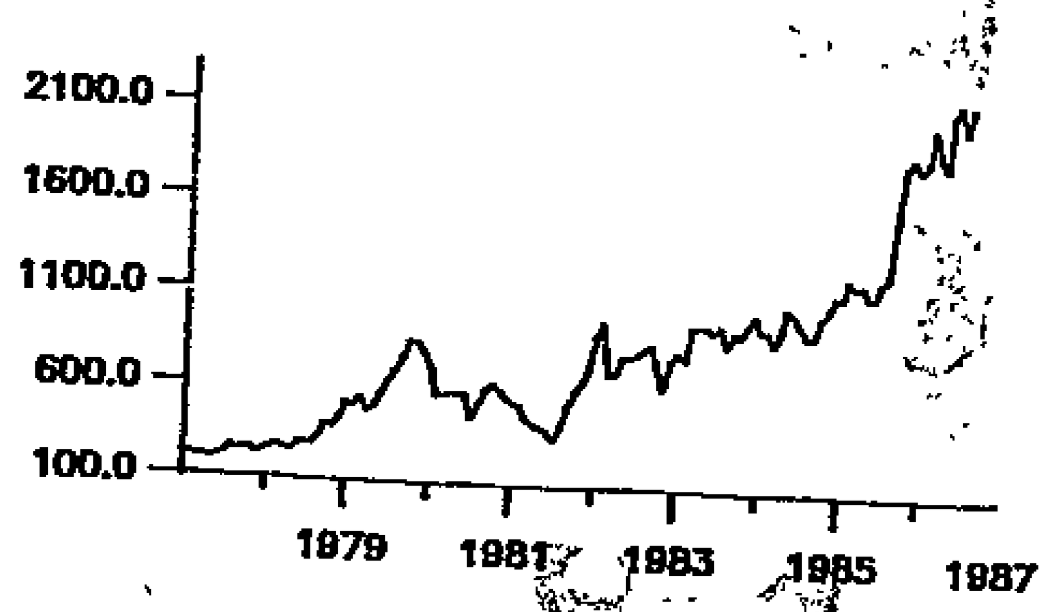
With political sensitivity rife both domestically and abroad substantial foreign exchange reserves (due largely to gold sales) are vital. In addition the liquidity that is flowing into the South African economy due to gold exports is deemed desirable by the Government as it is keeping interest rates low, thus promoting credit demand and investment.

The Johannesburg Stock Exchange (JSE) Actuaries Index has risen 63,3 percent overall (July 1986 to July 1987). Gold shares which have a very heavy weighting in the JSE grew 75,9 percent contributing greatly to the overall rise.

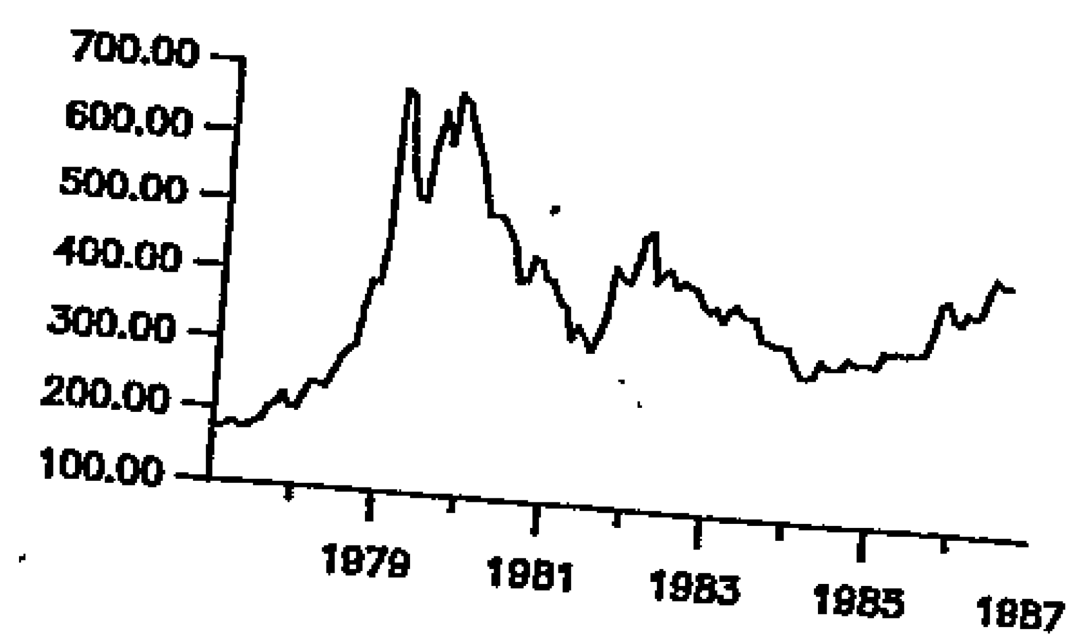
Shares

Inflationary fears are sending money out of stocks and bonds and back into gold shares. The movement in the gold price and subsequently gold share prices have been echoed in other precious metal markets (e.g. silver and platinum) which also form a substantial part of South Africa's exports.

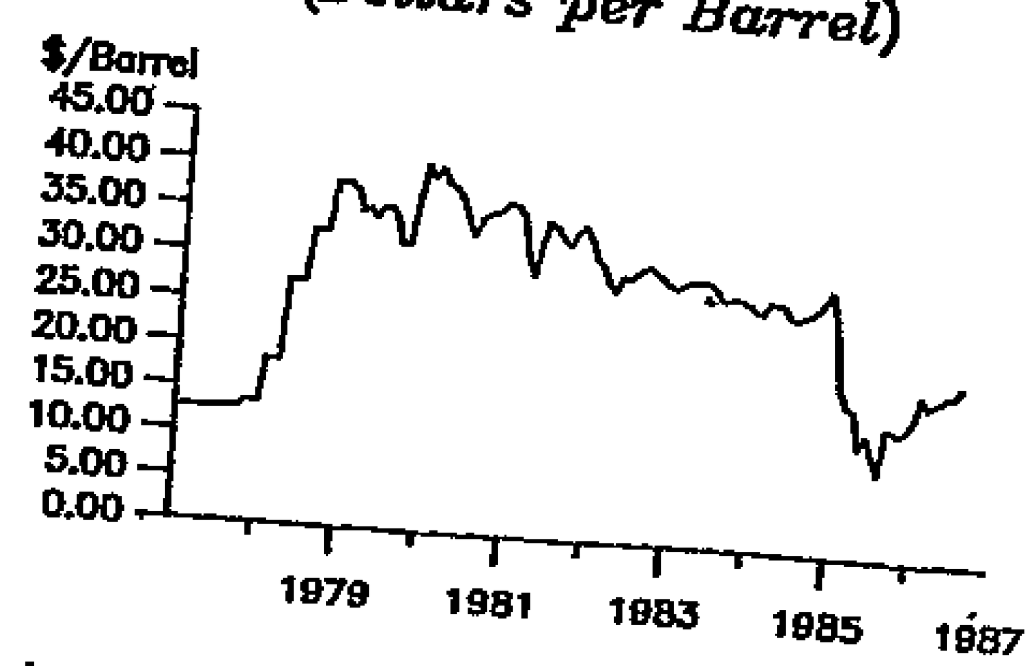
JSE ALL GOLD INDEX (Monthly Average)



GOLD PRICE — DOLLARS



SPOT OIL PRICE (Dollars per Barrel)



Cape Times 11/8/87 (.79)

Gold price 'cushion'

JOHANNESBURG. — The firm gold price on world markets should help cushion South Africa's mining companies against production losses caused by the nation-wide pay strike by black miners, analysts said.

Gold shares on the Johannesburg Stock Exchange closed quietly easier in calm trading yesterday.

In London, gold closed at $459,25, little changed from an opening $458,25, but below Friday's close of $464.

South Africa mined about 640 tons of gold last year, an average of 1,75 tons a day.

Mining analysts estimated that the strike could cost the country about R30m, or one ton of gold a day in lost production.

Fears of disruption to SA's mining industry have helped keep gold prices buoyant in recent weeks.

"A 10% rise in the gold price can make up for an awful lot of lost production," said John Rogers of stockbrokers Edey, Rogers & Co

SA banks cautioned that the rand could weaken further as a result of the strike, a development that would further bolster the mines' profits since gold sales are transacted in dollars. — Reuter

Cape Times 6/8/87 79

Gold in centre of $8 range

LONDON. — Gold held in the middle of the day's $8 range during routine late trading, with the market settling around the $470 chart level, dealers said.

Bullion closed at 469,60/470,10, down from its opening and previous close of $474,30/$74,80 and $474,90/$475,40, respectively.

The market's falls yesterday reflected follow-through liquidation and profit-taking from Tuesday, prompted by the rise earlier this week to 2½-month highs.

The lack of fresh developments in the gulf also encouraged some nervous long holders to close positions yesterday, they said.

Gold dipped below $470 during the morning fixing of $469,85 and this triggered stoploss selling down to around $466.

However, market fundamentals remain constructive, based on tension in the Middle East and the threatened SA miners' strike. Prices consequently rallied back to the $470 level in early afternoon trading.

Platinum also fell back yesterday under profit-taking, closing above the lows at $626/$628, although this was still $12 down from Tuesday night.

□In Zurich, gold recovered some of its morning losses, but still ended below the previous close after swinging widely in nervous trading.

Dealers blamed the fall largely on the lack of escalation of events in the Middle East.

Gold ended here at $470,00/50, $4,60 below the opening and $4 below the previous close.

It dipped as low as $466,50 around midday before climbing back.

□In New York, gold closed at $466,60/$467,10. — Reuter

CAPE TIMES 4/8/87

JSE soars to new high as gold price gains $11

79

By AUDREY D'ANGELO
Financial Editor

THE Johannesburg Stock Exchange (JSE) soared to new heights yesterday as the gold price rose by more than $11 an ounce on European markets.

International investors stampeded into gold and other precious metals — a safe haven in times of high inflation or international trouble — as a result of increased tensions in the Gulf.

These sent oil prices rocketing, a move likely to push up inflation in industrialized countries.

Huge profits were made on the JSE as share values rose. One gold share, Southvaal, gained as much as R12.

The All-Gold index reached a new record of 2 496. The industrial index also rose, to 2 177, and the overall index to 2 695.

But although gold rose to $475 an ounce in Zurich in after-hours trading — its highest price for two-and-a-half months, it slipped back in London on profit-taking to close at $473,25 an ounce.

However, dealers and analysts forecast the tendency is for gold to continue to rise and it could reach $500 in the next few months.

□ Gold shares surge — Page 8

Rembrandt tipped for Stanbic

LIBERTY LIFE and the Rembrandt Group are being tipped as buyers in what is likely to be the biggest banking disinvestment move so far, British bank Standard Chartered's sale of its 38,9 percent stake in Standard Bank Investment Corporation of South Africa.

Trading in Stanbic's shares was suspended a week ago in anticipation of the disinvestment announcement. By Tuesday this week, negotiations were still under way, and the shares have now been suspended again until stock exchange trading closes today.

Stanbic managing director Conrad Strauss told a press conference that if the transaction takes place, it will be substantially larger than any previous banking disinvestment.

The move would make Standard Chartered the third foreign parent bank to sell its South African holdings.

Britain's Barclays plc sold its 40,4 percent stake in Barclays South Africa, now First National Bank, last year for R527-million. The sale gave Anglo American Corporation and its associates, Southern Life and De Beers, ownership of more than half of First National. Earlier this year First National paid American parent Citicorp R130-million for its South African banking arm Citibank SA.

Weekly Mail Reporter

In the wake of Barclays' disinvestment last year, Stanbic's Strauss told *Weekly Mail* that Standard Chartered was likely to reduce its shareholding in the South African banking group to about 25 percent.

But now it seems likely that the British bank is considering pulling out altogether. The move has probably been prompted by its situation in the London finance world, rather than any sudden pressures on the South African front. In response to pressure from rival Lloyd's Bank it may choose to buy another London bank. Disinvesting would provide some cash and, by removing the taint of a South African connexion, might assist it in raising further capital.

Liberty Life is the second biggest shareholder in Stanbic, with a 22,8 percent stake and is almost certainly one bidder for Standard Chartered's stake. But in terms of the Banks Act a life assurance company such as Liberty is not allowed to own more than 30 percent of a bank.

The mystery then is who else will buy in. Liberty is likely to be looking for a friendly partner.

Speculation is that the Rembrandt Group may be in line for the remaining chunk of Stanbic.

The tobacco multinational recently bought 10 percent of Gold Fields of SA from British-based Consolidated Goldfields. Gold Fields is already a significant shareholder in Stanbic and may be bidding to enlarge its stake. And Rembrandt has been moving into the field of finance, acquiring interests in companies such as Sage and Allied and building close ties with Volkskas.

If it sells, Standard Chartered will probably take the money out in financial rands, presently at 30 US cents. — Own Correspondent and Sapa.

War and strike talk drive up gold

Weekly Mail Reporter

JUST a couple of weeks ago economists were predicting that the gold price would hover between $440 and $460 for a while. But this week gold shot over the $470 mark, reaching $475 before dropping back somewhat.

The crystal ball gazers are now confidently predicting that the gold price will reach $500 before the end of this year.

This week's increase was largely a result of the escalating war in the Gulf, although talk of a South African mines strike also had something to do with it.

Gold is seen by investors as a "safe haven" for their money in times of political uncertainty in the world — and particularly when the uncertainty involves oil as it does in the Gulf. The prices of other precious metals such as silver and platinum have also been rising.

The gold price in rand terms is now around R980 an ounce and this increases the appeal of gold shares — as reflected in the leaps of the gold index of the Johannesburg Stock Exchange this week.

The soaring gold price may lead people to believe that the South African economy is taking off, but this, says one economist, could be a misconception.

An unusual feature of this week's events in the financial markets was that the dollar also rose against other currencies — although usually gold and the dollar are inversely related. But, it seemed, investors were also seeing dollars as a "safe haven": The dollar's rise certainly did not reflect any improvements in the American economy.

The dollar was soon restored to its previous levels.

W Mail 7-13/8/87

Gold down after Gulf tension cools

Financial Editor ARGUS 4/8/87 (79)

THE gold price eased to $474,95 an ounce in London today after earlier rising in Hong Kong to $478,25 — its highest price for 4½ years.

The safe passage through the Strait of Hormuz of the Kuwaiti gas carrier Gas Prince and a belief that Iran will not cause trouble in the Persian Gulf until its 150 000 pilgrims in Saudi Arabia return home have helped ease tension.

Meanwhile the threat of a strike by black gold miners seems to have had little effect on foreign bullion markets. A Swiss banker said today the strike had already been discounted.

Gold last night closed at $473,25 an ounce in London and $477,95 in New York.

Platinum also surged in New York, rising to a 6½-year high of $638,50 an ounce before easing to $634,50.

The dollar, following its usual trend in times of uncertainty, has risen against all major currencies — including the British pound, which on Friday weakened to $1,5780 from $1,5910.

Gold price surges by $11

Cape Times. 4/8/87

LONDON. — The price of gold jumped $11 an ounce in Europe yesterday as tension heightened in the Persian Gulf with the Iranians ordering naval maneuvers and warning foreign shipping to keep out of their territorial waters.

The US dollar strengthened in European trading against all major currencies except the Canadian dollar.

Gold is a haven for investors and speculators in times of international turmoil, but although the price rose there was no sign of any flight from dollars and traders said they expect the dollar to strengthen.

The higher gold price consolidated on news that SA's black miners were ordered by their union to walk out on Sunday from gold and coal mines for a 30% pay increase.

The strike could close all the 28 gold mines in SA, which produces half the Western world's supply of gold.

Some bullion dealers said they thought the gold price might reach $500 within the next two weeks.

In London, gold remained below earlier 2½-month highs during late trading, responding to profit-taking, but still closed higher at $473,00/$473,50.

Earlier yesterday afternoon gold rose to just above $475, yesterday morning bullion opened at $470,75/$471,50, well above Friday's final level of $461,80/$462,30, but apart from bouts of dealer short-covering it was never overactive, and did not build significantly on the opening firmness.

The closing price in Zurich was $474,000, up $11 from $463.00.

Earlier in Hong Kong, gold rose $5,81 to close at $470,79 bid from Saturday's $464,98.

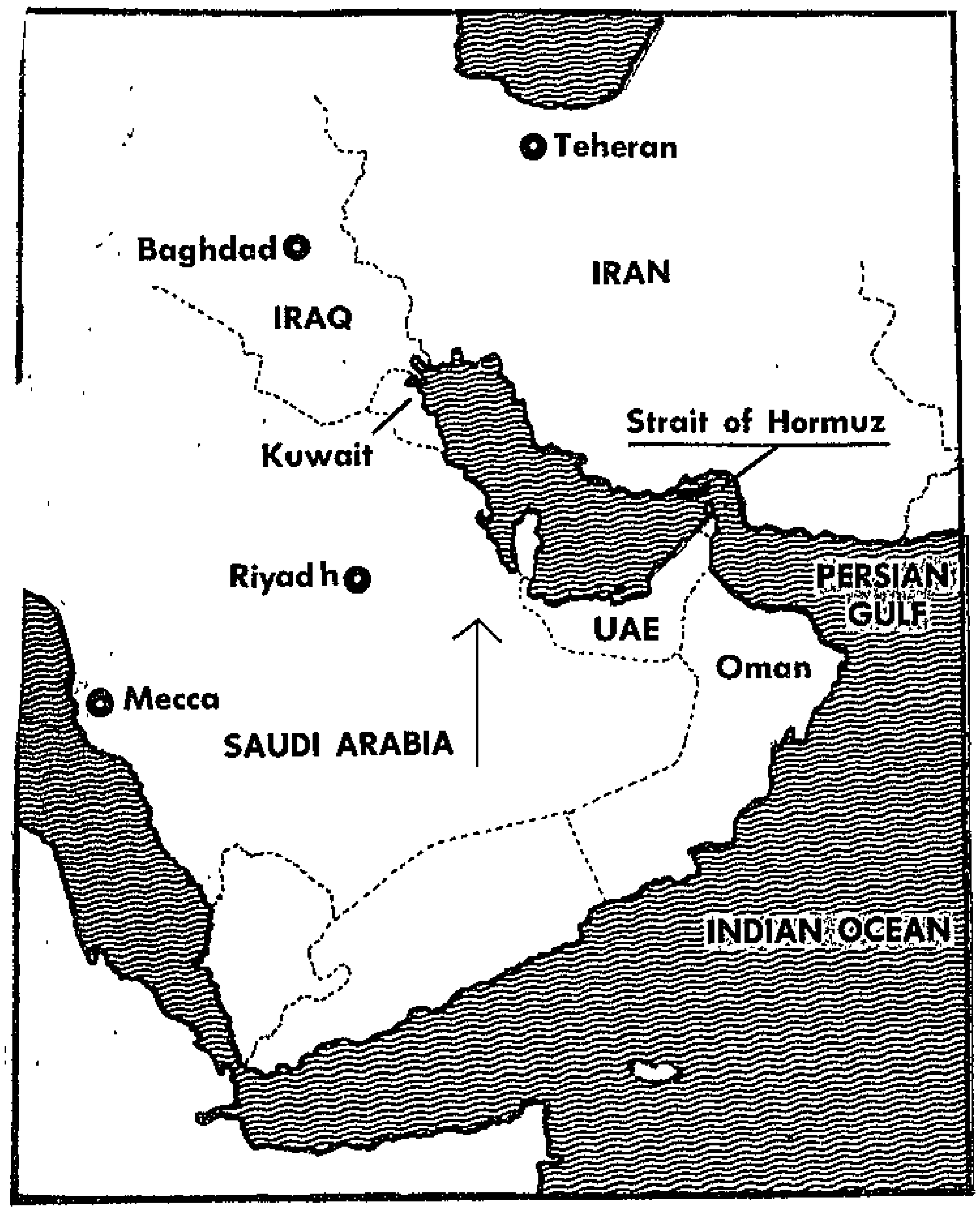
Silver traded late in London at a bid $8,66 a troy ounce, up from $8,24 late Friday.

The dollar has been rising slowly against the West German mark in recent weeks and it traded late Monday at 1,8620 West German marks, up from 1,8570 late Friday and its best rate since June 17 when it was 1,8575.

But dealers in Frankfurt said they don't see the American currency going above 1,8700.

With the start of August vacations in Europe, foreign exchange dealers said there was little activity in their markets but there was still buying of dollars in spite of the Gulf tension.

☐ In New York, gold closed at $477,70/$478,20. — Sapa-Reuter-AP



Gold price jumps $6,79; oil tops $20 a barrel

ARGUS 3/8/87 (79)

Financial Staff

GOLD and oil prices have jumped amid renewed tension in the Persian Gulf.

The price of gold went up $6,79 an ounce to $473,25 in early trading in Hong Kong and oil prices surged to over $20 a barrel.

For gold, this is the highest price since April 27 when it closed at $474,75 an ounce in London.

Gold opened at $466,46 an ounce in Hong Kong today, up $1,48 from Saturday's close of $464,98. It closed in New York at $464,00 on Friday.

MARKET CAUTIOUS

Financial markets in Tokyo turned cautious after the news from the Gulf. The dollar rose slightly against the yen, partly in the belief that oil-importer Japan would suffer greatly from any supply disruption, Sapa-Reuter reports.

An escalation in hostilities in the gulf could lead to a severe disruption in oil supplies and cause prices to leap by as much as $10 a barrel, oil traders said.

Britain's North Sea benchmark crude, Brent Blend, rose by a dollar to $20,85 for cargoes loading in September.

The Mideast marker grade Dubai jumped between 20 and 40 cents on the Tokyo spot market.

● Gold prices are expected to soar further this week on news that about 200 000 South African miners are to hold a nationwide strike at many of the country's gold and coal mines.

The assistant general of the National Union of Mine Workers (Num), Mr Marcel Golding, said the exact date and other details of the planned walkout would be revealed at a Press conference later today.

Times 16/8/87

CAL TIMES 10/8/87 (79)

Gold hit by technical sell-off

NEW YORK. — Gold prices plunged by as much as $15,20 in a technical sell-off on Friday, while the American dollar pushed higher in spite of central bank intervention.

Republic National Bank in New York reported gold fell to a late bid of $453,50 from $468,70 late on Thursday, its second major drop last week.

The metals market opened sharply lower but was seriously hit when silver fell below $8 a troy ounce in the early afternoon, triggering computer-generated selling.

Analysts noted that the fundamentals of the day — lower oil prices, a bond market rally and no fresh news from the war-torn Persian Gulf — were negative for precious metals.

Adding to the market's downward spiral was a dollar that refused to retreat in the face of concerted central bank intervention.

The dollar closed near the highs of the day and reached levels against the West German mark and the British pound unseen since early this year, said James Vick, vice-president and senior corporate trader at Manufacturers Hanover Trust Co.

Dealers said the Federal Reserve Bank entered the market when the dollar was trading at 1,8885 marks. The Bank of England also was believed to have made an appearance, selling dollars to buy marks.

There were rumours that West Germany's Bundesbank participated, but some traders speculated instead that the US and British central banks may have acted on behalf of the West Germans

Market participants seemed satisfied with the way the central banks had carried out the intervention. "The style that they're using ... is relatively steady and unspectacular," Vick said. "It's non-disruptive."

Dealers noted that participants were not willing to be short of dollars over the weekend in the event that conflict heats up again in the Middle East.

In New York, the dollar ended the day at 151,82 Japanese yen, up from 151,42 on Thursday. The British pound cost 1,5627 dollars, cheaper than 1,5773 dollars the previous day.

Other late dollar rates in New York included: 1,8930 marks, up from 1,8829; 1,5812 Swiss francs, up from 1,5630; 6,3050 French francs, up from 6,2742; 1 365 Italian lire, up from 1 363,50,

Gold plummeted $13,40 to close at 454,60 dollars on the New York Commodity Exchange, and silver fell to $7,590 from $8,260 on Thursday.

□ In Hong Kong, gold dropped the equivalent of $10,38 on Saturday, opening at $457,81 It closed on Friday at $468.19. — Sapa-AP

Cit Times 23/7/87

Stronger gold fuels JSE boom

By AUDREY D'ANGELO
Financial Editor

THE higher gold price fuelled the boom in the Johannesburg Stock Exchange (JSE) yesterday, pushing it up to new levels undreamed-of a year ago.

The All-Gold Index closed at a record 2 362 compared with 2 346 on Tuesday. The Industrial Index soared to a close of 2 118 compared with 2 106 and the Overall Index to 2 596 compared with 2 583.

But, with caution learned from experience, some investors took handsome profits towards the end of the day as they saw the US dollar strengthening. So although the indices closed at new peaks, some shares slipped from the heights they had reached.

Promise of R90-m gold bonanza

Argus 23/7/87

19

By TOM HOOD
Business Editor

AN additional R90-million a year could flow into the country from sales by the gold mines if the current gold price is maintained, according to Reserve Bank calculations.

Gold has jumped by $14 an ounce in two weeks, influenced by a lower dollar, rising crude oil prices and fears of the Gulf war intensifying. The international gold price is around $455.

About R140-million was added to share values on the Johannesburg Stock Exchange yesterday as the gold rush continued.

The upturn is bolstered by the rising gold price which, if sustained, could bring a dramatic increase in the earnings of the gold mines.

NEW PEAKS

The mines would receive around R19-billion a year for their gold sales at the present gold price of R30 250 a kilogram.

The leading share indices closed at new peaks yesterday, breaching Tuesday's record closing levels amid constant demand for quality shares.

High prices were maintained today on the JSE, with a few gold mining shares rising slightly.

A new toy company to make its debut, Redgewood Holdings, opened at 130c a share, far above the issue price of 50c when its offer of 4-million shares to the public was enormously oversubscribed. The price dropped later to 105c.

A series of company reports today showed sharply higher profits for the first half of the year and helped to underpin industrial shares.

● See page 22

Gold price touches 4-year high of $482,50

Argus 20/5/87

By DEREK TOMMEY
Financial Editor

79

THE gold price rose $7,60 in New York last night and a further $5,40 in the Far Eastern markets today to reach a new four-year high of $482,50 an ounce before easing to $481,55 in London at mid-morning.

But for a number of reasons, including the possibility that the market is being manipulated by some of the smaller gold producers and the low overall demand for gold in the United States, the higher price had little impact on the Johannesburg Stock Exchange.

Dealers in New York said institutional investors were becoming jittery about the outlook of the US economy, the level of interest rates and the dollar's ability to maintain its present rates. This had led to increased investment in cash assets and probably in gold.

THIRD-WORLD DEBT

There was also concern about the stability of US banks because of their huge loans to Third World countries.

Gold shares on the Johannesburg Stock Exchange firmed slightly in early trading, recovering part of yesterday's losses.

However, dealers said the market tended to remain cautious, especially in the light of Monday's warning by the Governor of the Reserve Bank, Dr Gerhard de Kock, that the gold price could fall as quickly as rose.

The rand firmed from last night's 50,20 US cents to a 14-month high against the dollar of 50,38 US cents. However, the rand is still at a low against the British pound.

Gold slides $10 as dollar strengthens

Gov Times 23/6/87

79

LONDON. — Gold bullion ended at $437,00/50, more than $10 below Friday's $447,50/448,00 close, weakened by long liquidation prompted by the firmer dollar and bearish sentiment, dealers said.

In New York, gold closed at $437,30/80.

The London market opened lower at $442,75/443,25, following the decline in New York on Friday, but held fairly steady during the morning, supported by some European buying.

Afternoon trading featured long liquidation as values on comex eased, taking the metal to a low of $436,75/437,25, its cheapest level since April 13.

The dollar's rising strength forced gold prices down in Europe, dealers said. The US dollar rose cheerfully against all major foreign currencies except the Canadian dollar in European trading yesterday.

In Tokyo, where trading ends before Europe's business day begins, the dollar rose to a 10-week high, closing at 145,30 yen from Friday's 144,49. Later, in London, it was quoted higher at 145,45 yen.

Sterling weaker

In London, the British pound felt the pressure of the healthier dollar, and was quoted at $1,6105, down from Friday's $1,6185.

Platinum ended the day at $550/552 an ounce, little changed from its afternoon setting of 552 but down on its morning fix of $564,75 and Friday's close of 570/572, dealers said.

☐ Wall Street continued to navigate further into uncharted waters, closing at a record high for the fifth consecutive session. The gain was fuelled by strong dollar and bond markets, and a growing conviction that the worst of the inflation concerns have passed, traders said.

"With each passing day we seem to gain a little more confidence, particularly with the dollar moving up showing we are not going to get any kind of surge in inflation," said analyst Hugh Johnson of First Albany Co.

The Dow Jones industrial average, which rose 13 points on Friday, tacked on another 25 points to close at a record 2445. — Sapa-Reuter

Gold up after bigger US trade deficit

News 16/7/87

79

Finance Staff

GOLD, which jumped $6 yesterday in the wake of news that the US May trade deficit deteriorated to $14,4-billion, today continued to hold above the $450-level for the first time in a month.

Gold was fixed at $452,90 an ounce in London today, unchanged from yesterday's fix but up $5,90 from Tuesday night's close of $447,00. The metal closed in Hong Kong at $453,15 an ounce, up $5,50 from yesterday's $448,65 close.

The US Commerce Department's report that the deficit had widened from $13,3-billion in April to $14,4-billion was a far cry from the $11-billion rumour which swept through currency markets on Tuesday. Shock waves went through the financial markets, with the dollar tumbling against major currencies.

INTERVENED

Following the announcement, the dollar sank about 1,5 percent against the Japanese yen, West German mark and British pound in hectic trading which was cooled off by rumours that central banks had intervened to buy dollars in support of the US currency.

However, the currency regained some ground on the Tokyo Foreign Exchange market today closing at 149,25 yen, up from its 148,85 close in New York but still down from yesterday's close of 151,23 yen in Tokyo. Later in London it firmed further trading at around 1,8325 German marks against its 1,8285 mark close yesterday and 1,8325 mark close in Tokyo today.

The sharp fall in the dollar strengthened the rand to $0,4892 at its close in Johannesburg yesterday, up from its Tuesday's close of $0,4867.

THE RAND

The rand traded at $0,4904 in Johannesburg today, while the financial rand firmed to $0,3025 from $0,3000 yesterday.

The worsening of the US trade deficit followed two months of improvement.

Fears have also been raised among traders that the dollar needs to fall farther to correct world trade imbalances.

Cape Times 24/6/87 (79)

Gold expected to rise to $475

From MIKE ROBERTSON

VENICE. — The gold price was set to rise further and could average $475 this year, Julian Baring, gold specialist at James Capel, said yesterday.

Baring said at the Financial Times Gold Conference here that he based his assessment on an indication that the Swiss were going to increase investment in gold and the relative attraction of gold compared to equities.

A colleague of his had been told recently by the Swiss that the gold weighting of a model portfolio had recently been increased from 5% to 10%.

"The rise in equity and bond markets world-wide has reduced the gold content in portfolios to levels which the Swiss now belive need topping up. This time it looks as if they are going to do something about it.

"Estimates vary as to the amount of discretionary money managed in Switzerland, but $500 billion seems to be an acceptable guestimate. Five percent of this is $25 billion — more than enough to buy the entire Western world's production for a year at $500 an ounce."

Baring said gold was considerably below its historical average relationship with equity markets in the US, UK and Japan.

In Britain alone gold would have to rise to $1 000 an ounce, or the FT All Share Index fall from 1 078 to 465, to restore the relationship.

There had been a strong bull trend in the gold price and if the Swiss did come to the market, the price might average $475 this year, $600 next year and $750 in 1989 before falling back.

This was not impossible if one remembered how cheap gold was in comparison to equities.

US fears boost gold to 4-year high

Finance Editor ARGUS 18/5/87 79

FEARS of inflation in the United States and the possibility of industrial action on the South African gold mines helped push the gold price to a new four-year-peak in the major bullion markets today.

Gold was trading at $477,25 an ounce in London at mid-morning. This was a drop of $1 from the $478,25 peak price in Hong Kong earlier today, but a gain of $7,35 on Friday afternoon's price.

The last time gold was at these levels was in February, 1983.

The possibility of a cut in gold production did not deter gold mine investors. Stockbrokers reported that gold share prices were higher where changed.

The rand benefited from the higher gold price, opening at 50,20 US cents after closing at 50,15 US cents on Friday. The financial rand was fractionally higher at 31,25 US cents.

Gold closes at $460,75

Cape Times 15/5/87 (74

LONDON. — Gold closed steady at $460,50/$461,00, little changed from the afternoon fix of $461,05, and slightly lower than Wednesday night's final $461,25/$461,75.

The market held in a tight range ahead of yesterday's US March trade data, with operators waiting to see how the figures would affect dollar sentiment, dealers said.

Dealers said the market remained in a consolidation phase, requiring new speculative interest to spur a move beyond the current narrow trading range of $450/465.

Platinum ended the day at $608/611 an ounce, compared with the afternoon fix of $610 and Wednesday's closing $615/617.

Platinum futures gained almost $10,00 in New York yesterday on light buying generated by a dollar-based upswing in gold.

The leading July delivery rose $9,60 at $615,00 an ounce which was just under a technical line of resistance at $615,50.

☐ In Zurich, gold closed steady to higher on good all-round buying interest, with the easier dollar providing a firm undertone, dealers said.

☐ In New York, gold closed at $463,70/$464,20.

☐ In London, the dollar closed weaker at the end of a fairly quiet day's trading in Europe.

The dollar closed at 1,7855/65 marks, down from its opening 1,7950/60 and from Wednesday night's closing 1,7885/95. Against the yen it drifted down to close at 139,40/50 after starting at 140,00/10 and closing on Wednesday night at 139,70/80. — Reuter

Stampede for gold sends price soaring

CAPE TIMES 28/4/87

79

By AUDREY D'ANGELO
Financial Editor

THE stampede of international investors into gold as a safe haven for their wealth, as the dollar weakened and the world financial system seemed less healthy, sent its price soaring again yesterday.

It was fixed $9,75 an ounce higher on the day in London at $474,75 after profit-taking brought it down slightly from the morning setting of $476,60 — the highest since February 1983.

It closed at $470,00/$471,00 in hectic trading, but below new four-year highs set at the morning fix.

Gains followed rocketing silver prices, with enthusiasm for silver's meteoric rise yesterday to a high of $11,40 an ounce, spilling over into gold, London dealers said.

The plummeting dollar and fears about inflation accelerated the move to transfer money into tangible assets like gold, dealers said.

Gold continued to lag silver's rise, but dealers said gold now looked cheap against silver and this might prompt further speculative buying near term. They did not rule out a test of $500.

Platinum posted strong gains in line with the firm trend in gold and silver, and closed near the day's highs at $637/$642 an ounce, compared with Friday's $625/$630, Reuter reports.

The rand closed firm at $0,5015/22, compared with the opening $0,5010/17 and Friday's $0,4987/94. The financial rand firmed to $0,3175/3225 compared with $0,32 on Friday.

Some gold shares on the Johannesburg Stock Exchange, initially stronger, eased on profit-taking.

SA analysts are unanimous that gold will continue to rise and the dollar to weaken.

□ International news agencies report that London dealers forecast a continuing upward trend for gold, saying it would reach $500 soon.

Silver has been helped in recent days by a decision by Peru, the second biggest producer, to restrict exports and possibly try to start a silver cartel.

In New York the dollar's recent steep decline continued at the opening amid fears that this week's summit of US and Japanese leaders in Washington will fail to produce any significant easing in bilateral trade tensions.

□ Gold price "due to volatile market", page 11

ARGUS 28/4/87

79

Gold perks up slightly after $30 dip

Business Editor

GOLD recovered slightly in London today from its $30 plunge last night in New York.

Bullion was fixed at $455,75 after opening at $452,75 (R910,95) an ounce, an advance on earlier trading in Hong Kong.

Gold reached $480,50 in New York, its highest price since February 1983, but tumbled on the back of a 30 percent fall in silver prices as the American dollar halted its decline on currency markets.

Influenced by the lower bullion price, the rand eased to 49,70 US cents in Johannesburg early today, down from 50,80 cents last night.

The financial rand, quoted at 30,50 cents, was sharply lower from yesterday's 32 cents.

The US dollar improved to 139,45 yen in Tokyo today from its low of 137,25 yesterday.

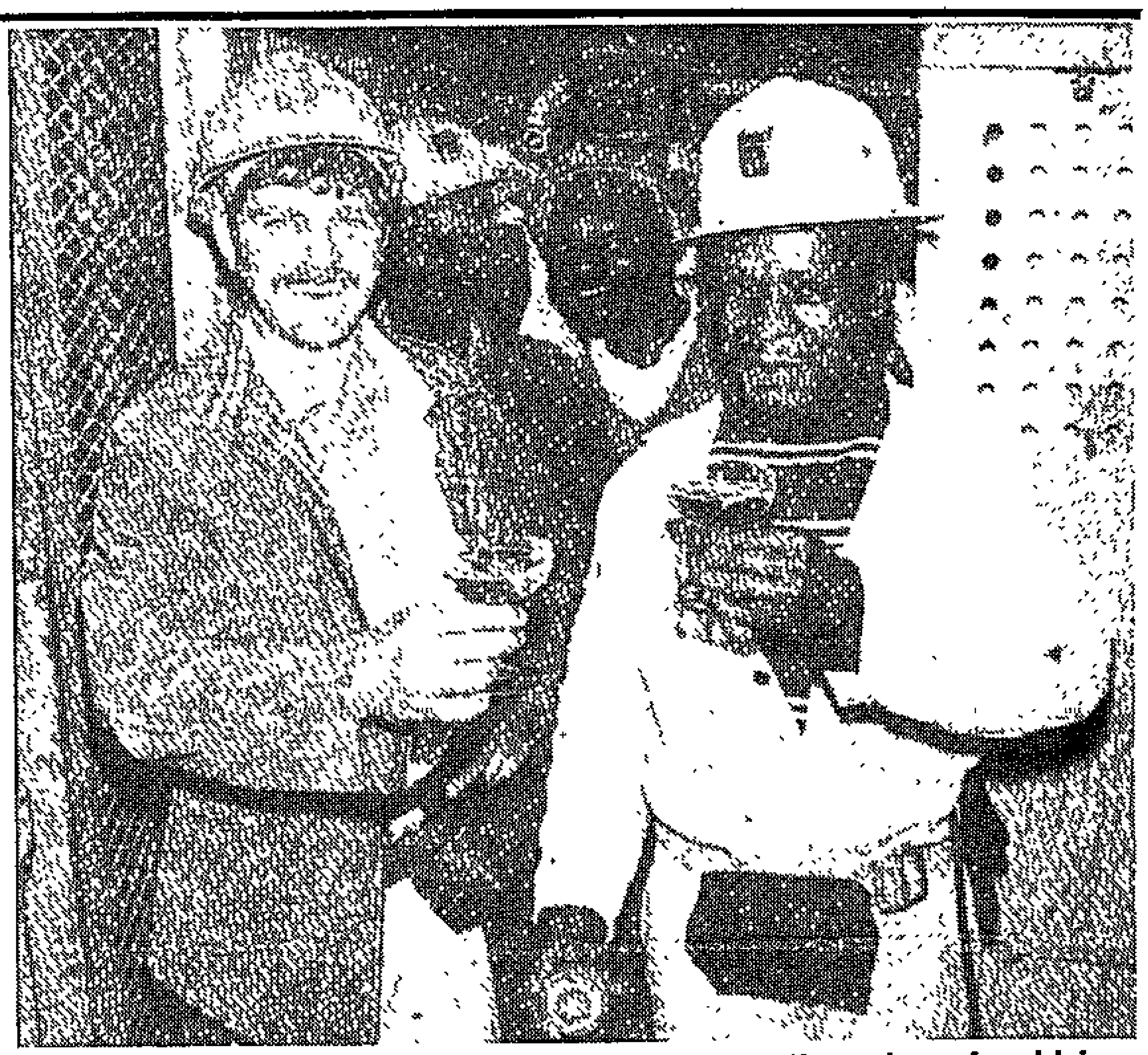
Gold's reverse hit share prices which reached new peaks on the Johannesburg Stock Exchange yesterday.

● See Page 28.

Gold price: Now we can be happy

79

Sowetan 27/4/87



THERE is now reason for miners to celebrate: the price of gold is shooting up and giving the economy a boost.

FOCUS

By MCEDO MLAMLA, a Barclays Bank economist

THE current rise in the gold price breaking the $450 per fine ounce, is good news for South Africa. Considering that gold accounts for roughly 40 percent of our foreign exchange earnings, the surge in the price of this commodity is expected to provide meaningful stimulus to the South African economy.

The release of the American trade deficit figures for 1986 (a massive $170 billion deficit) was instrumental in the surge of the gold price. This rise of course means that our foreign reserve holdings should dramatically improve and further ease the burden of our foreign debt repayment.

The most important benefit from the rise in the price of gold is that it improves South Africa's economic growth prospects. Also it is likely to increase the government's growth prospects. Also it is likely to increase the government's tax revenue from the gold price, possibly allowing it to make more tax concessions to the individual taxpayer.

The appreciation of the price of gold has however brought woes along for the non-gold exporters. The rand exchange has appreciated to levels hovering around 50 US cents. This is causing non-gold exports to become less competitive in the international markets, a situation made even more uncomfortable when viewed within the perspective of economic sanctions. Enough to make the non-gold exporters even more jittery is the reluctance by the authorities to prevent further appreciation of the rand. While the appreciation of the rand will cool off our inflationary pressure, there is a real danger that the present phenomenon will lull us into a false sense of security, and make us lose sight of the importance of non-gold exports.

The government would do well to at least shield the non-gold exporting sector by not allowing an unlimited appreciation of the rand against the dollar which is the main currency in which our exports are priced.

Factors

We have to bear in mind that the gold price is due to factors totally out of our control. As a result we cannot be certain that this price improvement will be sustained for ever and a day. Accordingly the government should plan for the inevitable day when the gold price will again decline. Allowing a further erosion of our non-gold export base in the interim due to a too strong rand would be short-sighted in the long run.

The other side of the coin is that the appreciation of the rand helps to reduce our inflationary pressures that emanate from the import side. Being a developing country with a manufacturing sector using substantial inputs with a huge import-content, this appreciation is most helpful to those so burdened. Also, in terms of our foreign debt, the rand appreciation has the effect of reducing this burden for those with actual rand liabilities. And a healthy current account surplus of course enables the authorities to look more inward, in terms of pressing domestic economic priorities.

Balance

There is no dispute that the high gold price is good news for the South African economy. However, a judicious balance has to be maintained between the concomitant appreciation of the rand, and the interest of our non-gold exporters.

Investment demand running at high level

4/5/87 (79)

Gold's prospects in the hands of speculators

Star

By Neil Behrmann

LONDON — Prospects for gold are unpredictable because the metal is in the hands of speculators.

A report by Christian, Podleska and Van Musschenbroek for Goldman Sachs, the New York investment house and leading precious metals traders, estimates that investment demand is running at levels last seen in the late Seventies and early Eighties.

Last year investors added 23,1 million ounces to their gold holdings, says Goldman Sachs. This was double the level of 1985 and the highest level since investors bought nearly 28 million ounces in 1979.

Besides investor demand for coins and bars, speculators are playing a significant role.

Gold futures and options volumes have soared during the past few months. To a large extent the speculation has been spurred by unusual activity in the volatile silver market.

Since gold bottomed out at $281 in February 1985, the price has surged 62 percent in dollar terms, but has fallen by 15 percent in yen.

Despite considerable scepticism amongst the bullion dealing community, the price began its upward move in the past two years when Japan bought 6,4 million ounces for Hirohito coins and another 7 to 10 million ounces for other investment products.

"Demand for these products had little to do with patriotism and the Emperor, and a lot to do with the fact that the strong yen reduced gold prices to pre-1979 bargain levels in Japan," says the report.

Meanwhile investment holdings in the United States may have risen about 8 million ounces last year, while gold inventories held in Europe jumped seven million ounces.

With supplies soaring, investors must absorb 21 million ounces worth $9,5 billion this year, says Goldman Sachs. So far, the upsurge in silver and continual uncertainty about the dollar have attracted hoards of investors and speculators into the metal. The bullion dealing community, bearish in 1985, hasbecome bullish.

"Today there are many, many more individual and institutional investors with greatly increased sums of investment funds interested in placing part of their assets in gold," says the report. The Japanese also intend minting more Hirohito coins this year.

But the question in the end goes back to price. When gold rises, investors and speculators rush into the market. When it begins to slide, their sales add to supplies that are already high. Recent volatility between $450 and $475 proves the point.

Last year prices were easier to predict. This year gold could easily swing in a range of $420 to $520, depending on the dollar, trade protectionism and above all greed and fear.

Most dealers expect the US dollar to continue to collapse even though major currencies have almost doubled against the US unit in only two years.

They remain bearish despite Federal Reserve Board chairman Paul Volcker's decision to begin raising interest rates to protect the dollar. Foreign exchange dealers are betting that the Fed will not have the guts to risk a recession by raising interest rates substantially.

All signs point to a final sell off. But analysts contend that after its swift tumble the dollar will begin to recover.

They say that the fundamentals are beginning to favour the cheap US currency.

Business Report

Gold rockets to a four-year high in London

CMG Times 25/4/87

79

By AUDREY D'ANGELO
Financial Editor

THE gold price rocketed again yesterday, to close in London at $464,85 an ounce — the highest for four years — on concern about a rising US inflation rate and international trade difficulties.

Closing gold prices
(In $ an ounce)
LONDON:
464,60-465,20
Fixing am: 462,20
Fixing pm: 462,60
ZURICH:
461,00-464,00
— Reuter

And euphoria returned to the JSE as the value of gold shares rose by up to $30 on the day.

In spite of this, the commercial rand ended the day below $0,50. But the financial rand strengthened to $0,32 on strong demand as international investors again rushed into precious metals — the traditional refuge in times of economic uncertainty — and speculative demand pushed up the prices of gold, silver and platinum.

International news agencies report that the gold price rose to $467 an ounce in Zurich before beginning to fall back on profit-taking and the slight strengthening of the dollar on central bank intervention.

□ Reuter reports that gold and silver were bought at a fevered pace on international markets yesterday.

Analysts said the rising prices were fuelled by some investors moving their funds out of booming stock markets into precious metals.

Since the total annual production of gold and silver represents only a tiny fraction of the value of the world's stock markets, it takes only a small shift by investors to send precious metal prices rocketing, they say.

Co-ordinate marketing

Silver was also boosted this week by news that Peru, the second largest producer, was halting all exports and wanted to co-ordinate marketing with the largest producer, Mexico.

The two control about 50% of world production.

"It looks as if they might be trying to do for silver what Opec did for oil," said Freddy Gubler, gold specialist at Citicorp (Schweiz).

The price of silver is down some 90% from the record highs of 1980, a much steeper fall than other precious metals.

With silver's recent gains, the price of an ounce is now about one-50th the price of an ounce of gold, up from a ratio of one-75th at the start of the year, but still below the one-35th to one-45th ratio analysts say is normal.

US government figures released yesterday showed the annual inflation rate so far this year at 6,2%, far exceeding the Reagan administration's forecast of 3% this year after just 1,1% last year.

Gold price soars to four-year high

23/4/87

By JOHAN SWANEPOEL
Business Editor

REACTING to a significantly weaker dollar, the gold price broke through $460 today to its highest level in four years. On the back of the sharply higher gold price the rand broke through $0,51, its highest level in more than a year.

Gold gained nearly $10 overnight to open at $462,50 in London and almost immediately rose to $463,25, dropping to $458,50 in a volatile market in early trading. By early afternoon it rose again to $461,25.

The rand opened 50 points up at $0,5010 and then rose to $0,5020. Importers took advantage of this to buy dollars, forcing the rand down to $0,4975 in late morning.

But by early afternoon it rose to $0,51.

Against the weaker dollar other foreign currencies firmed and the rand eased to 0,8956 German marks from 0,9015 marks, to 69,72 yen from 70,08 yen and to R3,30 to £1 from R3,29.

The rally staged by gold was sparked by a strong rise in the silver market. Gold was helped by the sharp fall in the dollar.

US analysts said the market was discouraged by the Gross National Product report, despite strong overall growth.

Most of the gain came from an increase in inventories, a bad sign as it indicates demand by consumers is falling sharply.

The pound also climbed against the weak dollar, despite intervention by the Bank of England.

Dealers said the dollar would have dropped even more if the Swiss, Japanese and West German central banks had not intervened to steady the market. The central banks were buying dollars while selling yen.

The intervention by the central banks is part of a February agreement and since reaffirmed by the seven major industrial nations to try and stabilize their currencies near present levels.

But continuing global trade tensions, with no end in sight to the US-Japanese trade dispute and threats of restrictive trading legislation in the US have depressed the dollar, dealers said.

Gold price rallies at $451

Cape Times 22/4/87 (79)

Financial Staff

GOLD which opened sharply higher yesterday after the Easter holiday, began to fall back later in the day, with a last-minute rally to $450/$451 at the close in London.

Dealers said there was major support just below current levels.

The day saw hectic trading and four-year highs in London and Zurich which threatened to breach the $460 barrier amid trade tensions, concern over the continuing weakness of the dollar, and renewed fears about US inflation.

Dealers said the price rise was helped by some panic "short-covering" as traders, worried that the price might go higher, bought supplies to meet earlier commitments they had made to sell the metal.

Silver, meanwhile, rose above $8 an ounce for the first time since August, 1984.

Gold shares prices closed slightly firmer in quiet and cautious trading, having shed some of their earlier gains as the gold price dropped from its overnight highs, dealers said.

$455

ARGUS 31/4/87

79

Gold leaps to new heights

By TOM HOOD
Business Editor

GOLD traded at a four-year high of $455 an ounce in London and $459 in Zurich today after leaping overnight by $11 in New York.

And the rand received an immediate boost when foreign exchange markets reopened, starting at 50 US cents in Johannesburg and quickly rising to 50,20. It closed at 49,63 before the Easter holiday.

The financial rand improved to 32,50 cents from a pre-Easter 31,75.

Gold shares opened higher on the Johannesburg Stock Exchange, rallying from last Thursday's close.

The flight into gold follows further weakening of the American dollar, fears of rising inflation in the United States and developments in the trade war with Japan.

Prices on the American gold futures market jumped by as much as $11,50 to $493 and $517 last night.

The dollar slipped again today to 142.07 yen on the Tokyo Foreign Exchange, but recovered to 142,10 after support from Japan's central bank. This was down from yesterday's close of 142.95 yen.

TARIFF INCREASES

The American government imposed tariff increases of 100 percent on about R600-million of Japanese computer and electronic imports at the weekend — a move which investors believe will boost inflationary pressures.

The sanctions are the first full-scale retaliation against Japan since the end of World War 2.

Gold has gained $52 since the beginning of January. In rand terms, however, the price has climbed little more than five percent to R906 an ounce from R870 on January 2, when the international price stood at $403. This is because of the strengthening of the rand.

Gold and the rand hit high levels

(79)

Clost 21/4/87

Business Editor

GOLD traded consistently above $450 today as buyers scrambled for the metal following its strengthening over the weekend. On the back of this strong gold price the rand moved above $0,50.

From a New York closing of $444,10 on Thursday, gold opened $11,25 up in London at $455,35 and went as high as $459,25, easing again to $454,25 in early afternoon as gold soared to four-year highs in Europe.

Dealers believe the gold price is set to reach further highs in the short-term, giving as a reason for today's strengthening the failure of gold to weaken over the long weekend and particularly yesterday against expectations in the United States.

They say the strong demand prompted dealers and investers to buy instead of sell. From a technical point the firm rise of bullion through the $440 level was seen as important and sentiment became more bullish when the price broke through $450.

The rand rose 52 points to open at $0,5012 and rose to $0,5030 before easing to $0,5010 in early afternoon. It firmed to 0,9057 German marks from 0,9004 marks.

Lower gold price a 'good way to attack apartheid'

(79)

21/4/87 The Star Bureau SPHF

LONDON — A British newspaper has called on the West to bring down the price of gold as a way of attacking apartheid.

"The irrational, mesmerising hold of the metal and the panic over the illusory shortage an embargo would cause undermine the effect of the sanctions already in place, precisely the opposite of what was intended," says *The Guardian* in an editorial.

"But there would be no difficulty at all with replacing gold in all its applications except the industrial (for which an ample sufficiency could be found elsewhere).

"Alternatively, and much more conveniently, if the West was genuine in its professed hostility to apartheid, it could painlessly force the price down by intelligent use of its huge reserves, a lever which could be dropped the moment an acceptable regime took over.

"In the campaign to end apartheid, gold is the only thing that glisters."

HARMFUL TO ECONOMY

The paper notes that gold, which recently nudged $450 an ounce, underpins roughly half the South African economy.

"In the not so distant past the price came close to falling below the $300 mark, which is held to be the point at which the South African economy would really be hurt.

"We are therefore obliged to assume, with the present price a comfortable 50 percent above the danger level, that Pretoria is quietly laughing all the way to the nearest newly disinvested branch of Barclays National Bank."

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AGE 4

Gold price: Revival hopes strengthen

Cape Times 16/4/87

79

Financial Editor

GOLD closed higher again in London last night — at $444,75 an ounce — fuelling a feeling of confidence that South Africa's long recession is over and the boom under way.

And the all-gold index on the Johannesburg Stock Exchange reached a new high of 2 265, before easing to 2 263 towards the close.

Economists said signs that the United States economy was faltering would continue to boost gold on international markets, sending the price higher as investors dumped the weakening dollar, and strengthening the upturn in South Africa.

Businessmen said the rising gold price had supplied the missing factor needed to trigger off a revival of confidence in the economy.

The director of Cape Town Chamber of Commerce, Mr Alan Lighton, said the economy had already started reviving and the higher gold price had given an added boost.

"It was the fillip we needed to get things going."

The Old Mutual's chief economist, Mr Rob Lee, said he expected the gold price to go on rising, bringing more foreign investment into South Africa.

"I think there is justification for rising confidence. We are earning more foreign currency and all the other benefits of a higher gold price, including a stronger rand, are coming through."

It looked briefly yesterday as though the gold price would drop back, as it eased on profit taking.

But it revived to close $3 higher on the day in London and the rand closed firm above $0,50.

□ Gold, rand — Page 5

Financial Mail

79

GOLD AND THE ECONOMY

To the rescue again?

As the bullion price touches US$450 an ounce and the rand US50c, the standard euphoria has set in yet again. But what does this really mean?

Without doubt a higher gold price is welcome. If the rand holds at US50c every US$50/oz increase in bullion price adds R2,1 billion to the value of current annual gold output. If SA's dollar revenues improve, our ability to repay foreign debt is enhanced. Other things being equal, the balance of payments (BoP) should also improve in rand terms.

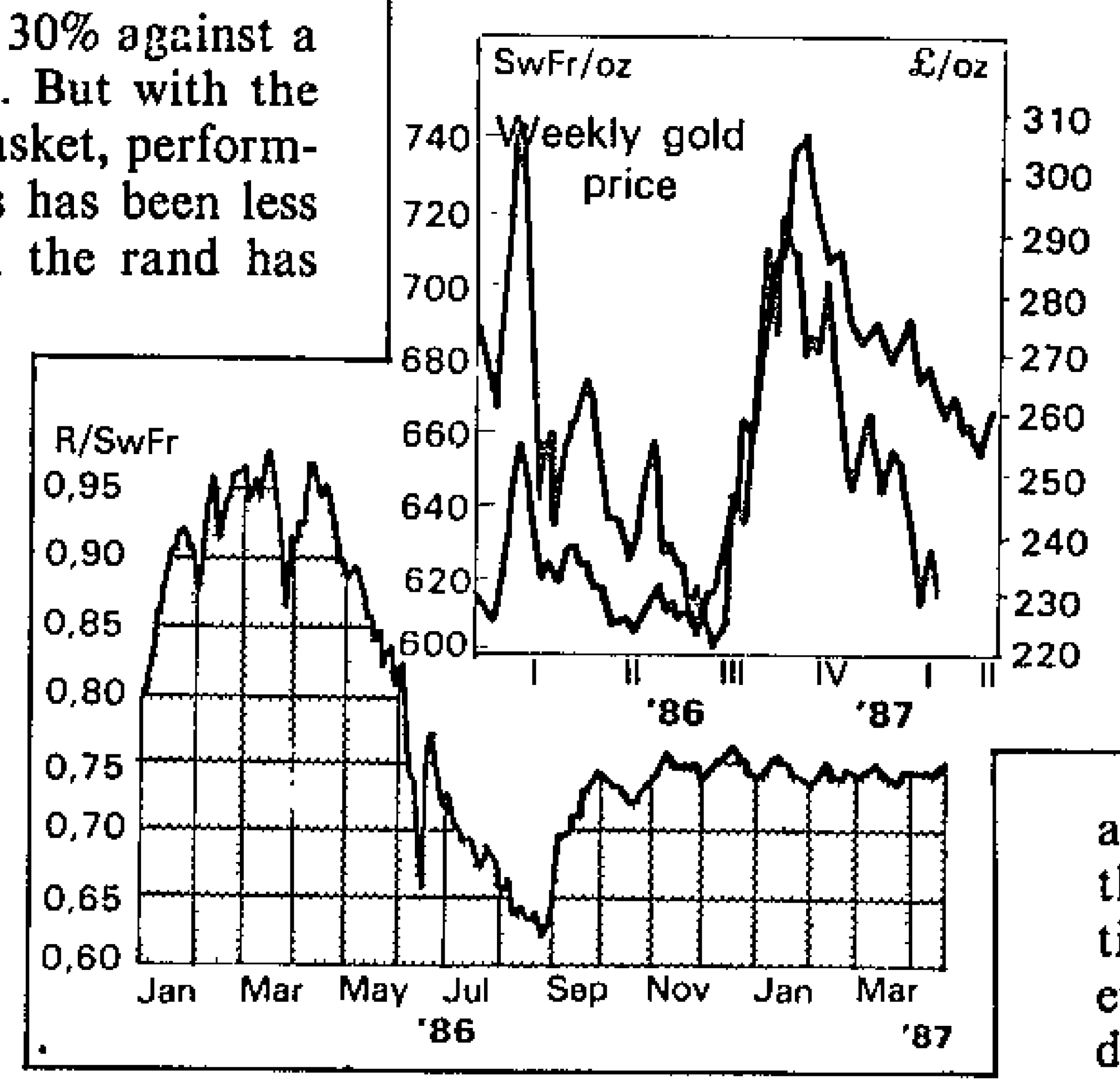
The strength of BoP has virtually doubled the dollar value of gold and forex reserves from the 1986 low — a performance that would look even better if the steep decline in the Reserve Bank's own dollar liabilities (US$1,3 billion at the time of the standstill) is taken into account. Real net reserves are the highest for several years.

But our good fortune is largely a reflection of the dollar's bad fortune. The rand has firmed 40% against the dollar from its low, and 30% against a trade-weighted basket of currencies. But with the dollar constituting the bulk of the basket, performance against other major currencies has been less impressive. As the graph indicates, the rand has shown no appreciation against (for example) the Swiss franc since late last year.

Equally, while currency uncertainties and fears of a possible pick-up in world inflation rates later this year have pushed up the bullion price in non-dollar terms, its gain has been far less marked (again, see graph).

True, the dollar price is what matters to the gold mines. But even then, what is good news for the gold mines may not be good news for everybody else.

Not so firm



Other exporters suffer from a strong dollar, and domestic suppliers complain that imports are becoming more competitive — which may help check inflation but dampens any revival in demand for local manufactures.

Moreover, with gold mining's high rate of marginal tax, the bulk of any increased revenue goes straight to the taxman; when the rest is finally passed on in dividends, some is drained off by financial institutions and retentions at the mining houses.

So the ultimate increase in personal incomes is both muted and delayed.

The upshot is that semi-official estimates of a R5 billion BoP current account surplus and 3% growth rate this year have not yet been adjusted upwards. They were, after all, based on an average gold price of US$425; and the average this year (already four months gone) is only about US$410. It will take another couple of months of bullion around US$450 before more optimism can be justified.

The Bank, incidentally, denies having fixed targets for the rand, claiming the basic policy of managed floating has been unchanged since 1979.

Governor Gerhard de Kock points out that attempts to set rates a long way from market perceptions are usually unsustainable — as the Group of Five has found: "What we can say is that if only gold rises and nothing else changes, we would be reluctant to see the rand go up too much. But if the dollar goes down too, the rand must go up, or we will depreciate against the D-mark and Swiss franc — and that would not be desirable."

There are as yet no signs that the dollar has bottomed against the yen. However — echoing their local counterparts — Japanese exporters are starting to complain that the strength of the yen is pricing them out of some export markets. There is even evidence of selling below cost to maintain market share.

At some stage automatic mechanisms will cure the massive Japanese BoP surplus. Already there are signs that in volume terms exports are not behaving as well as in yen terms.

As markets always exaggerate, when the turning point is reached the dollar could manage a sharp partial recovery. Until that happens, to assume that any particular set of exchange rates — however favourable — will be lasting, is dangerous.

In virtually every respect the economy is healthier than it has been for years.

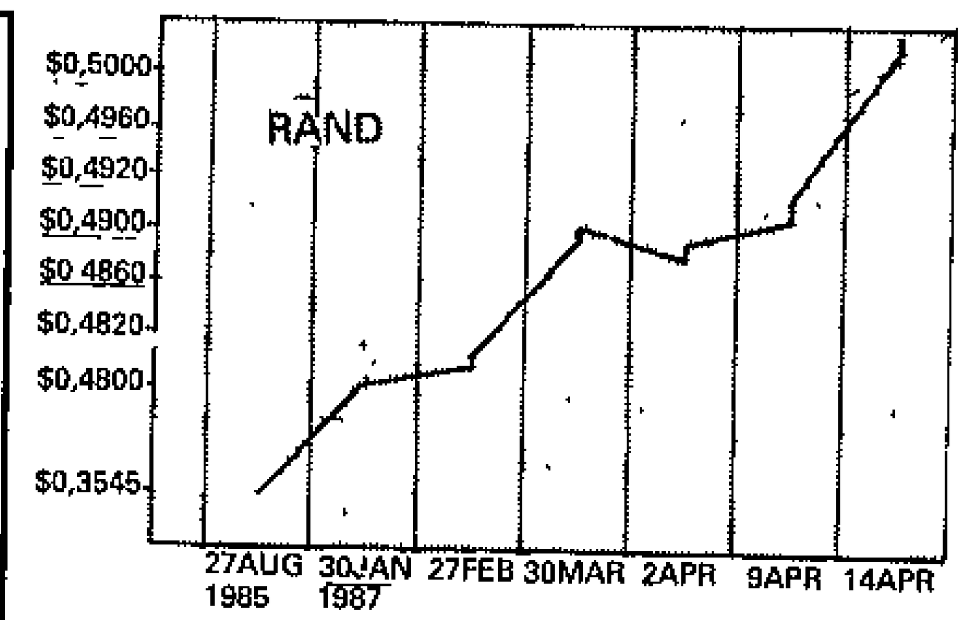
The price has been high: a decline in overall living standards which has fallen hardest on those least able to afford it. But it is important to note that it has been achieved not with foreign banks leaning over themselves to extend new credits, but with the added constraint of having to become a net exporter of capital. Not for us the Latin American solution.

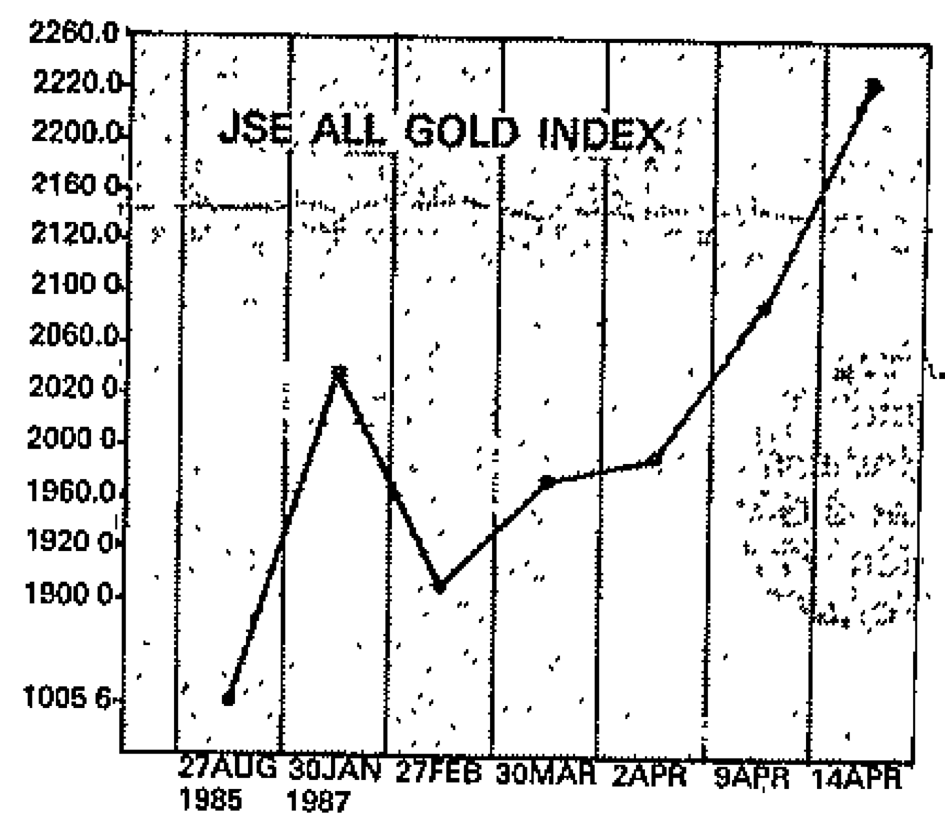
Current economic forecasts for 1987 may well turn out too conservative. But, like a massive oil tanker, an economy does not pick up speed immediately the wind turns favourable. It is safer to say that, if present conditions continue, the duration (and acceleration) of the upturn could be extended at least well into 1988.

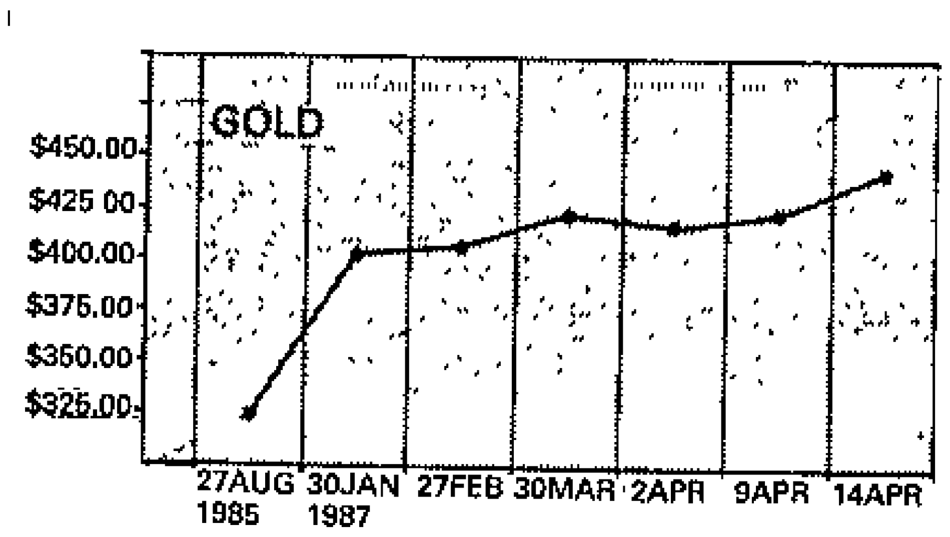
Late last year, business confidence remained low when there were many signs of a pick-up in real economic activity. Conversely, confidence is now growing fast; but further quickening of the tempo of real activity is harder to generate.

Gold up — and it looks like a boom

Cape Times 15/4/87 (79)







By AUDREY D'ANGELO
Financial Editor

GOLD jumped yesterday, the rand leapt to over US$0,50c, and shares on the Johannesburg Stock Exchange (JSE) surged to new highs as South Africa moved further into the first phase of a potential economic boom.

The yellow metal, mainstay of the economy, was fixed at $442,40 an ounce in London yesterday afternoon, after breaking through the $440 barrier in the morning, compared with $435,90 on Monday afternoon.

Prospects looked good for a sustained rise as investors dumped the US dollar, and the threat of a higher world inflation rate made gold look more attractive as a safe haven for their money.

Disappointing US trade figures issued yesterday afternoon also forced the dollar lower, reinforcing gold's upward trend.

Some gold share prices on the JSE moved slightly lower on profit taking, but the adjustment should be viewed in the light of a virtual doubling of prices in recent weeks.

The all-gold index eased to 2 239 from the record close of 2 240 on Monday, after rising to 2 247 at the opening.

Investment analysts regarded the slip as a temporary setback which will soon return to a recovery path.

University of Cape Town economics professor Brian Kantor said he had no doubt that the boom was coming and it was vitally important that it should not be mismanaged.

It would be disastrous, he maintained, for the authorities to keep down the value of the rand to help exports.

Saying that a higher rand would help solve the problem of SA's damagingly high inflation rate, and make it easier to repay dollar-denominated foreign debt, he worried that an artificial depression of the rand would create excessive growth of the money supply and a repetition of SA's earlier problems of inflation.

"The fundamentals are helping us. The weaker Wall Street looks, the better for gold.

"But we must watch that the authorities do not let the boom get out of hand," Prof Kantor cautioned.

☐ **See Page 6**

Cape Times 4/4/87

Gold goes up and up

79

Financial Editor

GOLD rose again on international markets yesterday — closing in London at $436,25 an ounce, as investors sought a safer haven for their money than the weakening US dollar.

The Johannesburg Stock Exchange continued to rise.

But some investment analysts warn that the share market is over-valued and investors may burn their fingers before long.

☐ **Bullion boosts gold shares — Page 4.**

Gold price poses dilemma for bank

14/4/87

Dispatch Correspondent

JOHANNESBURG — The continued firming of the gold price yesterday on international markets — it closed at $436,50 in London compared with Friday's $432,00—50 — has presented the Reserve Bank with a dilemma.

If in response the bank allows the rand to rise, it would reduce inflation, but possibly extinguish South Africa's economic recovery. However, if through intervention in the market, it keeps the value of the currency low this would promote an export led growth.

South Africa's present economic recovery is in a critical phase and it must be prevented from petering out as it did towards the middle of last year, economists argue.

But yesterday's 0,6% rise in the rand — it closed at $0,4968-75 compared with Friday's $0,4938-45 — indicates that the bank has taken the view that the weakness in the dollar against the Japanese yen could be endemic and a higher gold price inevitable.

But, while gold mines remain unscathed if the rand price of gold rises, which is has in recent weeks, other exporters are hard hit.

Yesterday's rise in the rand caused near panic among some non-gold exporters who contacted the bank to complain about one per cent being shaved off their earnings.

In the past, South African exporters have had a reputation for being intermitent suppliers. But, faced with sanctions, it is crucial that they break out of this mould.

Also, some are planning investment in new plant and equipment, but would back off if faced with a rand at $0,55.

Also, if the rand was allowed to rise rapidly in response to the higher gold price, which could result in a drop in the rand price of gold, gold mining profits would be cut, and also gold mining taxes which, in turn, could cause problems for the budget.

Gold up 10 dollars; shares hit new peak as JSE booms

AE 6/5 10/4/87

By TOM HOOD
Business Editor

79 88

GOLD spurted more than $10 overnight and traded today at $432,50 an ounce in London, its highest price since October.

This followed the latest slide by the American dollar and added more fuel to the booming Johannesburg Stock Exchange, where prices rose to new peaks and added millions of rands to share values.

The rand strengthened today to 49,50 US cents from just above 49 yesterday.

The financial rand did even better — jumping to 34,18 US cents from 32,50 yesterday — a rise that could curb the boom in gold-mining shares.

Bullion dealers in Zurich forecast gold could reach $440 to $450 in the next few weeks if the ailing dollar is not rescued.

Besides gold, platinum and silver prices have made rapid gains as speculators switched from dollars to precious metals.

BATTERED DOLLAR

Gold's upsurge followed the collapse of negotiations by seven major industrial countries to halt the decline of the battered American dollar.

Speculators and big investors today continued to sell off dollars on world currency markets, driving it even lower.

The latest quote for the dollar was a 40-year low of 142,35 yen in London today. The currency also lost ground against the West German mark, falling to about 1,8140 marks from 1,8250 yesterday. The dollar ended the week by plunging 2.90 yen.

The dollar's sharp slide took share prices down with it on Wall Street last night and in Tokyo this morning.

Speculators have been selling the dollar in the belief that a lower U.S. currency is inevitable because of the huge United States trade deficit and because President Reagan's administration is glad to see it fall.

Gold shares led the field on the JSE yesterday, where shares worth more than R82-million changed hands.

Prices soared today in hectic trading, supported by higher bullion prices. Steepest rise was R13 by Western Deep, whose shares hit a record R218.

HEAVY BUYING

Heavy overseas buying was reported, especially from Britain and the United States.

But industrial shares were also in demand and the industrial shares index raced ahead another four points to a new peak of 1 767 yesterday — closing at a record high for the sixth day in succession.

The biggest percentage gains were made by industrial shares, including Tej, Juicy Lucy, Montays, Irvin and Johnson and Simmers.

Shares to hit new highs included Anglovaal, JCI, Western Deep, Rand Mines, Nedbank, Hill Samuel, Trust Bank, Barlows, Safren, SA Breweries, Blue Circle, Goldstein, Group 5, LTA, Chubb, Curries, Bergers, Garlick, Millys and Brokers.

● In contrast, share prices followed the dollar and plunged in stock markets in London, New York and Tokyo.

Mine profits being squeezed — Anglo

Finance Staff

Profits of Anglo American Corporation's Tranvaal gold mines will be squeezed unless the gold price continues to rise.

This is the view of Mr E P Gush, chairman of Vaal Reefs, Southvaal, Western Deep Levels and Elandsrand, and Mr T L Pretorius, chairman of Afrikander Lease and Salands, in their annual review for 1986.

They said that under mounting internal and external political and economic pressure the rand had lost ground for much of the year against the dollar which had fallen against most of the world's major currencies.

This had resulted in an average gold price received of R27 033a kilogram for 1986, an improvement of 22,5 percent on 1985 receipts.

"As measured by the production price index, cost escalation increased by 19,9 percent in 1986.

"This has put a tremendous cost strain on the mines and unless the gold price continues to rise there will be an inevitable squeeze on profits," they say.

"Over the past few years the Government has attempted to manage the economy with short-term expedients which assisted in buoying the economy but to the detriment of long-term stability and growth and at the expense of the already serious inflation problem."

STAR 26/3/87

(79)

Star Johannesburg Saturday March 14 1987

The week on the JSE

Finrand displays renewed strength

STAR 14/3/87.

By John Spira

After a soft start to the week, gold shares perked up on Thursday and yesterday as the bullion price held near the $410 mark. Industrials were by and large unchanged with a slightly firmer bias.

The financial rand showed renewed strength yesterday to close at the US28c level. Dealers were encouraged by the fact that gold share prices were steady in spite of the rebound in the value of the finrand.

Also viewed in a positive light was gold's resilience in the face of a dollar which touched DM1,87, only to react downward on rumours that the Federal Reserve had intervened by selling dollars in order to check its rise.

Randfontein, Vaal Reefs and Elsburg were marginally better, while Harties and Doorns eased back a touch.

The largest gold-related move was in mining exploration company PGA and the options, both of which moved up steeply yesterday, with the latter gaining 20 percent and the former 35 percent. Diagonal Street's other mining exploration counters moved up in sympathy, Fredev adding 25c to 1425c and Randex 20c to 255c.

The Krugerrand was surprisingly soft throughout the week, dipping to R1010 yesterday morning. However, it recovered to close at R1030 buyers later in the day.

De Beers, after responding favourably to its results, came off yesterday. Anglo American softened to reflect the easier tone in De Beers.

Northam attracted much attention ahead of its rights issue and closed at R50 buyers after losing some 600c earlier in the week.

Feature among industrials was a massive bookover of 18,2 million shares in TPN. Also of note was the steep decline in Columbia — a fall interpreted as being a reaction to the share's headlong advance earlier in the month.

Elsewhere, large percentage gains were seen in IGI Life, Schus, IICO, McPhail, Mermine, Putco, D&H, Techire, Retco and OIL. Biggest losses were recorded by Adonis, Dundee, Turf, Saficon, Elgro and Picapli. Mediclin hit a new low.

New highs included Frebank, Investors Club, Propgroup, Unidev, Groprop, Amic (on its much improved results), F-S Industries, Waicor, Goldstein, Chemserv, Da Gama, Berzack, National Bolts, Metal Box, SAAN and Midas.

Speculators test resolve of industrial nations to support dollar

SA gold shares offer best value on world markets

79

STAR 25/3/87

By Neil Behrmann

LONDON — The Bank of Japan and the US Federal Reserve Bank fought off currency speculators by intervening heavily to support the dollar this week.

After falling to a post war low of 148,40 yen the US currency rallied a point and rose above its lows against European currencies yesterday.

The rebound of the dollar knocked $3 off the price of gold and the metal is trading around $408.

The run against the dollar began in New York trading hours on Monday, traders say, when US Treasury Secretary James Baker said that the US Government did not have a target for the dollar.

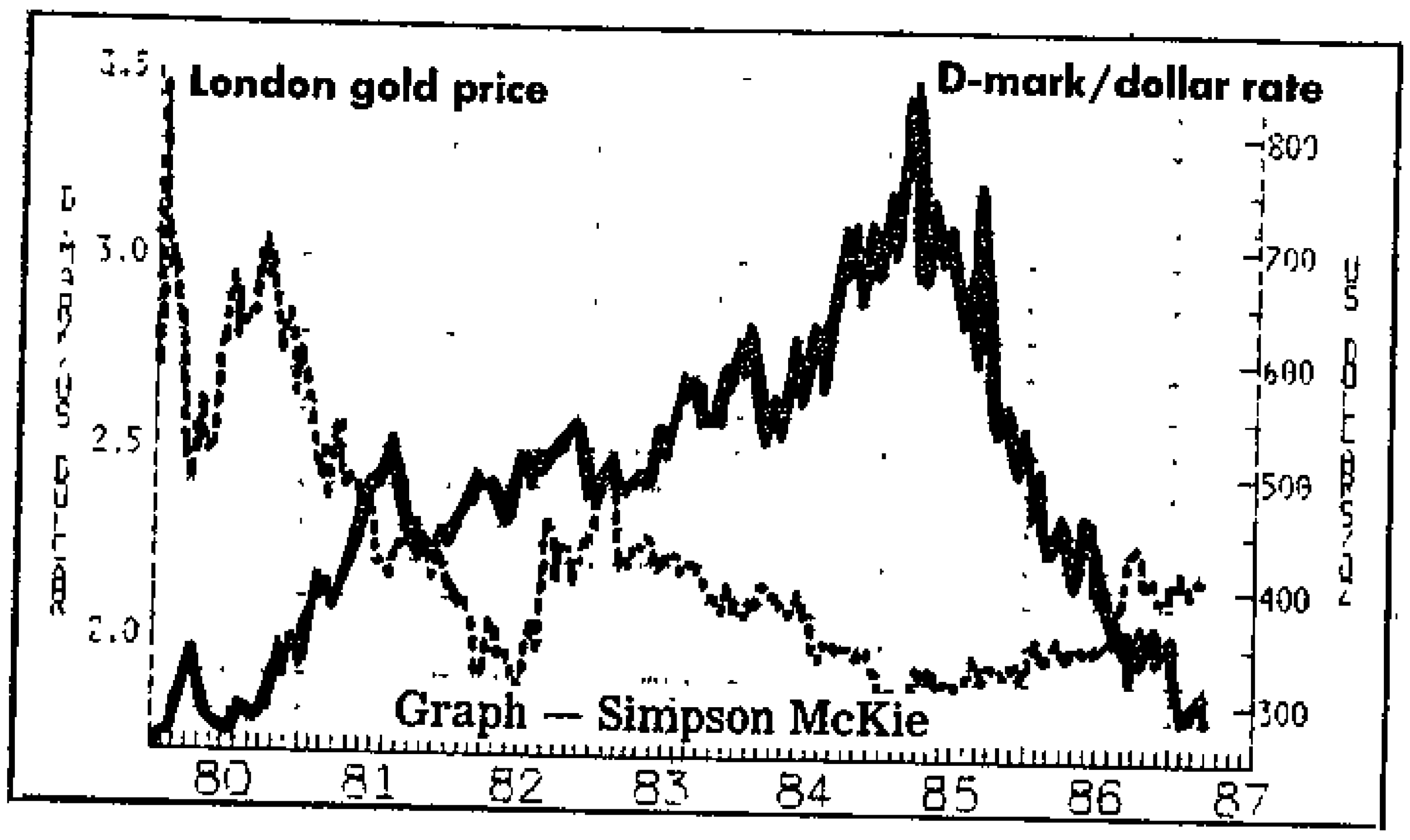
The remark encouraged currency traders to test the resolve of leading industrial nations which agreed at a recent Paris meeting to support the dollar.

At a post budget Press conference last week, UK Chancellor of the Exchequer Nigel Lawson refused to comment on widespread speculation that there was a secret document which showed how central banks would fox traders in the market.

Gold's spluttering efforts confirm market uncertainty. "The gold market desperately needs more investment interest to absorb growing supplies," says a Frankfurt bullion trader.

But so far investors are ignoring the metal and are placing their money in stocks and other financial assets.

Most bullion dealers in Switzerland and London contend that gold is underpinned because central banks, notably Taiwan, bought the metal when the price recently fell below $400 an ounce.



Graph — Simpson McKie

By the same token they detect heavy selling from producers whenever gold rises above $410.

Shearson Lehman Brothers says that if international investment communities switch only one or two percent of their share portfolios into gold, prices would jump.

Gold locked in

But so far international stockmarkets are experiencing all the fun and gold is locked in a trading band of around $390 to $420 an ounce.

Some bullion dealers reckon that it is only a matter of time before gold revives.

"The surge in world stockmarkets reminds me of the euphoria in precious metals markets late 1979 and 1980", says Keith Smith, managing director of Mocatta Goldsmid, a London bullion house.

Precious metals subsequently collapsed, Mr Smith recalls. When stockmarkets become vulnerable later this year, gold will regain its popularity, he says.

The fad of equities has washed off on gold shares, notably North American. Shares have been bid sky-high. Shares such as Echo Bay Mines Ltd, a leading Canadian gold mine, rose 142 percent in the past 12 months.

American Barrick Resources Corp soared fourfold. Echo Bay's price earnings ratio on latest test results is 57 and American Barrick 52.

Price earnings ratios of another leading Canadian gold mine, Battle Mountain Gold Co, is 44 while Homestake Mining Corp, a leading US gold mine is trading on a PE of 62. Dividend yields of most North American stocks are under one percent.

Australian shares are also toppy but are better value than North American counters. Market leaders Central Norseman Gold Corporation, Kidston Gold Mines Ltd and North Kalgurli Mines Ltd are on price earnings ratios of 15 to 17. Dividend yields range from three percent to five percent.

Concerned about the high prices of gold stocks in North America and Australia, fund managers in the US, UK, Germany and Switzerland are beginning to buy South African gold shares again. So much so that the *Financial Times* South African gold share index has doubled to 370 points from its low point last July.

Despite the surge, leading South African gold shares quoted on international markets are offering far better values than North American and Antipodean counters, says David Ridley of Williams de Broe Hill Chaplin.

PE ratios

Their price earnings ratios on latest results are between 9 to 12 and dividend yields, after South African withholding tax of 15 percent, are 7,6 percent for mines such as Vaal Reefs; 6,9 percent for Driefontein Consolidated and 9,3 percent for Free State Consolidated Gold.

South African gold stock could soar if the political situation improves, says Julian Baring of James Capel.

Other analysts such as Albert Loveless of Smith New Court contend that South African gold shares — which attract high yields because of the political risk — are also looking pricey because of coming black wage negotiations and considerable cost increases this year.

"Perhaps gold stocks are telling us that the bullion price will rise," says Mr Loveless. If it fails to do so, he says, there could be some singed fingers.

Gold

London	$406,55 ($403,80)	
New York close	$410,00 ($403,30)	
Hong Kong open	$409,05 ($407,35)	

JSE

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Dramatic surge in gold, forex reserves

SM 5/3/87

Magnus Heystek,
Finance Editor

The sharp rise in foreign exchange and other reserves in recent months will place South Africa in an excellent position when it meets its foreign creditor banks for a further round of talks in London next month, says Dr Gerhard de Kock, Governor of the SA Reserve Bank.

He was commenting on the state ofthe country's gold and foreign exchange reserve which increased R700 million to R6,2 billion at the end of last month after rising by more than R1 billion in January.

"I foresee no undue problems about repaying a further capital amount to foreign creditors as we have been stockpiling dollars and other foreign currencies in recent months."

Dr de Kock did not rule out possible speculative selling of the rand in anticipation of the debt-rescheduling talks, but says such actions will be misplaced.

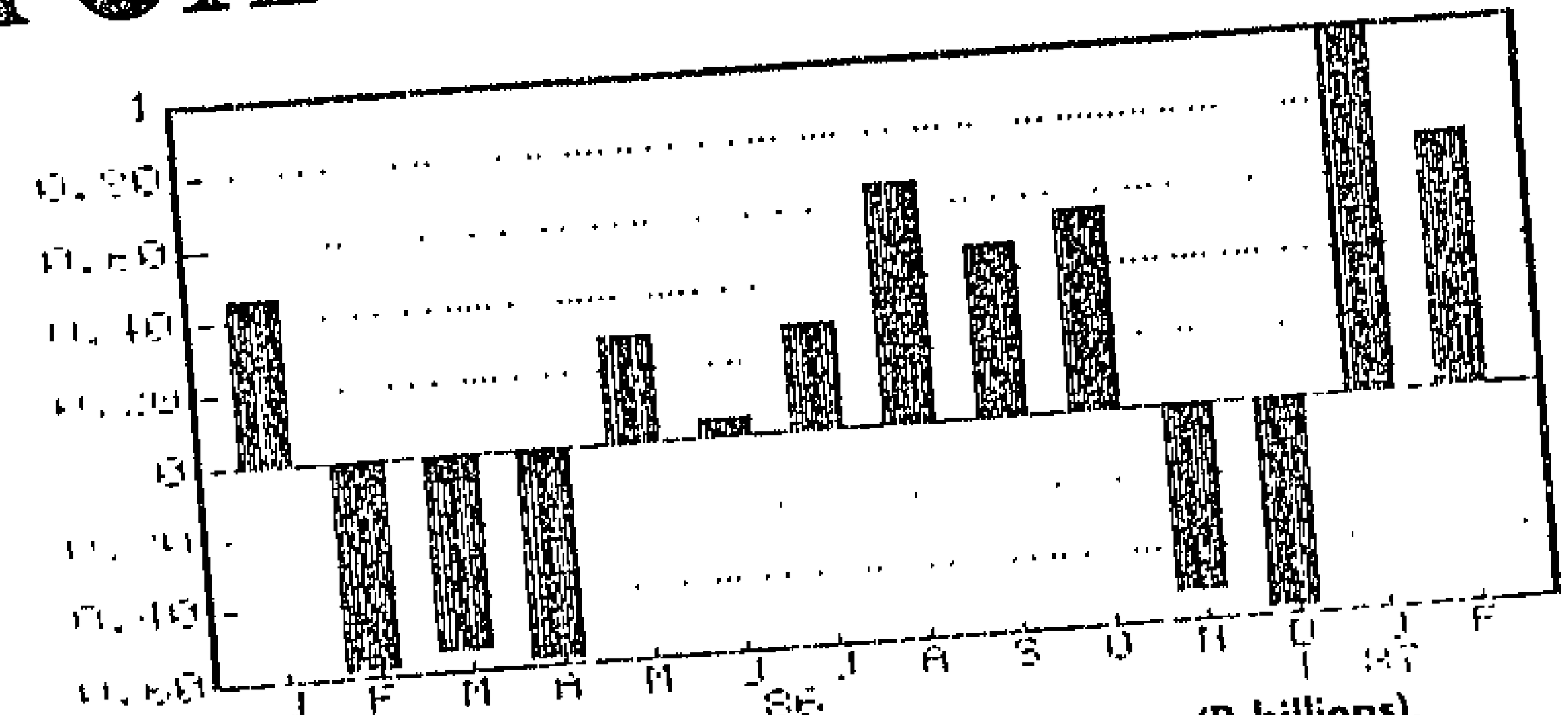
"If the rand was reflecting the true state of gold and foreign exchange reserves, it should be much higher. Unfortunately exporters will be hurt if the rand rises too much and too far. On the other hand, a strong and stable rand will reduce the inflationary pressures eminating from abroad," he added.

He also revealed that a number of gold swops, undertaken in the last two years to augment dollar reserves during the turbulent period when the rand was under incredible pressure, have been undone in recent months. "It is always good for a developing country such as South Africa to have adequate gold reserves."

Asked about the recent sharp rise in the financial rand, which had an adverse effect on share prices, he said that there was still some uncertainty about the underlying reasons for the increase.

"It is rumoured that some Swiss investors have been buying the financial rand for investment in local government and semi-government stock which offer returns unmatched elsewhere in the world."

"A common mistake often made is to link the rise in the financial rand with a drop in shares on the local stock market. The two might occur at the same time, but it is incorrect to casually link the two. Its like when the southeaster blows in the Cape and it rains in Transvaal," he said.



Monthly changes in gold and forex reserves (R-billions).

MINING/COMPANIES

Optimistic view for gold in 1987

26/2/87 B/Day (79)

LONDON — The 1987 gold market will be more indecisive than last year.

But the gold price should average $425, metal brokers Shearson Lehman Brothers say in their annual review of the gold industry.

The review was conducted by the metals research unit of Shearson Lehman and the mining team of L Messel. It predicts a deterioration in the fundamental supply/demand balance with an increase in mine production for the seventh consecutive year and a fall in consumption, reflecting a reduction in Japanese offtake.

But the strength of the dollar, the rate of inflation, the level of unease in world politics and the attractiveness of alternative investments are factors which can easily outweigh the bearish fundamentals, it says.

Predicting further dollar weakness, the review says if the dollar fell to DM1,60 or 135 yen, the outlook for gold should be constructive, suggesting a testing of the $450- and possibly $500-level during the year.

However, the most bullish argument is based on hopes of a flow of funds from alternative investments.

The review says: "Should the US stock markets start to top out, then we would expect to see large scale diversification of assets as investment managers attempt to preserve the value of their funds.

"Gold would be the beneficiary of at least a portion of these funds. To put the relative sizes of the two markets into perspective, a shift of only 0,45% of the capitilization of the world stock markets (basis mid-year 1986) would have been enough to soak up the entire investment purchases of gold by the private sector between 1975 and 1985."

Although investment managers are content to stay with Wall Street and other stock markets, the higher these markets went, the greater the desire to diversify into gold.

Citing the limited potential of further cuts in US interest rates and high inflation in the industrialised world as reasons, the review predicts an end to the

MIKE ROBERTSON

rally in bond prices.

As world bond markets are bigger than stock markets, the review says it would take a shift of only 0,3% of global fixed interest funds into gold to soak up the entire 1975/85 surplus, estimated at 1 800 tons.

Sounding a negative note, the review says there is no doubt that any rise in 1987 gold prices will have to be demand-pull- rather than cost-push-generated. Investment buying, or lack of it, will determine price levels rather than the shortage of supplies.

"On balance then, it is more likely to be the 'uncertainty factor' rather than the 'inflationary factor' which will determine gold prices in 1987," it says.

While gold recently slipped through the $400 level, there was no reason why bursts of dollar strength should not see prices dip towards the $360-$375 band.

"However as the year unfolds we expect the market to spend most of its time between $400 and $450.

"It would need substantial investment buying or a sharply weaker dollar for prices, even temporarily, to approach or exceed $500 and, on balance, we would discount the likelihood of any sustained period at these higher levels.

"We do, though, look to some switching of funds from other sectors and predict an average price for the year of $425/oz," it adds.

The review predicts a surplus of 249 tons for the year. Supply should rise to 1 676 tons (1 607 tons last year) while demand will drop to 1 427 tons (1 553 tons last year).

Official coins will show the largest drop in demand — down to 250 tons from 350 tons last year.

Main reason for this is the decision by the Japanese authorities to postpone the second minting of Hirohito coins.

The review predicts that net official purchases will fall in 1987, but remain positive with South Africans rebuilding their stocks as the rand strengthens and Latin American producers building reserves for strategic reasons when possible.

Sparkling year for Cadbury Schweppes

26/2/87 B/Day

MERVYN HARRIS

SIGNIFICANT strategic changes helped Cadbury Schweppes lift taxed profit 79% from R5,5m to R9,9m for the year ending January 3, 1987.

The final dividend of 60c (49c) boosts the total payout for the year from 64c to 75c a share.

Earnings a share based on the weighted average number of shares in issue increased from 107,2c to 172,2c. This takes into account the 1,115-million shares issued in settlement of the R22,3m purchase of Bromor Foods. Without Bromor, earnings would have been 144,4c a share.

The directors say the group ended the year on a strong note with improved trading results in its main operating divisions. Successful new product introductions and tight control of costs and working capital contributed to improved earnings by Cadbury's confectionery and Schweppes's carbonated soft drinks operations.

The directors expect further improvements in these core divisions.

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Gazing into gold crystal ball

(29) 27/2/87

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London Bureau

LONDON --The gold market in 1987 will be more undecided than last year but the price of the metal should average 425 dollars an ounce, say metal brokers Shearson Lehman Brothers in their annual review of the gold industry.

The review predicts a deterioration in the fundamental supply-demand balance as mine production increases for the seventh year in a row and consumption falls reflecting a reduction in Japanese offtake.

But, the strength of the dollar, the rate of inflation, the level of unease in world politics and the attractiveness of alternative investments are all factors which could outweigh the bearish fundamentals, says the review.

Predicting further dollar weakness the review says that if the dollar falls to DM1.60 or Yen 135 the outlook for gold must be constructive, suggesting a retest of 450 dollars and possibly 500 dollars sometime in the year.

However the most bullish argument is based on hopes of a flow of funds from alternative investments.

"Should the US stock markets start to top out then we would expect to see large scale diversification of assets as investment managers attempt to preserve the value of their funds.

"Gold would be the beneficiary of at least a portion of these funds. To put the relative sizes of the two markets into perspective, a shift of only 0.45% of the capitilisation of the world stock markets (basis mid-year 1986) would have been enough to soak up the entire investment purchases of gold by the private sector between 1975 and 1985," the review says.

While at present investment managers were content to stay with Wall Street and other stock markets, the higher these markets went the greater the desire would become to diversify into gold.

Citing the limited potential of further cuts in US interest rates as well as no real propects of drops in inflation levels in the industrialised world as reasons, the review predicts the rally in bond prices coming to an end.

As world bond markets are even bigger than the stock markets, the review points out that it would take a shift of only 0.3% of global fixed interest funds into gold to soak up the entire 1975-85 surplus in gold, estimated at 1,800 tonnes.

Sounding a negative note, the review says there is no doubt that any rise in gold prices in 1987 will have to be "demand-pull" rather than "cost push" generated. Investment buying or lack of it will determine price levels rather than the shortage of supplies.

"On balance then it is more likely to be the 'uncertainty factor' rather than the 'inflationary factor' which will determine gold prices in 1987," says the review.

The review predicts that net official purchases will fall in 1987 but remain positive with South Africans rebuilding their stocks as the rand strengthens and Latin American LDC producers building the reserves for strategic reasons when possible.

"They all realise that should their debt repayment situation turn sour then gold will still be accepted in payment for necessary imports," the review concludes.

Taxable Income Group	(a) White	(b) Coloured	(c) Indian	(d) Black
90 001—100 000	1 063	3	9	2
100 001—150 000	2 006	6	15	4
150 001—200 000	536	0	7	0
200 001—250 000	180	3	1	0
250 000+	299	0	5	1
Total	1 082 722	155 555	79 581	121 204

Note:

(1) The above statistics do not include taxpayers under the Final Deduction System.

(2) The statistics are not complete, because approximately 35 per cent of individual taxpayers have not yet been assessed.

Income tax

91. Mr H H SCHWARZ asked the Minister of Finance:

Whether any income tax was written off in the 1985-86 financial year as irrecoverable, if so, *(a)* in respect of how many (i) individuals and (ii) companies and *(b)* what was the amount of tax written off in each category?

The MINISTER OF FINANCE:

(a) Yes.

(i) 4 403.

(ii) 205.

(b) (i) Individuals .... R3 021 542.98.

(ii) Companies .... R2 652 968.24.

Government: amounts owed

92. Mr H H SCHWARZ asked the Minister of Finance:

What amounts were owing to private bodies and persons by the Government, other than on bank facilities and stock issues, as at the latest specified date for which figures are available?

The MINISTER OF FINANCE:

R1 178 264 844—as at 31 January 1987

(This amount excludes foreign loans, stock issues and Treasury Bills).

Income tax

93. Mr H H SCHWARZ asked the Minister of Finance:

What is the total amount of income tax assessed for the 1985-86 tax year in respect of *(a)* companies and *(b)* individuals?

The MINISTER OF FINANCE:

(a) Companies:

Mining	R1 239 578 550
Other	727 805 274
	R1 967 383 824

(b) Individuals: R4 561 686 000

26,42% of companies and 64,36% of individuals have been assessed for the 1986 year of assessment.

Gold

74

95. Mr H H SCHWARZ asked the Minister of Finance:

23/2/87 Hansard

What quantity of gold was made available in the Republic in 1986 to *(a)* jewellers and *(b)* other concerns for manufacturing purposes?

The MINISTER OF FINANCE:

(a) 1 064 522,200 gram (741 048,314 gram in 1985).

(b) 858 388,100 gram (1 146 366,700 gram in 1985).

Burglaries 23/2/87

100. Mr H H SCHWARZ asked the Minister of Law and Order:

Hansard

How many burglaries were reported to the South African Police in *(a)* 1986 and *(b)* the latest specified 12-month period for which figures are available?

The MINISTER OF LAW AND ORDER:

(a) and *(b)* 197 400 for the period 1 July 1985 until 30 June 1986.

Because statistics for the period 1 July 1986 until 31 December 1986 are not yet programmed, the figures are not readily available.

Note: The figure represents an increase of 15% in comparison with the previous period. Some of these cases occurred in unrest areas and the situation in those areas was exploited by criminal elements to commit burglaries. A further contributing factor to the increase is the economical recession with resulting unemployment.

What worsened the situation is the fact that a large percentage of the members of the South African Police had to be withdrawn from white areas to curb unrest in black areas which prevailed at its highest level during that reported year. The result was that the unemployed loiterer, had excellent opportunities to commit housebreakings.

Due to the notable decrease in general, in unrest related crime, the South African Police is again in a position to direct crime prevention actions. Crime prevention units operate country-wide on a full-time basis.

These actions have already resulted in a notable improvement in the crime patterns of various police divisions, also with regard to burglaries. The South African Police applies every measure at its disposal to curb crime in general.

Motor vehicles stolen

101. Mr H H SCHWARZ asked the Minister of Law and Order:

(1) *(a)* How many motor vehicles were reported stolen during the period of 1 January to 31 December 1986 and *(b)* what is the value of the motor vehicles stolen during that period;

(2) how many such vehicles were recovered in *(a)* an undamaged, *(b)* a damaged and *(c)* a cannibalised condition?

The MINISTER OF LAW AND ORDER:

(1) *(a)* 58 119.

(b) R871 785 000.

(2) *(a)* 20 217 with an estimated value of R303 255 000.

(b) 6 069.

(c) 2 745.

Although the number of stolen vehicles represents an increase of 36%, almost 35% undamaged, 11% damaged and 5% cannibalised vehicles of the total number were recovered, in comparison with respectively 3%, 1% and 8% of the stolen vehicles recovered during the previous period.

Thefts from cars

102. Mr H H SCHWARZ asked the Minister of Law and Order:

(a) How many thefts from cars were re-

SPATCH, SATURDAY, FEBRUARY 21, 1987 — 9

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Parties ... rant Proprietors'

Tr... , Restaurant and

Golds recover, bullion firms

79

BD 21/2/87

JOHANNESBURG — Gold shares closed firmer with prices recovering across the board on a stronger bullion price and despite a higher financial rand, dealers said.

Southvaal gained R6,50 at R184 and Harties R1,25 at R22,75 while mining financials had Anglos up R1,25 at R68,50. Platinums and other minings were generally steady but diamond share De Beers fell 30 c at R39,70.

Industrials closed mixed to firmer with the index resuming its upward trend, rising to a new high of 1 568 after slipping slightly to 1 557 on Thursday.

Most leaders were higher with Sappi and Amic up 50 c each at R24 and R53 respectively but Blue Circle lost 30 c at R8,20.

The JSE all gold index climbed to 1 852 from Thursday's 1 800 close and the overall index to 2 052 from 2 027.

In London, equities stood close to record levels in late trading which extended the opening gains but business was fairly quiet as the account drew to a close, dealers said.

Prices were marked higher initially after Thursday's sharp sell-off, mainly on hopes of an early cut in domestic interest rates. Yesterday afternoon's slightly higher opening on Wall Street also fuelled the firmer trend.

The higher bullion price prompted some sharp gains among gold producers with Randfontein up a net $4,50 to $88 and Vaal Reefs $3,50 to the good at $85,75. — Sapa-RNS

Area Ma... Randfontein,* ... * Johannesburg, ...enoni, Brakpan,* ...s, Kempton Park*

Footnotes

1. Hours of wo... arded as normal ...plying.

2. Overtime ... tipulated hours ...ers may work.

3. Annual leave ... her trade nor ...s and after 2 ...ed to 18 days

Bearish sentiment now evident in gold sector

79

A BEARISH sentiment, apparently born on the beaches over the Christmas break, now prevails over the gold sector.

The reasons for this change in allegiance revolve around the current strength of the market and a continuing weakening in the rand gold price.

While the Johannesburg Stock Exchange (JSE) All-Gold Index has fallen below the magical 2 000 points level, it still remains high in relation to its position a year ago.

The big increase took place in the third quarter last year, when a significant rise in the dollar price of gold sent gold producer share prices rocketing.

Even though the All-Gold Index has fallen back since its record high in January this year, the continued strength of the market is based on historical rather than current data.

Last year saw the All-Gold Index rise by over 60% and the Standard Bank Gold Fund, which includes dividend earnings, rise by 69%. With inflation running so high, it is not altogether surprising that investors decided to jump on the bandwagon.

But recent buyers may have joined the market too late.

JSE analysts are already beginning to adopt a bearish tone — contrary to the vociferous bullish sentiments voiced last year.

With a possibility of some form of economic revival in the offing, broker recommendations to buy selected industrial stock have reinforced the current slide from golds and pushed the industrial index to a new high. Institutional buyers have already moved large sums.

The rand price of gold is, of course, the final arbiter in terms of gold producer's earnings, and the switchback ride of 1985 and 1986 appears to have settled back into a gradual slide since last August.

This more or less coincides with the rise in the gold price above $425 — at which stage the rand exchange rate began to appreciate and became the major factor controlling the rand gold price.

In fact, the current rand gold price is R830/ounce — far below R928 which was the average for the last six months of 1986.

Should this trend persist, it goes without saying that gold producer's earnings in this first quarter of 1987 tinuing to bite, working costs must be on the rise and therefore bottom line profits will be hit.

bottom line profits will be hit.

One leading analyst predicts average dividend yields for the next 12 months will be a mere 4,4% — and this calculation has been performed assuming an average rand gold price of R880/ounce.

Yields as low as this have not been seen since 1974, although similar levels were approached in 1982.

Observations such as these reinforce a bearish sentiment.

With overseas investors still net sellers of gold shares — when the financial rand makes a sale opportune — a further pessimistic note is sounded.

All in all, it seems an inopportune moment to buy into the sector.

Just as the tide turns, so does sentiment, but exactly when this will take place is anyone's guess.

JEWELLERY INDUSTRY

Hassles at home

The Jewellery Council of SA (JCSA) is at last making headway in its battle to promote SA's Cinderella jewellery industry — and to grab a bigger share of the multi-billion international jewellery market.

Local manufacturers have griped for years that countries like Israel, India, Belgium and Italy earn billions of dollars annually by beneficiating and re-exporting South African gems and precious metals.

On February 10 JCSA executive director Tim Davidson presents the council's case for new measures to promote the fledgling industry to the review committee on State assistance for mineral beneficiation (*Business* January 23). This follows intensive discussions with several State departments over the past year.

At the heart of the case is a call for government to scrap immediately the 35% *ad valorem* duty on locally-manufactured jewellery, which, with 12% GST, puts an effective 51% duty on local products. Manufacturers claim these measures alone have practically strangled the industry at birth.

The council is also calling for the scrapping of the gold ratio, which demands that a minimum of 20% value be added to exportable gold jewellery. Italian manufacturers, for example, who produce some 200 t of gold jewellery a year, have to add only 7% value.

Government will also be asked to provide financial aid to the local industry. This will enable it to compete with countries like Israel, where the State provides export credits as well as subsidised working capital.

Robert Schwartz, MD of Schwartz Jewellers, SA's only international jewellery group, says SA has lost billions in jewellery exports over the past 18 years by failing to expand local manufacture.

Since the imposition of the *ad valorem* duty in 1968 the local industry has shrunk, in real terms, to just 5% of its size 18 years ago.

And, adds Schwartz, many entrepreneurs have left the country and valuable employment opportunities have been lost.

While SA diamond cutters and polishers now employ some 2 000 workers, the Israeli industry employs some 18 000. India officially employs about 500 000 and Belgium's diamond cutting industry provides work for 10 000.

Israel, India, the US and Belgium export cut and polished diamonds worth some $3 billion a year. South African sales are worth a mere $100m.

While SA is the world's major gold producer it used less than 1 t of its own gold for jewellery manufacture last year. In the same year it imported about 10 t of gold jewellery in its expensive beneficiated form — a ridiculous anomaly.

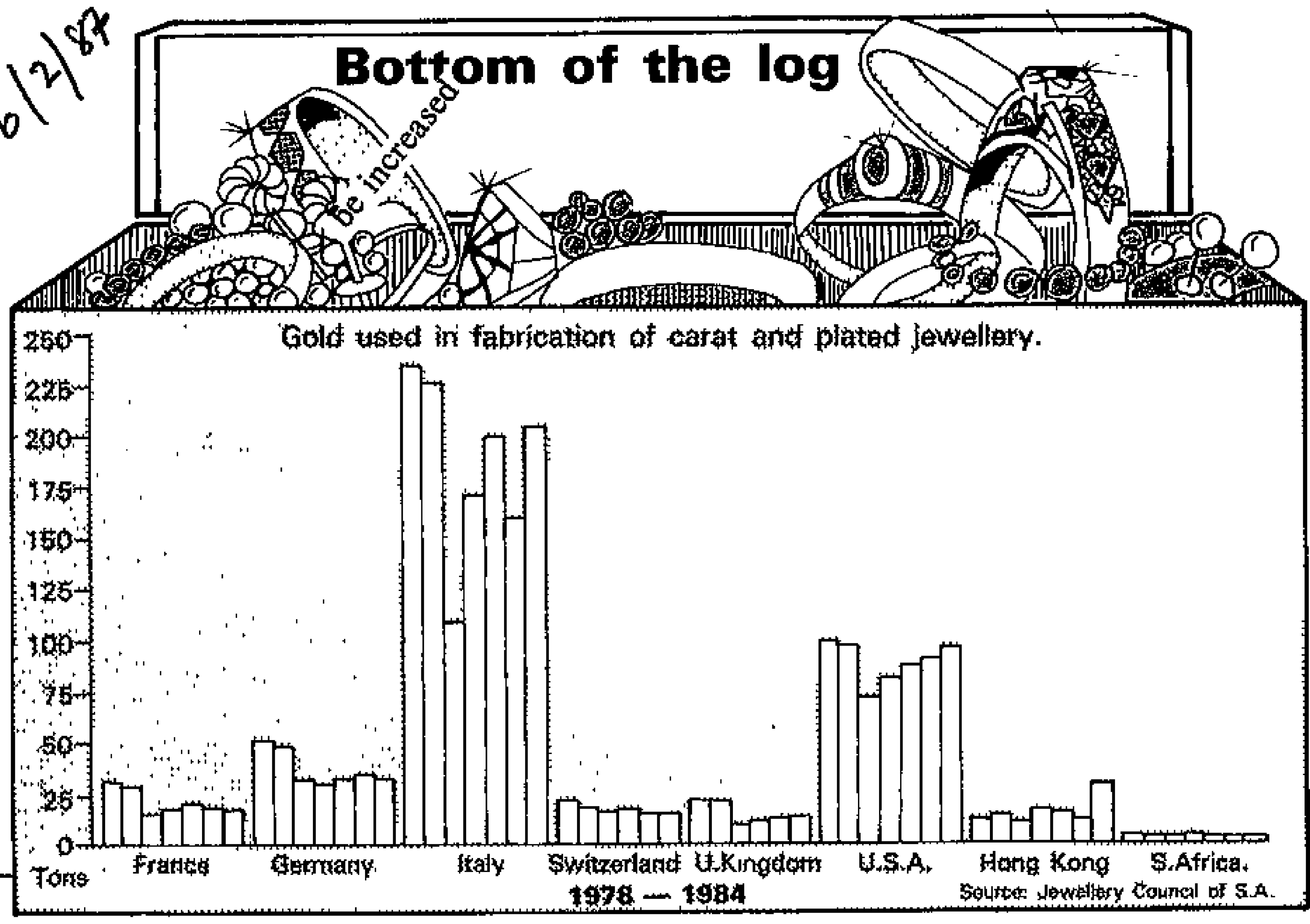
The worldwide industry used about 1 400 t of gold in jewellery manufacture and international jewellery turnover is estimated at $200 billion a year.

As Davidson says, the South African industry is the world's "laughing stock" while the country contributes the lion's share of Western gold production, controls 80% of the international diamond trade through De Beers' Central Selling Organisation and produces 70% of the world's platinum. Hopefully, this could change.

Davidson tells the *FM* that initial response from Minister Danie Steyn's new Department of Economics and Technology is "unbelievably positive." Department of Mineral and Energy Affairs (DMEA) director-general Louw Alberts, who says beneficiation can increase the value of gold by 1 000%, is also very supportive, he adds.

Sweetening the pill a little more, the Chamber of Mines has given the JCSA a sizeable grant to promote the gold jewellery industry. This is the first substantial support from the mining industry — and it could open the door to more help for the Cinderella industry.

But probably the greatest hope for a new order lies in Davidson's contention that the *fiscus* would cover its receipts from the current unpopular taxes several times over if the industry really took off. ■



6/2/84 FM

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79

traditional International Monetary Fund approach to adjustments is slowly being forced on the major economies. Instead of the weak currency nations deflating, it is now the strong ones which are being forced to reflate — a process which is dangerously reliant on the maintenance of disinflationary momentum.

As for gold prices, US experts say that the dollar's volatility could play havoc with precious metals. When the dollar dips, gold rises for two reasons: firstly, because it's dollar-based when the currency declines, it becomes less expensive for foreign investors to purchase the commodity; and secondly, because of the fear that US inflation rates will pick up as the dollar falls.

But other analysts, especially in Europe, believe that around $420 is a strong resistance point for gold. They warn that the fundamental supply-demand equation may actually deteriorate this year.

For one thing, last year brought huge Japanese buying for the Hirohito 60th anniversary commemorative coin, which did not meet expectations. Plans for a follow-up have been dropped.

There are also doubts that platinum will, on fundamentals, be able to repeat last year's excellent performance.

As always, the market is a tug o' war. For the moment, the gold bulls are in the ascendancy. The only question is not whether that will change, but when. And that can only be answered with a crystal ball, not by reasoned analysis. ■

GOLD SHARES

79 FINMAIL 23/1/87

How to pick them

Investors who opt for gold shares now should realise that the risks may be high. But if they choose correctly, the rewards could still be attractive.

Taking the decision to invest in gold shares has rarely been so tricky. Despite all the recent excitement over gold, the important rand gold price has dropped some R150/oz below last year's peak above R1 000/oz. Yet the shares remain firm.

It is not surprising that private investors are turning to gold shares, in many cases for the first time. Interest rates on savings have dropped to around 8% while inflation hovers close to 20%. For some six months now, gold shares have been on a blistering run. In December, the JSE Actuaries All Gold index climbed firmly through the 2 000 mark to reach 2 154, showing a 70% rise since late July; and now stands at 2 115. Many gold shares have soared by 100% or more, yielding big profits for those who bought early.

After that run, analysts emphasise that it could be risky to buy now. The recent strength of the rand is the real joker in the pack. Analysts believe the ceiling on its rise is between US50c and US52c. At US52c even a gold price of $450/oz translates into only R865/oz.

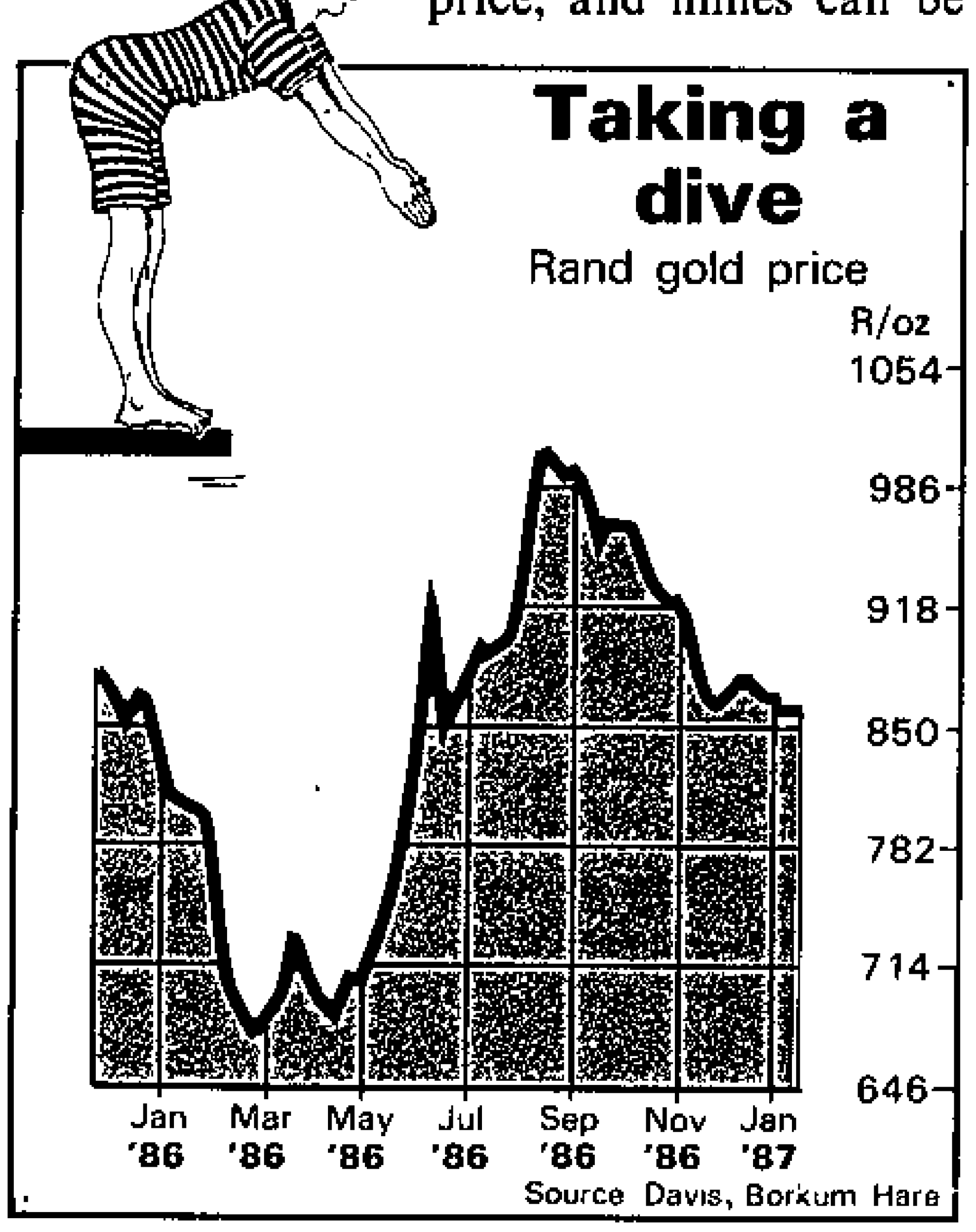
That means the dollar gold price will have to really perform, possibly moving towards $500/oz to get the rand price back to last year's highs. With the dollar gold price back up above $420/oz this week, and well-publicised theories that the dollar will keep sliding and thereby boost bullion further (see page XX), some believe $500/oz is feasible and will continue to find the shares attractive. The problem is in choosing them.

Analysts believe anyone getting into the market now should go for the low cost, quality shares such as Driefontein, Kloof, Winkelhaak and Western Deep Levels, and largely avoid the highly geared marginals. The marginals have had a tremendous run and their performance will be hit hard by a declining rand gold price. An example here is Durban Roodepoort Deep. The share price is up some 145% since January last year, but the December quarterly report shows the mine is still losing money after capex is deducted. The table shows clearly the downside risk of lower gold prices.

Analysts also advise a spread of shares. Bear in mind the risk factors — that, for example, the one quality share you decide to mortgage the house to invest in will be the next to be hit by serious labour problems. These, however, are the shares which, with the exception of Harties and Zandpan, are financially out of the reach of the man in the street who generally goes for the cheaper, more highly geared, marginal mines.

Each gold mine is unique. At least six key factors determine how its earnings and dividends react to a move in the dollar price of gold. These are the rand/dollar exchange rate; the mine's gold production, determined by the recovery grade and the tonnage milled; the expected life of the mine; its unit working costs; its capital expenditure plans; and the number of shares in issue.

The collective effect of these is known as the gearing of each share to movements in the gold price; and mines can be grouped in categories in respect of their gearing.



Fergusson Bros, Hall, Stewart, the Johannesburg stockbroking firm which supplied the statistics for the accompanying earnings table, groups them in four bands.

Category 1 mines are the safest investments, but they tend to have a low gearing, or sensitivity to the gold price. Their earnings may not rise as sharply as those of the Category 3 and 4 mines which have a high gearing to a rising gold price.

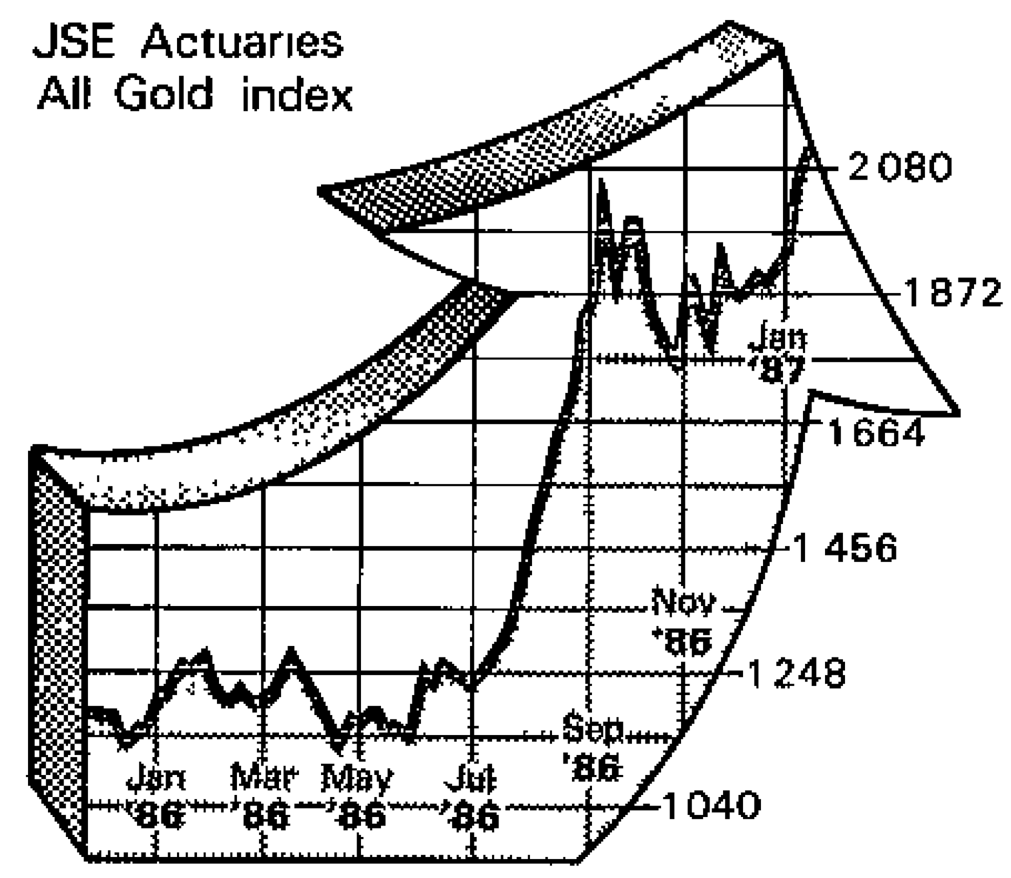
Simply stated, the difference between a Category 1 top quality share and Category 4 marginal share is that on an identical increase in the ruling gold price — say a rise by R100/oz up to R900/oz — the earnings of a Category 1 share may rise 30% over a year, while those of the Category 4 could double. The reason everybody does not buy only marginal shares is the risk factor of a drop in the gold price. Using the same example, a drop in the gold price from R800/oz to R700/oz might reduce the earnings of the top quality mine by 10%, but put the marginal mine into the red.

As noted at the start, the investor in gold shares has to watch movements in the rand gold price rather than the dollar price, since that is what determines mine revenues. The mines sell their gold to the Reserve Bank which pays them in rands.

The Category 1 mines have generally high recovery grades above 7 g/t — the exception is Randfontein at 4 g/t — while the Category 4 mines are low grade at levels below 4 g/t. The gold mines are legally required to mine to the average grade of their ore reserves to extend their economic life as long as possible. On most mines, the grade drops as the rand gold price rises as some previously unpayable low grade ore is brought into the payable reserves.

Most marginal mines cannot reduce their recovery grades further, so a higher price gives them an immediate income boost. Grade on the top quality mines tends to drop as the gold price rises. Quality mines have reserves of high grade ore that enables them to lift recovery grade and to try to maintain revenues as the gold price falls. Marginals

Moving up again



Source. Davis, Borkum Hare

generally cannot do this, and take an immediate drop in profits.

Grade must also be related to working costs. The deeper the mine, the higher the working costs, and therefore the better the grade must be. Two of the JSE's current hot gold shares, Beatrix and Joel, are comparatively low-grade mines at around 6 g/t, but their workings at depths between 1 000 m and 1 500 m are shallow compared with operations like Western Deep Levels where the bulk of mining takes place below 2 000 m but the grade is not much better at 7 g/t.

Working costs and capital expenditure, along with tax and lease payments, are deducted from the mine's revenue to arrive at distributable earnings which can be paid out as dividends.

Working costs are incurred on current operations producing gold, while capex is money being spent now on projects which will benefit future production. Both are deducted immediately from revenue for tax purposes. Working costs should be lower on shallow mines and on new mines; the older the mine, the further the working areas are from the shafts.

Some 45% of working costs are accounted for by black labour charges, which for the last 10 years have been running well ahead of inflation. The result is an increasing move towards mechanisation where possible to cut labour requirements. JCI's new Joel mine is designed for mechanised mining and will need 2 000 workers to produce at a rate which normally requires at least 6 000 workers.

Working costs are crucial on marginal mines because they are high. Grades can't be lifted, so inflation keeps these mines at risk unless the gold price compensates.

Short-life mines have less than five years of operations left before their estimated closure. However, it is surprising how long such a mine can continue mining remnants and shaft pillars, and a rising gold price can add years to life expectancy. Bracken, for example, should have closed down eight years ago, according to Gencor, which manages the mine. It goes on.

Short-life expectancy restrains the share prices, putting some on high dividend yields because they are good dividend payers. Shares such as Leslie, Marievale and Stilfontein offer high dividend yields.

The number of shares issued can affect gearing markedly. The classic case, Durban Roodepoort Deep, has only 2,3m shares issued. If it could achieve a R10m rise in distributable earnings this translates to nearly 500c a share; Driefontein, with 102m shares issued would have to earn R500m for a similar EPS rise.

To sum up: top quality shares like Driefontein, Kloof, Elandsrand and Vaal Reefs are sound, longer-term investments which will perform well on a rising gold price and provide protection to shareholders when that price falls. Marginals like Durban Deep, Leslie and Venterspost move better on a rising gold price, but offer no defence against a falling price.

Money could still be made by investors out of turnaround situations. Western Areas is one to watch, particularly if working cost benefits of mechanised mining methods being introduced are all that the managers, JCI, claim. The share has speculative interest because of the potential new gold mine, South Deep, on its south-western boundary, in which Western Areas would have a large interest if JCI decides to go ahead with the new mine. A cheap way into Western Areas is through Elsburg, which holds 19,6m Western Areas shares and should be worth 65% of the Western Areas share price.

Another to watch is Rand Leases. The long dormant mine has been brought back to life by Steen and Franka Severin and their team, despite the claims of former managers Anglovaal who insisted for years that the mine could not be profitably reopened. Also looking interesting are Southgo and Sub-Nigel, two "golden oldies" on the East Rand near Springs which have been reopened by independent mining entrepreneurs.

A buoyant gold price could trigger similar ventures.

Brendan Ryan

SEE HOW THEY RISE

Comparing the JSE gold performers

Mine	Earnings a share (cents) for year to September at Gold Price of R800/oz	R850/oz
Category One (low cost per gram producers with a life of 20 years or more.)		
Beatrix	26	34
Driefontein	306	332
Elandsrand	125	146
Hartebeestfontein	112	123
Zandpan	19	21
Kinross	263	292
Kloof	129	140
Randfontein	1 151	1 357
Southvaal	778	850
Vaal Reefs	2 065	2 239
Western Deep Levels	508	567
Winkelhaak	294	341
Category Two (low to medium cost per gram mines with lives of 12 years or more.)		
Buffelsfontein	631	713
Deelkraal	37	49
Doornfontein	88	214
East Daggafontein	13	17
Ergo	27	57
E T Cons	255	285
Freegold	199	234
Libanon	358	407
St Helena	262	323
Unisel	178	194
Category Three (low grade, higher cost per gram mines with lives ranging from 8 years to above 20 years.)		
Cons Modder	43	49
Grootvlei	87	108
Harmony	19	160
Leslie	19	44
Loraine	83	106
Simmer and Jack	22	35
Western Areas	(−115)	(−55)
Elsburg	nil	nil
Category Four (high cost, low grade mines some with short lives.)		
Blyvooruitzicht	151	173
Bracken	58	68
Durban Deep	(−1 234)	(−736)
ERPM	(−383)	(−246)
Marievale	6	50
Stilfontein	(−22)	78
Venterspost	107	231
West Rand Cons	(−122)	2

* Source: Fergusson Bros, Hall, Stewart & Co Inc.

Rand, gold mark time

E.105K

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5/2/87

Business Editor

BOTH the rand and gold today traded in a narrow range against a still weak dollar which saw the rand lose ground and gold firming to above its opening level.

The rand opened unchanged at $0,4815 and in early morning rose to $0,4817. In late morning it eased to $0,4793, but firmed to $0,4805 in early afternoon. It firmed to 0,8802 German marks from 0,8744 German marks and to 73,61 yen from 73,59 yen, but was unchanged at R3,16 against £1.

Gold dropped nearly $2 overnight to open at $401;35. It reached $403 at noon and eased to $402,50 in early afternoon.

Gold and dollar buffet markets

(8) (79) SJTT 2/87

By David Southey

INVESTORS are at sixes and sevens in trying to decipher conflicting economic signals from abroad — and assessing their likely impact on the South African economy and share market.

The yo-yo gold price is closely related to the volatile international ebb and flow of funds in dollar-donominated assets. It can cause the dollar to tumble overnight — only to regain most of the lost ground the next day.

But the weaker overall trend in the dollar to below 1,80 marks this week is the major reason for the rand's strengthening to above $0,49 — which has also removed much glister from gold shares. The firmer the rand, without a similar rise in the gold price, the lower the export proceeds in rands for the gold mines.

Import fears

There are also widely divergent views among US economists on growth prospects in America. This would have a critical bearing on US share prices, interest rates, inflation, the dollar — and the gold price and SA economy.

Both SA and foreign investors are waiting to see whether the dollar will fall lower or stabilise. Just as it appears to be heading down, one of the European nations or Japan cuts its interest rates — and international capital rushes back into dollars.

So far, however, there has been little evidence of the much weaker dollar curbing imports to the US. This raises fears that last year's $170-billion trade deficit might not be much reduced in 1987.

Analysts are beginning to believe that America's propensity to import is so high that, coupled with Japanese determination to retain its share of the US market at any price, it will take a major recession to narrow the trade deficit.

But the Reagan Administration could hardly contemplate such a prospect. In any case, judging by the unpredictability of US economic growth in each of the past 12 or more quarters — in some of which it vastly exceeded economists' expectations only to plummet below their forecasts in the next — the economy seems to develop a momentum independently of Treasury or Federal Reserve Board policy.

Suggestions that the gold price might rocket to $500 as a result of a dollar crash or a spurt in US inflation would appear to be far fetched. US inflation, now under 2%, is not expected to break through 4%.

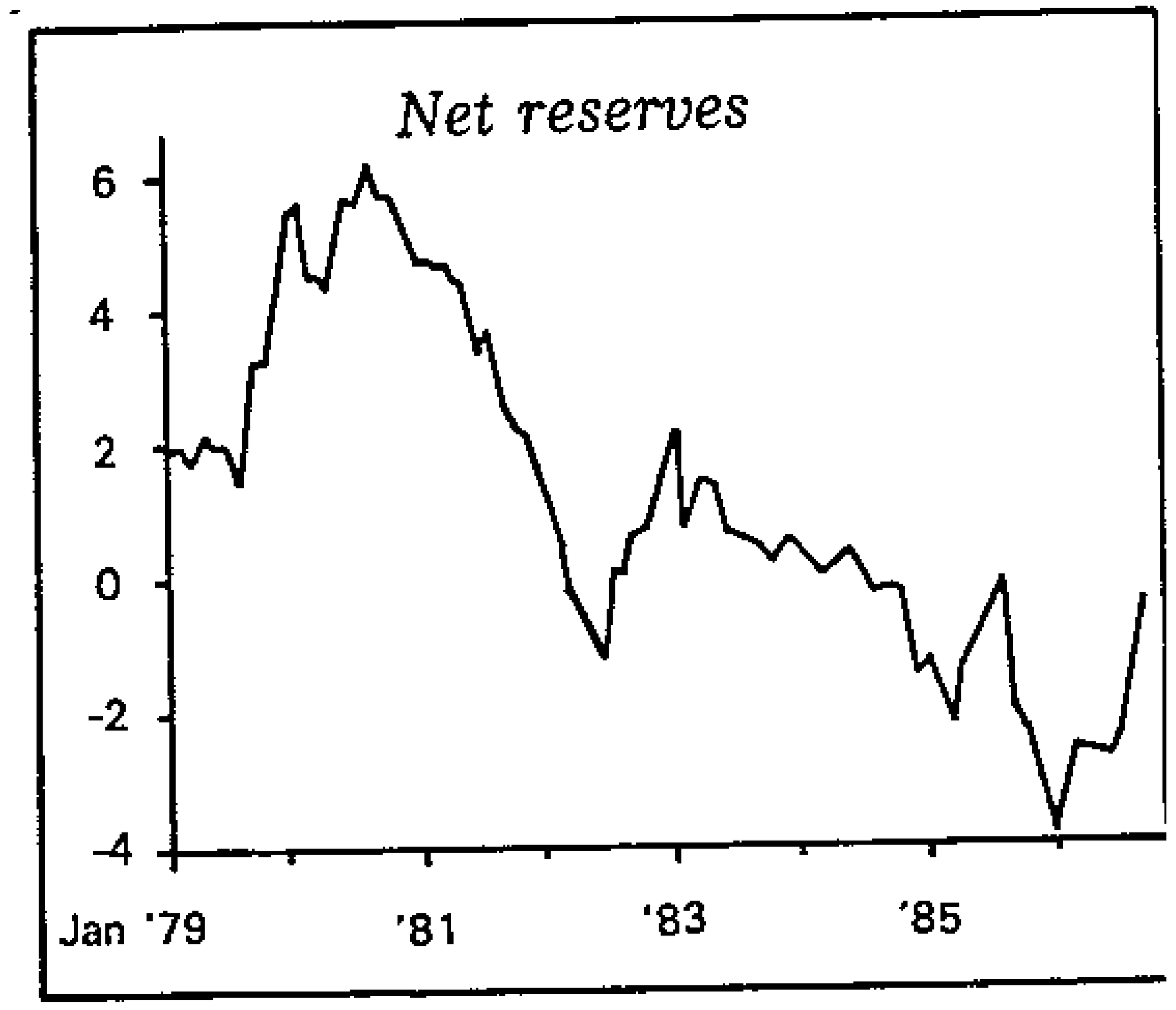
Economist Mike Daly warns in Southern Life Economic Comment that although he foresees a lower dollar in the short term, "it would be dangerous to assume a declining dollar for the remainder of the year. Such an occurrence would place great doubt on foreigners' continued participation in US credit markets. Given that the US is currently the world's largest debtor nation, interest rates would pick up dramatically, bringing on recession and ruling out a Republican Administration in 1988."

Persistent

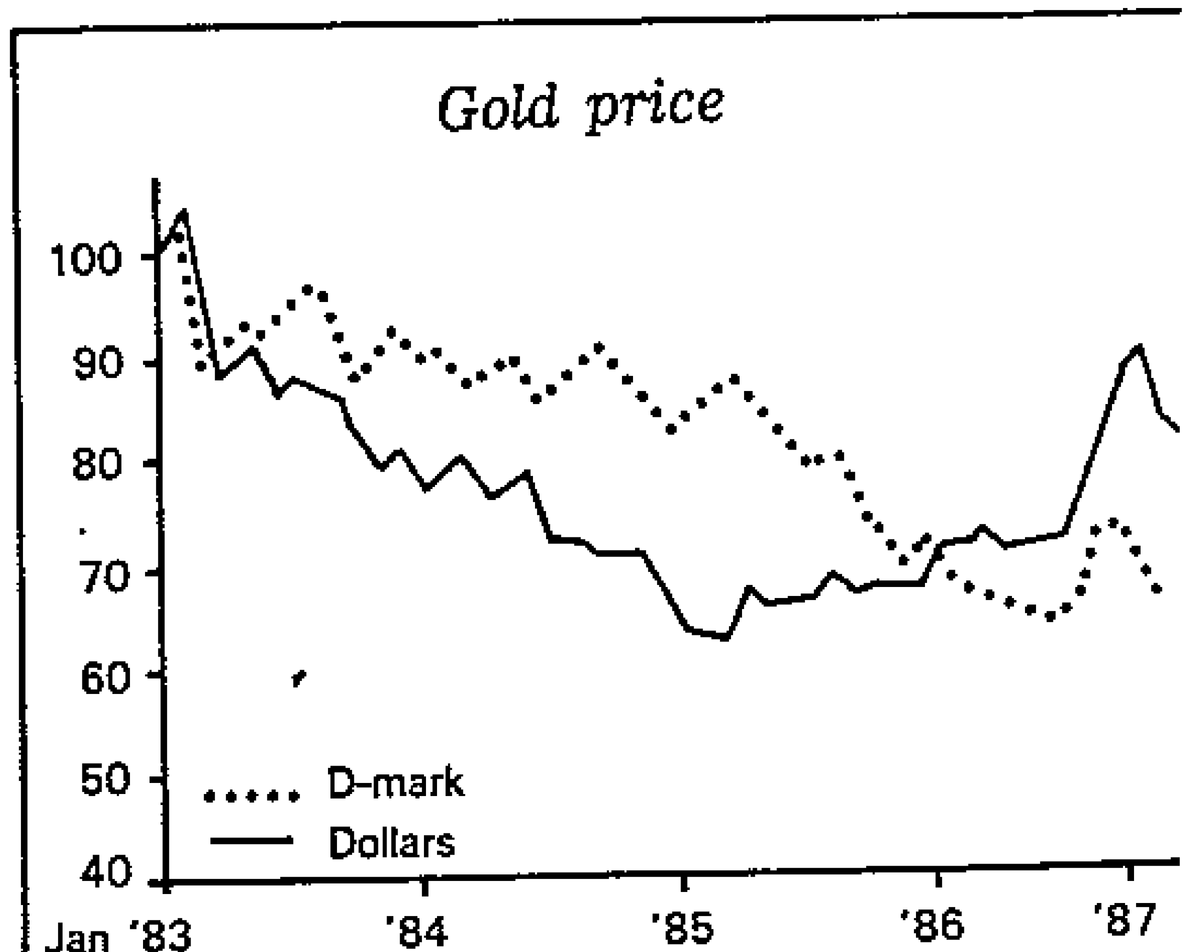
Standard Bank says in its International Comment: "There is an underlying fear that persistent dollar depreciation will in time severely threaten the competitiveness of exports, which will in turn impair economic growth in countries dependent on export-driven growth, such as Japan. Accordingly, accommodative monetary policies have been pursued with not too high a degree of concern at the inflationary implications arising therefrom."

Most economists are now more bullish on domestic growth prospects in the light of continued good rains over large parts of SA and have lifted their forecasts from 3% to 4%.

But as Mr Daly warns: "Whatever amount (of SA's foreign debt) is actually repaid during 1987, it will be close enough to the expected R5-billion current account surplus to prevent the sort of improvement in net reserves that is required for a strong and lasting economic recovery."



Two key recoveries



Source Southern Life Association Economic Comment

Gold, rand mark time

79

4/2/88. E. Post.

Business Editor

NORMAL market fluctuation today saw the rand move in a narrow range above \$0,48 and gold above \$400 against a still weakish dollar.

The rand opened 30 points down at \$0,4825 and slowly drifted down to \$0,4820 in early afternoon. It firmed to 0,8734 German marks from 0,8685 German marks and to R3,15 to £1 from R3,16.

Gold opened \$1,95 up at \$402,35. In late morning it rose to \$403,25 and then eased to \$402 in early afternoon.

Gold and dollar buffet markets

(79) S/T 1/2/87

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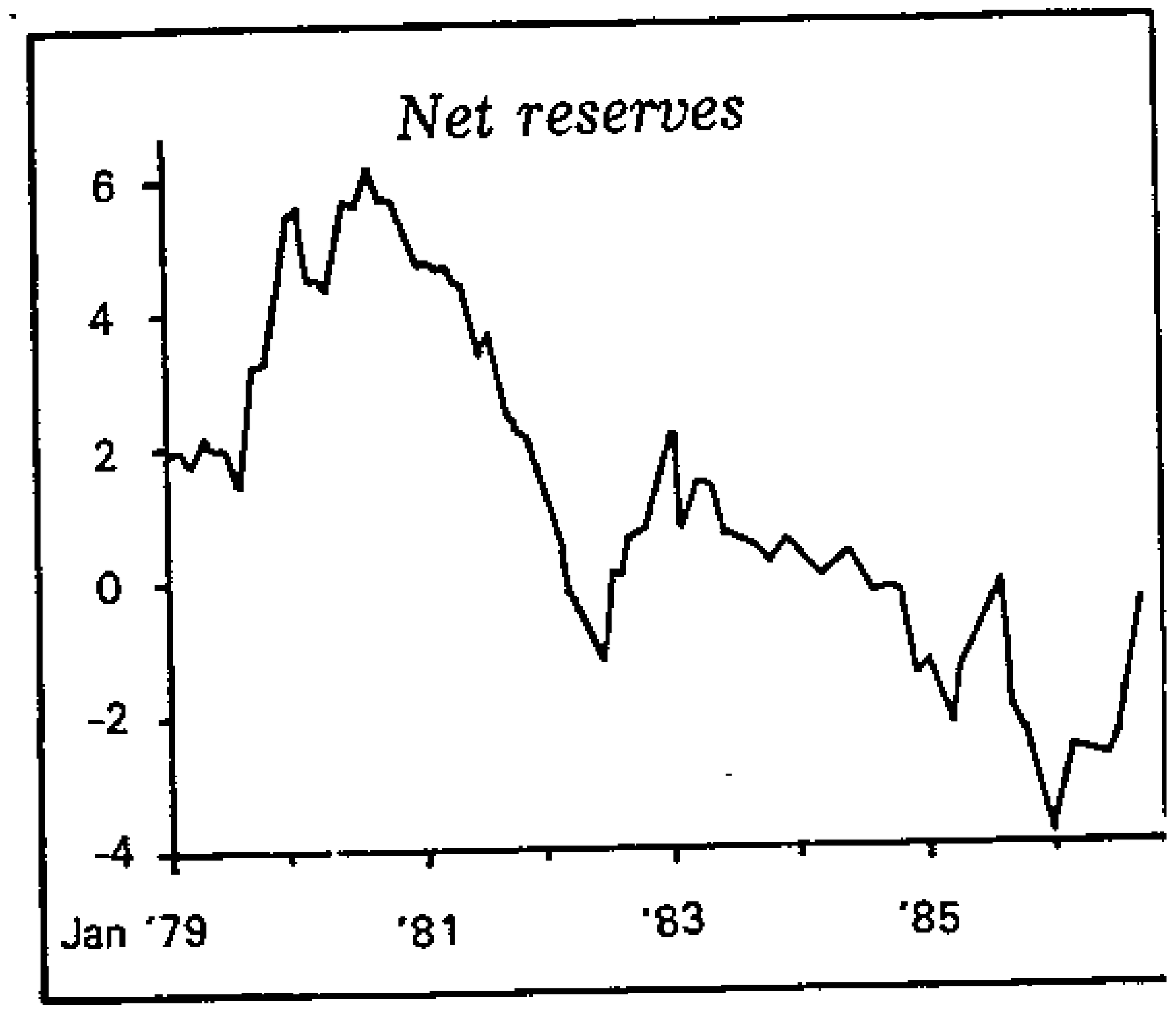
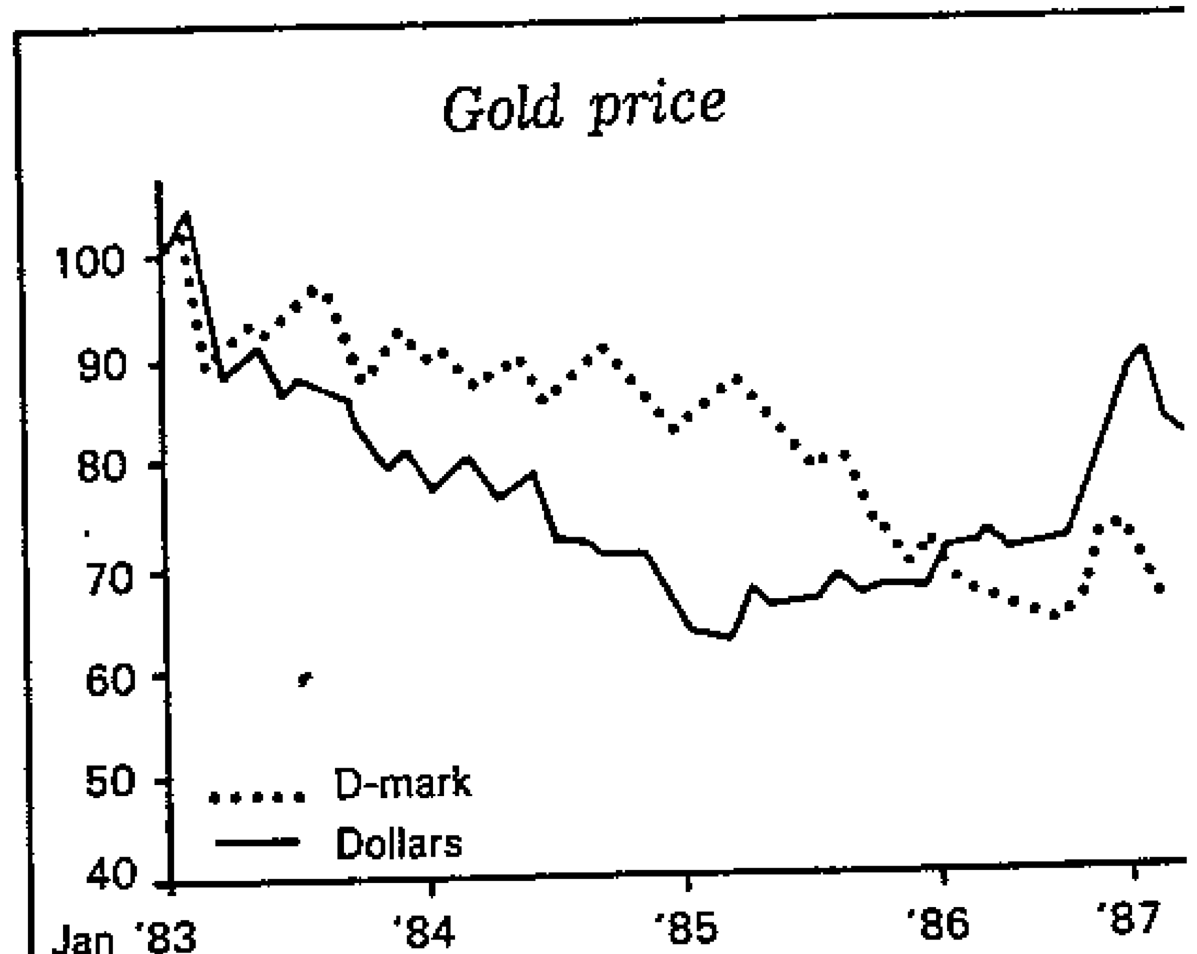


Two key recoveries



Source. Southern Life Association Economic Comment

Gold down, rand steady

30/1/87

Business Editor

A DOLLAR comeback last night did not initially affect gold which dropped fairly sharply in early afternoon today while the rand held steady.

The rand opened 10 points up at \$0,4870 and in early trading rose to \$0,4893 but eased to \$0,4887 in early afternoon. It firmed to 0,8823 German marks from 0,8673 German marks, to 74,60 yen from 73,82 yen and to R3,13 to £1 from R3,17.

Gold gained \$2 overnight to open at \$411,50 and in late morning rose to \$411,90 from where it declined to \$405,50 in early afternoon.

Gold surges $6, while dollar falls to new lows

29/11/79

GOLD surged more than $6 at one stage to above $416 on the British and European markets yesterday while the dollar touched new lows against the mark, (below DM1,80).

As well, the commercial rand broke through the US50c level for the first time in more than 18 months — before easing slightly late in the day.

Depressed by a stronger financial rand, gold shares struggled to make new headway on the JSE, but industrials were strong, pushing the industrial index to another new high.

The surface buying rate for the rand was quoted at 50,14c by the Standard Bank group in the morning for buying and selling limits of R10 000.

Barclays' equivalent rate was spot on 50c about the same time of day, but, as with Standard's rate, eased to around 49,9c at the close.

The air buying, telegraphic trading and sell prices were in both cases in the 48,50c to 49,85c range, and also settled a fraction later on.

Dealers said although the rand was apparently confounding expectations with its new strength against the dollar, and the speed with which it had risen against the US currency, the rise was substantially due to the steeper slide in the dollar rate.

They also said the rand had barely moved if at all against a basket of other world currencies. — Sapa.

Pressure on rand, gold

Business Editor

STEPS by the United States Federal Reserve and the Bank of Japan to bolster the dollar put downward pressure on the rand and gold overnight.

The rand dropped 32 points to open at $0,4883 and rose to $0,4895 before easing to $0,4885 in early afternoon. It eased to 0,8691 of a German mark from 0,8741, to 74 yen from 74,09 and to R3,15 to £1 from R3,14.

After going above $417 in London yesterday, gold closed at $408,80. It opened slightly up at $409,05 and then dropped to 408,60, but firmed again to $411 in early afternoon.

Gold and rand up, shares booming

ARGUS 28/1/87

79

By TOM HOOD
Business Editor

SHARE markets and the gold price are surging ahead again, fuelled by the American dollar falling to a 10-year low.

The rand improved to 49,16 US cents today in Johannesburg, the highest rate against the dollar since April last year and up from 48,40 cents yesterday.

This is also a recovery of 29 percent from the rand's low of 38,10 cents in mid-August.

The currency is being bolstered by a gold price of around R850 an ounce, say foreign exchange dealers.

The rand also strengthened slightly against sterling (R3,14 to the pound) and the Deutschemark (0,88 marks to the rand).

The dollar slipped below the benchmark level of 1,80 German marks to 1,78 marks today on the Tokyo foreign exchange market.

Gold rose almost $4 to $415,65 (R845,50) an ounce in London today.

Industrial share prices hit new peaks in Johannesburg, London and on Wall Street yesterday, adding millions to the value of shares.

ACTIVE SHARES

The JSE industrial index reached a record 1 500 points today after rising eight to 1 499 last night — a jump of 56 so far this month.

Shares to rise included furniture group Afco, Rembrandt group companies, Barlows, FS Industries, Anchusa, Messina, Kaapwyn, SA Breweries, Dorbyl, Globe Engineering, Curries and Pep Stores.

A stronger financial rand, however, kept the lid on the price of gold shares, making them less attractive to foreigners. Golds recovered slightly after easing yesterday.

Today the financial rand was quoted at 23,88 US cents, up from 23,50 cents yesterday and a recovery of 30 percent from its low of 18,50 cents last August.

● Tax cuts forecast — Page 23.

the only mine in the group to get grade up during the quarter. It improved to 3,4 g/t (3,31 g/t) but throughput dropped to 677 000 t milled (715 000 t).

Blyvooruitzicht, which had spent R9,6m on capital expenditure in the six months to December, estimates it will spend another R11,7m in the rest of its financial year to June.

At **Golden Dumps** there is still no news on when the long-awaited merger between Springs Dagga and Consolidated Modderfontein will happen. There has been widespread speculation in the market on the reasons for the delay in the merger, which was expected to have been completed last September.

However, a Golden Dumps spokesman insists there is nothing sinister in this. He attributes the delay to need for more detailed geological information before a deal can be struck which is fair to both Springs Dagga and Cons Modder shareholders. He could not say how long this would take. Commissioning of Springs Dagga's gold plant is taking place this month.

Cons Modder's recovery grade recovered 5% to 4,21 g/t from the depths of 4,01 g/t plumbed in the previous quarter, after falling from 5,3 g/t in the June quarter. The Golden Dumps spokesman says the grade is being curbed because of the high rand gold price.

Development results show that the average value shown on the Black Reef at the North-East Prospect shaft is continuing to drop but is picking up at the No 1 circular shaft.

In the **Anglo American** group, a feature of the results from **Freegold** was the promising initial development results from Erfdeel main shaft, where 5 748 m were advanced on Basal reef and 242 m were sampled. These averaged 16,41 g/t of gold and 0,43 g/t of uranium over a channel width of 60,1 cm, giving 986 cm.g/t gold and 25,82 cm.kg/t uranium.

Freegold's gold production dipped to 25 819kg (26 489kg) because of the shorter working quarter, lower recovery grade which was owing to more tonnage being drawn from surface dumps, and continuing labour problems. The last of these included a one-day stayaway on October 1 last year and employee conflicts at President Steyn in December.

Labour problems also played a part in the 8,6% drop in gold production at **Vaal Reefs**, where output fell by 1 794kg to 18 955kg. Management says a planned drop in grade and the shorter working quarter also impaired gold production. Grade was down 3,7% at 6,78 g/t (7,04 g/t) while tonnage throughput dipped 5% to 2,795 m.

At **Western Deep Levels** grade recovered slightly to 6,5 g/t (6,27 g/t). It has been affected by increased treatment of low-grade dump material through the uranium plant which was converted into a gold plant, and the lock-up of gold in the No 1 treatment plant. At 37 200kg, gold production for the year is marginally down on 1985's 37 467 kg and well below the target of 41 200 kg set for 1986.

In **Gencor** group **St Helena's** gold production dropped to 2 079 kg (2 212 kg) because of the work stayaway on October 1, a partial stayaway on October 9 and the loss of seven shifts because of fires at the Nos 2 and 8 shafts on October 6 and 18 respectively.

Fire aftermath

The October 1 stayaway was organised by NUM following the deaths of 177 mineworkers in the fire at **Kinross** on September 16. Kinross' tonnage throughput fell to 443 500 t milled (535 000 t) last quarter in the aftermath of the fire.

Chemwes uranium plant boosted production to 102,3 t of uranium for the quarter (63,9 t) following "revised sales projections", and declared a final dividend of R10m. That's good news for **Stilfontein**, which holds 80% of Chemwes and received R12,8m in dividends from Chemwes in the year to end-December out of total taxed income of R40,5m.

Brendan Ryan

GOLD QUARTERLIES

	Gold											Uranium				Profit	
	Produced kg		Cost R/kg	$/oz*†		Revenue R/kg	$/oz†	Milled 000 t*		Recovery g/t*		Milled 000 t*		Recovery kg/t*		Gold R'000	Uranium & other R'000
ANGLO AMERICAN																	
Elandsrand	2 975	(3 050)	12 022	168	(152)	29 705	412	462	(472)	6,4	(6,5)					52 575	2 926
Ergo	2 276	(2 108)				29 551	408	5 615	(5 391)	0,4	(0,4)	5 615	(5 391)	0,007	(0,007)	37 463	
Freegold	25 819	(26 489)	18 290	256	(210)	29 532	410	5 776	(5 701)	4,5	(4,7)	1 154	(1 194)	0,1	(0,1)	296 747	32 072
Vaal Reefs	18 955	(20 749)	12 740	178	(142)	29 795	415	2 795	(2 949)	6,8	(7,0)	2 205	(2 346)	0,21	(0,21)	336 718	57 052
Western Deep	9 334	(9 155)	13 024	182	(158)	29 319	408	1 437	(1 461)	6,5	(6,3)					155 623	18 250
ANGLOVAAL																	
ET Cons	877,42	(887,27)	10 620	149	(128)	29 787	417	93	(91)	9,4	(9,7)					18 818	682
Hartebeestfontein	7 996,00	(7 851,00)	10 902	153	(129)	31 651	443	798	(793)	10,0	(9,9)	798	(793)	0,15	(0,15)	165 914	7 677
Loraine	2 126,28	(2 234,25)	20 752	291	(238)	32 752	458	377	(398)	5,6	(5,6)					25 516	3 113
GENCOR																	
Beatrix	3 570	(3 413)	12 124	170	(170)	29 574	410	525	(525)	6,8	(6,5)					62 100	21 783
Bracken	706	(794)	20 537	288	(223)	29 900	417	234	(245)	3,0	(3,2)					7 039	214
Buffelsfontein	5 070	(5 615)	17 146	240	(198)	29 612	411	710	(733)	7,1	(7,7)	710	(733)	0,19	(0,22)	63 203	6 372
Grootvlei	1 483	(1 403)	18 657	261	(243)	29 731	418	432	(463)	3,4	(3,0)					16 429	415
Kinross	2 662	(3 218)	14 154	198	(145)	30 281	422	444	(535)	6,0	(6,0)					43 126	1 911
Leslie	880	(863)	21 394	299	(262)	29 826	415	351	(358)	2,5	(2,4)					7 858	193
Marievale	261	(241)	23 467	329	(311)	29 943	418	89	(86)	2,9	(2,8)					1 690	124
St Helena	2 079	(2 212)	20 090	281	(233)	29 659	410	504	(543)	4,1	(4,1)					19 879	2 550
Stilfontein	2 013	(2 018)	23 457	328	(298)	28 888	368	424	(426)	4,7	(4,7)	883	(590)	0,12	(0,11)	11 053	-1 473
Unisel	2 241	(2 384)	10 251	143	(112)	29 450	410	337	(348)	6,7	(6,9)					43 546	170
WR Cons	942	(950)	26 831	376	(321)	28 909	374	507	(510)	1,9	(1,9)					1 966	-36
Winkelhaak	3 472	(3 624)	11 580	162	(128)	29 957	415	593	(606)	5,9	(6,0)					64 503	2 130
GFSA																	
Deelkraal	1 912,5	(1 850,1)	15 164	212	(195)	30 316	424	375	(375)	5,1	(4,9)					29 072	2 331
Doornfontein	2 159,4	(2 086,2)	19 412	272	(250)	29 877	418	366	(368)	5,9	(5,7)					22 698	2 311
Drie Cons	15 060,0	(15 184,5)	9 223	129	(113)	29 873	418	1 426	(1 425)	10,6	(10,7)	235	(239)	0,08	(0,09)	310 982	5 918
Kloof	7 238,0	(7 560,0)	8 162	114	(96)	30 111	421	517	(540)	14,0	(14,0)					159 237	8 762
Libanon	2 001,0	(2 189,5)	18 354	257	(206)	30 183	423	435	(435)	4,6	(5,0)					23 755	2 691
Venterspost	1 599,0	(1 545,7)	35 217	493	(270)	30 030	420	390	(390)	4,1	(4,0)					12 884	1 774
Vlakfontein	266,4	(225,6)	14 925	209	(202)	29 587	414	210	(210)	1,3	(1,1)					963	464
JCI																	
Randfontein	6 974	(6 624)	13 688	192	(170)	29 448	412	1 701	(1 668)	4,1	(4,0)	825	(795)	0,20	(0,17)	109 549	8 954
Western Areas	4 112	(3 784)	22 931	321	(297)	27 960	391	1 028	(946)	4,0	(4,0)	172	(174)	0,35	(0,39)	22 037	5 996
RAND MINES																	
Blyvoor	3 157,7	(3 370,9)	17 049	239	(198)	29 503	413	563	(588)	5,7	(5,7)					39 327	289
Durban Deep	1 768,2	(1 867,5)	26 911	377	(317)	29 444	412	588	(602)	3,0	(3,1)					4 479	1 088
ERPM	2 299,3	(2 363,1)	31 555	442	(393)	30 028	420	677	(715)	3,4	(3,3)					-3 513	131
Harmony	6 788	(7 449)				29 406	412	2 143	(2 141)	3,2	(3,5)	856	(1 194)	0,06	(0,06)	46 815	
INDEPENDENT																	
Cons Modder	625,3	(617,1)	15 469	217	(179)	28 908	406	149	(154)	4,2	(4,0)					8 405	428
South Rood	214,9	(305,0)	24 477	332	(229)	30 135	409	80	(82)	2,7	(3,7)					1 216	319

* Figures in parentheses refer to previous quarter. † Calculated at R1=$0,45 when dollar figure not given by mine.

27/1/87 BUSDAY 79

MINING

Price of gold seems set to see-saw in '87

NEW YORK — Last week's sudden drop in the gold price is only the beginning of a bumpy road for gold prices this year, many analysts say.

Some speculators were hurt last Tuesday when gold contracts on the New York Commodity Exchange fell $15 an ounce, the sharpest one-day decline in nearly two years.

That wiped out nearly all of gold's gains since the beginning of the year. On Friday, February gold contracts at the Comex, after falling briefly to nearly $400, closed at $405,30 an ounce, down $3,60 for the day.

Frederick Demler, metals economist for Drexel Burnham Lambert, says the recent price choppiness "underscores the increased market volatility" likely to occur in 1987.

Increased uncertainty

Jeffrey Christian, MD of a New York-based commodity-consulting company, says: "Volatility in gold tends to pick up in the late stages of an economic expansion, as economic uncertainty increases."

But along with the wide price swings, many analysts also expect gold prices to climb gradually as the year progresses. A continuing depreciation in the dollar, increasing money supply, firmer oil prices and a mild acceleration in inflation will probably trigger the gains, they say.

Craig Sloane, an analyst at Smith Barney, Harris Upham & Co, New York, says "an upward explosion in gold prices can't be ruled out, particularly if US money-supply growth continues at its blistering pace".

Sloane, who recently urged investors to buy gold, says gold could reach $500 by the end of the year.

It is also possible that gold could benefit from increased speculative interest if a significant stock market correction follows on the heels of Friday's viciously volatile trading.

But if the rally that has ruled all but two stock market sessions this month gets back on track, equities will probably continue to siphon investors from gold, analysts say.

"Why buy gold when you can throw a dart at the New York Stock Exchange table and make a bundle?" asks Jeffrey Nichols, president of American Precious Metals Advisors.

Drift lower

Robin Adams, president of Resource Strategies, says: "If gold fell to $350 an ounce and the Dow rose to 2 300, I would be tempted to switch."

If bullion-buying continues to be slack, gold prices will probably drift lower in the weeks ahead.

David Sobotka of Shearson Lehman Brothers says gold could fall soon to as low as $375. There is no physical demand now, he says.

Some analysts do not expect that to change soon. The gold market has been unable to sustain any type of rally, says William O'Neill, research director of Elders Futures.

Nevertheless, a growing number of analysts say the fundamentals are in place for gold to appreciate, particularly in the second half of 1987.

More attractive

For example, many foreign-exchange traders expect the dollar to continue weakening, making gold a more attractive investment.

And despite a record drop in money supply during the week ended January 12, the bulging trade deficit will keep pressure on the Federal Reserve Board to expand money supply, several analysts say.

Moreover, a mild acceleration in inflation rates during the second half of the year should translate into further gains.

Firmer oil prices should also help fuel future gold gains. — AP-DJ.

579 26/1/87 Weekend Post

JOHANNESBURG — Gold share prices were narrowly mixed at midday in the absence of a lead from the bullion price which hovered around $405, dealers said.

The rest of the market also lacked clear direction. Among other minings and financials diamond share De Beers, Lydenburg Platinum and Gencor slipped 25c apiece at R40,75, R62,75 and R44,75 respectively.

The Krugerrand fell R10 at R1,165, they added.

Cape Times 23/1/87

Higher gold price lifts Anglo profits

THE HIGH average rand price for gold of R29 603 a kilogram helped Anglo American Corporation's Transvaal mining operations to lift after-tax profits for the December quarter by 6,3% to R415,4m.

However, the fewer working days in the quarter combined with labour troubles meant a 3,9% drop in the amount of ore milled to 4,6m tons.

This, and the fact that lower grades were milled, meant that gold production fell by 5,1% to 31 264kg (32 954kg).

As a consequence, profit before tax fell 7% to R658,9m. But the tax bill fell to R243,5m.

□ Vaal Reefs reported a lower pre-tax profit of R323,4m, but profit available for distribution rose by 24% to R121m.

Gold output declined by 1 794kg as a result of a planned drop in grade and lower throughput due to the shorter working quarter. Production was also adversely affected by industrial action and faction fighting.

Working costs increased by 2% to R241,5m, and the cost per ton milled rose from R80,10 to R86,40.

□ **Western Deep Levels** profit available for distribution was only slightly up over the quarter at R47,1m (R46,9m).

Uranium profit rose from R337 000 to R10,6m. Tons milled were slightly down at 1 437 000 (1 461 000) but grade was up by 3,6% to 6,5 g/t resulting in an increase in gold output of 1,9% to 9 334 kg.

□ **Elandsrand:** Available profit dropped by R12,4m over the quarter to R30m largely as a result of a R7,3m provision for non-mining taxation and a R4,2m increase in appropriation for capital expenditure. The company is now subject to taxation on all its non-mining income and, accordingly, the taxation provision for the year has been adjusted in this quarter. Capital expenditure was slightly higher at R22,5m (R18,6m).

Gold grade remained unchanged, and tons milled and gold produced were marginally lower this quarter.

Total working costs at R35,8m were 4% lower over the period and this was reflected in lower unit costs.

□ **Ergo:** Total material treated rose by 4,2% to 5,6m tons, gold production rose by 7,9% to 2 275kg, uranium production at 38 886kg was 8,3% higher and acid production was up by 8,9% to 133 031 kg. Operating profit increased by 15,8% to R36,7m. After an increased provision for taxation, however, and increased appropriation for capital expenditure, available profit was virtually unchanged at R12,9m.

□ **Ergo Division:** Slimes treatment rate was normal and higher than the previous quarter reflecting higher plant availabilities. Gold production increased by 240kg to 1 827kg. Uranium and acid production were higher but revenue from uranium and acid was lower due to normal phasing of sales.

□ **Simmergo Division:** Gold production declined by 73kg to 448kg in spite of increased throughput of sand and ore as a result of a lower grade of sand treated to 0,90 g/t (1,06 g/t). The reduction in sand grade reflected normal variation within the dumps being reclaimed.

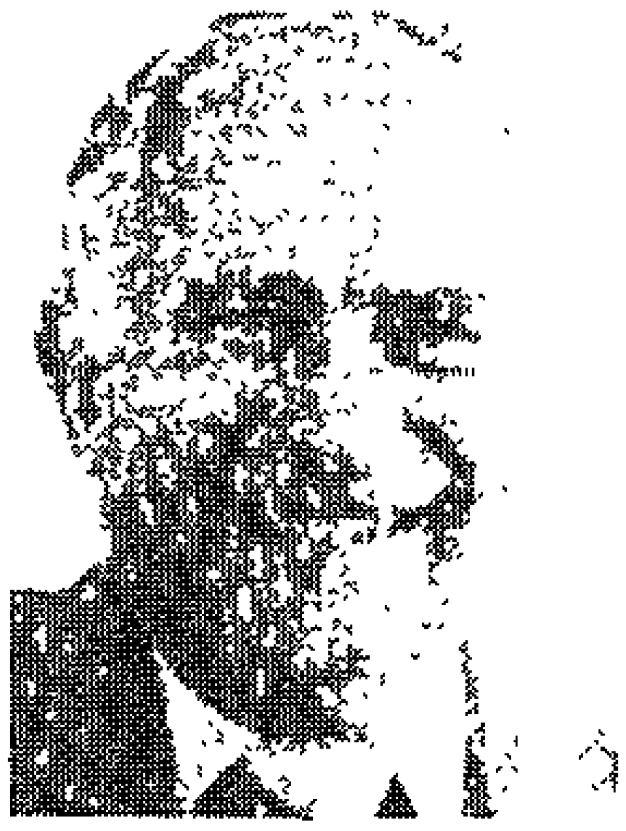
□ **SA Lands:** Profit before tax at R3,6m was 4% below the previous quarter but provision for taxation was reduced to R1,4m (R2,5m) and resulted in an increase in after-tax profit to R2,15m (R1,19m).

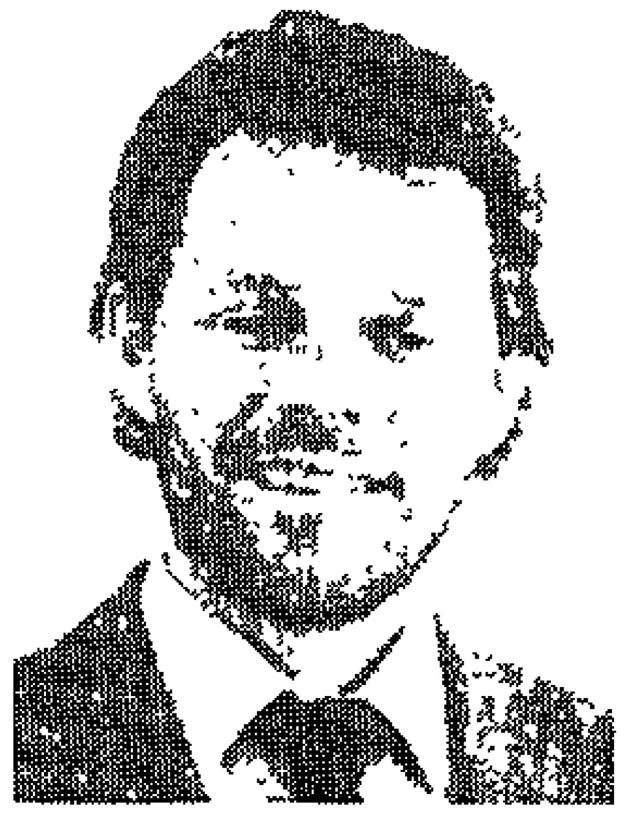
There was a net recoupment of capital expenditure of R208 000 from the sale of property and the flotation project. Available profit rose by 38,8% to R2,4m.

□ **Free State Gold Mines:** Tonnage milled at Free State Consolidated Gold Mines (Freegold) for the quarter ended December 31, 1986 increased by 1,3% to 5 776 000 tons (5 701 000). This was as a result of an increase in surface dump-tonnage treated in order to take advantage of the favourable gold price. Accordingly, grade decreased by 3,9% to 4,47 g/t (4,65 g/t).

Gold production fell by 2,5% to 25 819kg (26 489kg) reflecting the drop in grade as well as a shorter working quarter and a rise in industrial or inter-employee action.

Profit before taxation fell by 12,5% to R328,8m (375,8m), profit after taxation by 23,1% to R213,8m (R278,1m) and available profit by 21% to R95,5m (R120,8m). — Financial Staff and Sapa.





Time-Slot recently made two new appointments: Mike Sedgewick (left) has been appointed an account executive and Richard Hyams (right) an applications consultant.

Patrick Kelly has been appointed general manager of the Carlton Hotel.

Dr G Buettiker has been appointed to the board of Everite.

Cape Times 23/1/87

Gold rises, as $ falls sharply in Europe

79

GOLD prices rose yesterday as the dollar — which had strengthened earlier in the week — fell sharply in hectic European trading.

Gold rose in London to a late bid price of $409,50 an ounce, compared with $406,80 late on Wednesday, after closing in Zurich at a bid $410.

Dealers in London reported a mostly routine session, with gold opening higher at $410,70/411,20.

Most movements were foreign exchange orientated, amid two-way professional and client business.

News that the West German Bundesbank had cut its discount rate prompted an early afternoon burst of activity, with gold slipping slightly.

But the cut failed to boost the dollar because it was accompanied by restrictive monetary measures and gold steadied again.

Dealers in Frankfurt, West Germany, said the dollar also came under pressure in afternoon trading after a statement by Alan Greenspan, former chairman of the US Council of Economic Advisers, that fears of a freefall dollar decline were "credible".

In London, the dollar lost against the British pound. It cost $1,5340 to buy one pound, more expensive than the $1,5190 it cost late on Wednesday.

Other late dollar rates in Europe, compared with late on Wednesday:

- 1,8140 West German marks, down from 1,8495.
- 1,52025 Swiss francs, down from 1,54925.
- 6,0525 French francs, down from 6,1675.
- 2,0460 Dutch guilders, down from 2,0825.
- 1,292.00 Italian lire, down from 1,312.25.
- 1,35685 Canadian dollars, down from 1,3583.

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day's close; and at 152,60/70 yen, up from 151,55/65 yen previously.

Gold fell briefly below $414 in late London afternoon trading yesterday, although the close of $414,50/$415,00 reflected modest chart support and an upturn from the lows in New York.

● See Page 8

ANGLOVAAL Industries director John Bryant has been appointed chairman of T W Beckett & Co, Anglovaal's tea and coffee company.

COMMERCIAL UNION Life Assurance posted a record 35% rise in premium income last year, when the market value of life and mutual funds administered exceeded R1bn for the first time.

SHARESPOT

RUSTENBURG Platinum's glittering results were discounted by the market yesterday.

The shares came off 50c (0,9%) to R54,50 on turnover of 44 722 shares worth R2,4m in 63 deals.

Expectation of excellent results pushed the platinum stock up 4,8% in the past week to R55 on turnover of 122 673 shares worth R6,5m. — Liz Rouse

SAFICON INVESTMENTS, the company controlling ...

JSE takeover fever fuels bull market

79

BUSDAY 21/1/87

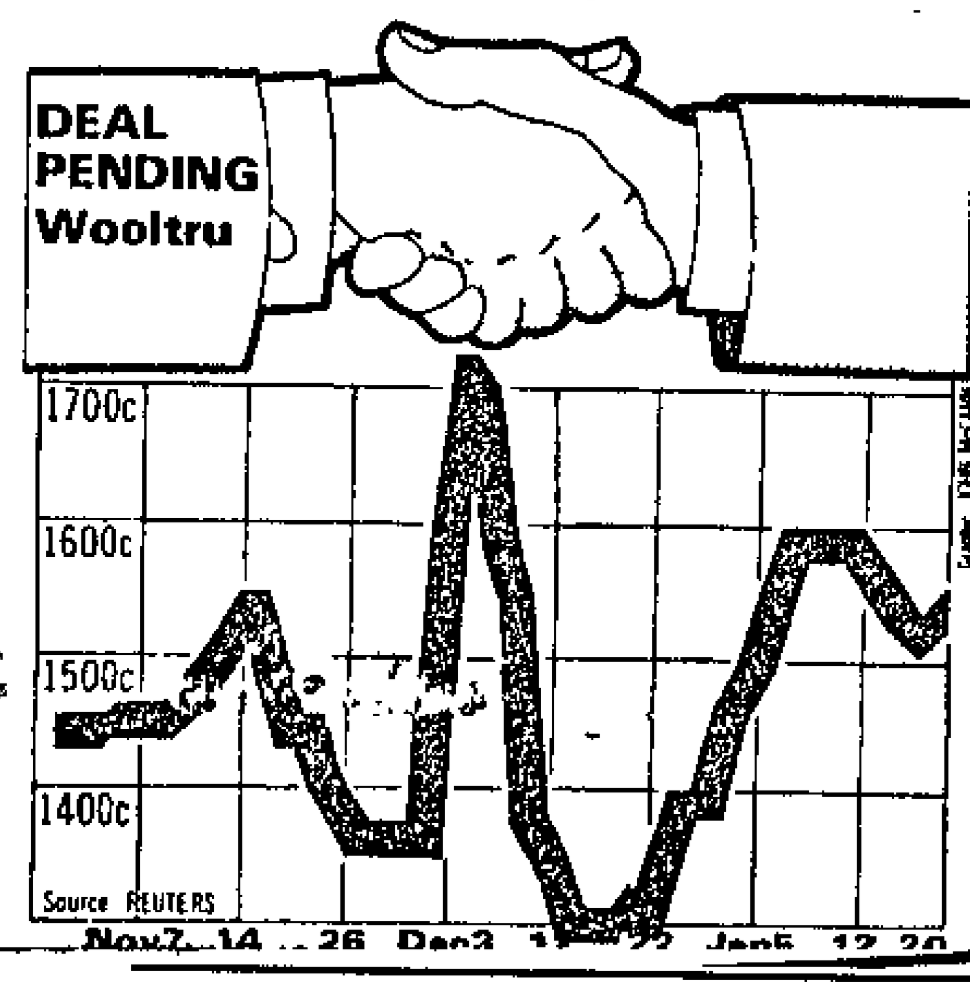
TAKEOVER and acquisition fever is gripping Diagonal Street.

BRIAN ZLOTNICK and MERVYN HARRIS

This intensification of activity, with the new year only in its infancy, has brought to the fore an essential ingredient of a raging bull market.

A flurry of announcements by companies that they are on the acquisition trial, or embroiled in delicate negotiations, has added froth to an already buoyant market.

Shares currently associated with pending deals, which could materially affect the share price, include Curfin, Brokers Investment, Romanda, Rale, Buffcor, Pactape and Quality Tyres.



Already this year the Altech group has made two acquisitions and Saficon is raising finance through a rights offer for new deals.

With the market swamped by so many deals and new listings, opportunities abound for the investor able to identify potential takeover targets or predators.

This development is in line with major overseas markets, which are hitting new highs. Until now, Diagonal Street, unlike Wall Street and Throgmorton Street, has not been rocked by insider-trading scandals.

However, inadaquate legislation and policing pose serious hazards for the unwary SA investor. There has, to date, never been a conviction for insider trading.

Share prices of some of the companies involved in negotiations have risen sharply ahead of announcements. And it is widely believed that certain share prices are being rigged by unscrupulous operators.

The JSE is investigating ways of establishing an effective means of ensuring that insider trading is quickly discovered and punished.

JSE president Tony Norton said yes-

● To Page 2

Takeover fever fuels JSE

● From Page 1

terday the JSE was not the body responsible for policing insider trading.

He stressed the need to change the law the more effectively to establish whether insider trading had taken place.

"We have plenty of evidence. But to get it to the stage where it leads to a conviction is the bugbear.

"The issue has been plaguing us for some time now, but has become more relevant in today's highly active market."

Britain has moved to rush through Parliament stiff jail sentences of up to seven years — more than three times the previous maximum penalty for those convicted of insider trading.

The wave of acquisition mania on the JSE was sparked off last September by Liberty Life's R300m takeover of Prudential. Ahead of the announcement, Prudential's share price rocketed.

It was followed by a spurt in Wooltru's share price well before management divulged that merger negotiations with the Pep group were under way. The outcome is expected later this month.

However, some of the most dramatic price rises have often occurred among the lesser-priced stocks ahead of the deals. These stocks are the centre of takeover speculation because most of the companies on the JSE are controlled by six major players.

A recent example was the soaring price of H J Cables before the formal announcement of a deal with Ronnie Price's Eureka.

Cape Times 20/1/87 (74)

Gold breaches $420 barrier

LONDON. — Gold slipped from earlier fresh three month highs in late trading, with Comex easing from its highs, although prices ended at a steady $421,60/$422,10.

Dealers said the higher trend yesterday, with gold opening at $422,30/$422,80 an ounce against $415,75/$416,25 on Friday, reflected dollar weakness.

But conditions were not particularly active, and most activity appeared to be generated by professional operators. In spite of the move above the $419/$420 resistance level, there was little follow-through impetus.

Gold rose sharply in pre-European trading in Australia yesterday morning, but many operators here were reluctant either to pay higher levels, or sell into the rise, they added.

Thus yesterday's trading pattern was one of consolidation, with prices holding within a fairly narrow range.

Gold was fixed yesterday afternoon at $422,25, around the mid-point of the day's $2,50 range.

Platinum also gained yesterday from gold's steadiness, being fixed at $550,00 an ounce yesterday afternoon, the highest levels since early November last year, they said.

● In Zurich, gold closed near the day's highs after holding firm all day in response to the dollar's fall, dealers said.

It finished at $422,50/$423, its highest level since last October, compared with Friday's $415,60/$416,10 close.

The day's afternoon peak was $423,70.

Other metals followed gold but platinum and palladium also benefitted from good industrial demand.

Platinum rose $17 to close at $549/$553 an ounce, while palladium ended at $125/$128, compared with its previous $121,75/$124,75.

Silver added $0,8 to $5,67/69. — Reuter

Market indices hit new highs

Gold price near $420 in Europe

Cape Times 15/1/87 79

From LIZ ROUSE

JOHANNESBURG. — The soaring gold price set off another mining buying spree on the JSE yesterday and even London turned a buyer.

Major market indices hit new highs. The market closed in a buoyant mood as the gold price neared $420 in after-hour dealing in Europe.

Analysts said the metal, having broken through two barriers in a short time, should now stage a fast advance, if the charts are to be trusted.

Professional buying

The man in the street climbed into lower-priced gold shares, but the strength of gold leaders such as Vaal Reefs, Southvaal and Randfontein reflected professional buying.

Analysts are now looking for an All Gold Index of 2 200. The index firmed 54 points to a new high of 2 154 yesterday with 12 gold shares at new peaks.

The mining house index rose 13 points to a new high of 1 412, with eight shares at new peaks. The mining house index gained 49 points to 2 819, nearing its previous peak of 2 840. The diamond index bounced up 207 points, back at its Monday peak of 7 253.

Selected industrial shares were at peaks and the index gained three points at a new high of 1 457. There was enough takeover talk in the market to keep the sector buoyant.

Speculative element

Brokers noted a strong speculative element in the Development Capital Market where 13 new highs were recorded. Once again, as in the 1969/1970 boom, the JSE was attracting people who had never seen a share certificate, said a broker.

Since December 1, 1986 the rand has appreciated by 6,8% against the dollar. But it has, with the exception of the Japanese yen, made little headway against other major currencies.

In the period December 1, 1986 to Jan 14, 1987 the rand could buy:

- An extra $03,1;
- An additional half a German pfennig;
- 1,1 more Swiss centimes;
- Less than a British penny;
- Eight more French centimes.

Against the Japanese yen the rand has appreciated by 6,2%. At the beginning of December R1 bought 70,38 yen but last night R1 could buy 74,74 yen. The reason is that the Bank of Japan has been depreciating its currency to level-peg with the dollar so as not to disadvantage its export trade.

BUSINESS

Dealers see gold higher still

79

LONDON — The price of gold hit a three-month high yesterday as the dollar tumbled and bullion traders forecast that the precious metal would rise further in value this year.

Gold was fixed at $421,25 an ounce in London yesterday morning, its highest for three months and well up on its closing price on Friday of $416.

The dollar plunged to a record low below 150 Japanese yen in Tokyo yesterday and opened sharply lower on European foreign exchanges, touching a low of 1,8040 West German marks in early trading.

The steep decline in the dollar from around 2,2 marks a month ago has caused a flight into gold which investors see as a safer haven for wealth in times of currency uncertainty.

Most dealers see gold hitting $500 peaks during 1987 and predict it will trade in a range of $400 to $500 compared with an average of $368 last year.

Swiss analysts and dealers did not fear serious disruptions in output from South Africa, which supplies more than 80 per cent of the West's needs, but said developments there would continue to influence prices.

US analysts said renewed problems in South Africa would support gold prices this year.

"A major disruption in South African mine production would have some effect on the gold market," said Mr Raymond Schenk, chief gold trader for Credit Suisse in New York, without elaborating.

They forecast that sizeable Japanese purchases, a notable feature of last year's business, would fall off during 1987 with market movements dominated by economic, foreign exchange and investment market trends.

Mr Alan Davison, an analyst at Shearson Lehman Bros in London, said investors would flock to buy gold if there was a sudden downward trend in currently booming stock markets. "See what the investment community do — they are incredibly fickle," he said.

Mr Davison put the 1987 average gold price at $450.

Producers, such as South Africa, the United Statess and Australia, are expected to increase output. But the Soviet Union would probably sell less gold, gaining extra revenue from rises in platinum, diamond and crude oil prices, Mr Davison said.

Mr Eldred Halton of Kleinwort Grieveson saw a 1987 average of $425, with no runaway advance seen. He said higher levels would encourage gold producers to open new sources of supply.

Mr Halton added the deteriorating US economic outlook and a falling dollar should foster increased gold demand, while Japanese purchases, although undoubtedly down on 1986 levels, could still be encouraged by the strong yen.

Mr Rob Weinberg of London stockbrokers James Capel and Co, said he saw no dramatic jump in prices, rather a gentle advance, based on a long-term uptrend which started in February 1985. A speculative run could take gold up to $500, but this would not be sustainable. — Sapa-RNS

BUSDAY 14/1/87 (79)

SA will still top gold list in 1989

NEW YORK — World gold production rose 5% in 1986 to 1 581,5 tons.

It will increase to an estimated 1 832,4 tons in 1989, the Washington-based Gold Institute says.

SA was the world's leading producer, with 650 tons mined last year — 41,1% of the world total — and will still be Number 1 in 1989 with 725 tons.

The country will be down to 39,6% of the world total in 1989, the institute adds.

The Soviet Union, in second place with 272,2 tons mined last year, will still be number two with 273,7 tons in 1989.

But its share in world output will shrink from 17,3% to 14,9%.

The US, which produced 109,6 tons last year, will outpace Canada to take third place with 176,5 tons in 1989, the institute predicts.

Production will also increase sharply in China — from 68,8 tons to 93,3 tons — and in Brazil from 61 tons to 80 tons between 1986 and 1989. — Sapa-AP.

Investment currencies showing huge gains

Gold price rise not 'impressive'

(79)

STAR 15/1/87

By Neil Behrmann

LONDON — Gold continues to strengthen in the face of the worst dollar crisis since 1978 when massive intervention by the Federal Reserve Board halted the currency's decline.

But precious metal dealers say relative to the dismal performance of the dollar, gold's performance has been unexciting.

Gold reached $417,25 in late New York trading yesterday, compared to $410,50 late on Tuesday. It opened at $417,47 in Hong Kong today.

The dollar has fallen to an all time low of 152 against the yen.

Its rate against the Swiss franc is around 1,53 against 1,43 in 1978, while its rate against the Deutschemark of 1,8250 in New York yesterday compared with the record low of 1,70 in early 1979.

Gold has risen in tandem with foreign currencies since the beginning of the year.

An international investor who switched out of dollars when it hit its all time peak into other currencies would have made 93 percent in Swiss francs, 90 percent in Deutschemarks, 75 percent in yen and 50 percent in sterling.

But gold has appreciated by 49 percent, so the price has performed poorly in terms of the major investment currencies.

Some Swiss bullion traders believe speculative and investment demand will spur gold prices.

Dealers said gold had risen sharply early in the day amid strong buying both in Hong Kong and Zurich.

It settled back slightly with the entry of the London market but regained momentum when the New York market opened.

Traders said gold broke through a number of resistance points during its climb and that each had further reinforced the rally.

London dealers were more cautious, especially at prices of around $418.

They said that physical demand was slack and supplies were plentiful.

Foreign exchange markets were so bearish about the dollar that traders suspected there were huge bear positions about.

Central banks withdrew from the market, but unexpected intervention could catch the foreign exchange markets by surprise and the dollar could rally sharply.

But after a technical recovery, the dollar could resume its decline, said traders.

Some predict the currency could fall a further 10 percent because the Reagan Adminstration does not want higher interest rates to hurt the economy.

In those circumstances the dollar price of gold could soar above $450 an ounce.

In response to an article in the New York Times which stated that the Administration wanted the currency to fall further, the White House spokesman, Mr Larry Speakes said: "The dollar is in an orderly decline."

The market interpreted this silly remark as being bearish for the dollar.

Meanwhile European ministers are worried the decline of the dollar will hurt their exports. French economics minister, Mr Edouard Balladour said the fall was "harmful to the world economy".

This view he said, was shared "by all European countries, as well as Japan."

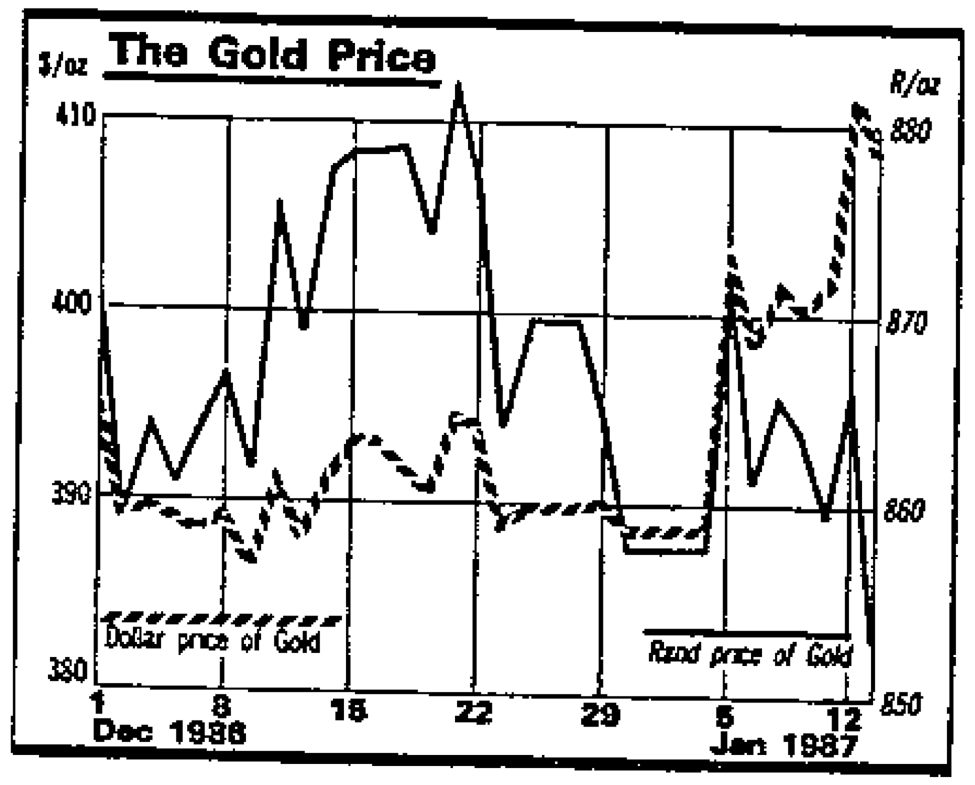
Business Day
C (45c + 5c tax)
For other prices, see Back Page
Natal, Western Province, Eastern Province 80c (71c + 9c tax)

14/1/87 79

BUS DAY

"THE VITAL VIEWP

Minings retreat in steady market



The rand price of gold gave a fillip to gold mine earnings when the dollar price for the metal was oscillating around $390/oz and the rand/dollar rate was hovering just above $0,44. But since January the dollar price for the metal moved up sharply while the exchange rate of the rand climbed to $0,48.

LIZ ROUSE

JSE MINING indices slid off their highs on profit-taking yesterday, but the market's undertone remained bullish.

The retreat was seen as an inevitable reaction to the previous days' sharp surge in prices.

Significant

The decline of the gold price to $409 — and to R865,60 an ounce on the rise in the rand to $0,48 — was not seen to be a significant factor in the market's decline.

Brokers said sentiment remained bullish on gold because of the dollar's decline and worsening international currency problems.

The fact that gold leaders, such as Vaal Reefs and Southvaal, were unchanged yesterday and that only marginal producers recorded significant declines, reflected underlying confidence, said brokers.

While professionals took profits on the mining board, the industrial index hit a new high.

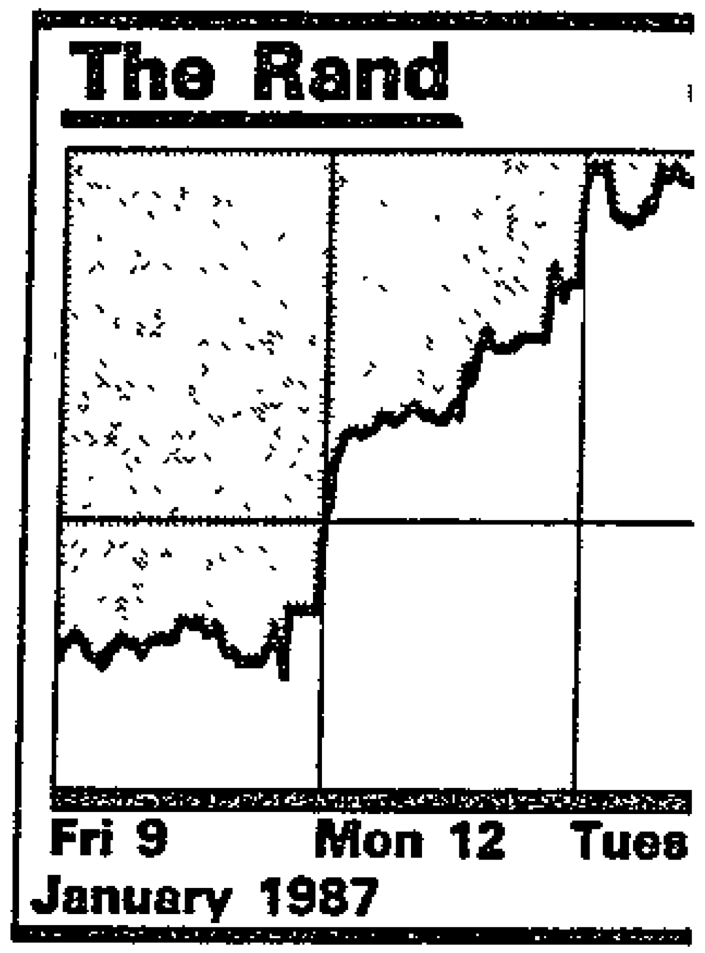
Active small investor interest was reflected in a flourishing Development Capital Market, which recorded 11 new highs.

Active dealing in these low-priced stocks showed a strong speculative element in the market, said dealers.

New high

The JSE all-gold index declined 17 points to 2 100, the industrial index rose six points to a new high of 1 454 and the overall market index came off 12 points to 2 121.

See Page 7



THE rand penetrated the $0,48 level in active and volatile foreign exc yesterday but each time it eased when the Reserve Bank intervene curb too-exuberant bullish enthusias price at the close was $0,48 after opening.

BUSINESS

DD 14/1/87 79

Gold shares drop as bullion sinks

JOHANNESBURG — Gold shares closed mostly lower, pulling the all-gold and overall indices down from the records set yesterday as the bullion price slumped to 408,75/409,25 US dollars an ounce, dealers said.

The all-gold fell to 2 100 from 2 117, and the overall index to 2 121 from 2 133.

In heavyweights, Kloof was 25c down at R39,50 and Harmony was R2 lower at R53. Harties was marked down 65c at R25,25.

Beatrix, which announced yesterday that almost half of its black workforce had resigned, plummeted R1,15 to R17,75.

De Beers was down 65c at R39,10.

In **London**, share prices retreated from yesterday afternoon's record levels, with the FTSE 100 at 5.30 pm SAST standing 12,8 higher at 1 768,4 after the record high of 1 774,-4 at 4.27 pm SAST.

Dealers said light profit taking and the lower opening on Wall Street on Monday started the fall back.

Equities gained strongly during the session on the continuing record breaking run on Wall Street and had been led higher by the gains in oil shares and crude prices.

DIAGONAL STREET

Although Wall Street later turned narrowly mixed dealers said shares were beginning to look soft as buyers consolidated gains rather than liquidate existing positions.

Overspill demand from the bull market on Wall Street had found its way into blue chip issues, with ICI 20p up at £1 185 after £1 190. — Sapa-RNS

Gold sets JSE booming

CAPE TIMES 13/1/87 79

By AUDREY D'ANGELO
Financial Editor

FORTUNES were made on the Johannesburg Stock Exchange yesterday as gold and mining finance shares soared to record levels on news of a gold price surge in London.

The market value of shares on the JSE rose by almost R15 billion on expectations that gold would continue to go up as the US dollar weakened further.

The All Gold Index, which closed just below its all-time high last week, broke new records above 2 100 during the day.

The gold price closed in London at $411,25 an ounce compared with $404,50 on Friday, after climbing even higher at one stage.

The rand strengthened with it, closing in Johannesburg at over $0,48, the highest level it has reached since May last year.

Gold $500 by year-end — PAGE 6

The financial rand — the second-tier currency in which foreign investors are allowed to withdraw money from the country — firmed during the day from $0,2175 to almost $0,2300.

Business confidence grew as overseas media reported that it looked as though SA would be able to shrug off the effect of sanctions, provided the gold price stayed up.

The Reserve Bank

To Page 2

CAPE TIMES 13/1/87

From Page 1

Governor, Dr Gerhard de Kock, has said that a dollar rise in the gold price raises the value of SA's gold output by $21m over a full year.

The rise in gold and platinum prices is taking place against a background of turmoil in world currency markets, which makes the precious metals more attractive investments.

The dollar has weakened steadily in spite of support from the West German Bundesbank earlier this week.

The French franc has also been in difficulties due to labour troubles and a flight of investment money from France into the strong West German mark.

□ Our correspondent reports that share prices powered their way to fresh peaks on the JSE yesterday.

Records tumbled with the JSE overall index leaping 45 points to a new high of 2 133, reflecting the 49-point surge in the all gold index to a record 2 118 — surpassing the previous peak of 2 079 on September 22 last year — and the 12-point advance in the industrial index to an all-time high of 1 448.

Other mining, mining financials and mining house stocks covered new ground with De Beers at R40,25 and Anglos at R75,50, scaling previous heights. 79

Dealers said buying was mostly by private clients rather than the big institutions.

Mr William Bowler, head of research at stockbrokers Fergusson Bros, said: "There is a lot of strong buying pressure and, as long as the dollar gold price continues to firm, the market will go higher.

"What worries me is that if the dollar gold price falters, there could be a greater percentage fall in the downward adjustment of gold shares. The market, therefore, requires a little caution."

Mr Richard Jesse, of Martin & Co, said the booming stockmarket was largely a question of there being no other good alternative avenues of investment.

He said: "At this time last year, investors could get 20% by putting their money on call as opposed to only 8% today, well below the inflation rate. There is an oversupply of property so that there is no incentive in putting money into that.

"International currencies are looking hairy and unstable. This is essentially good for gold and its surge above $400 helps to boost confidence."

Mr Jesse expects the market to go higher.

Cape Times 13/1/87

79

Gold could hit $500 by end of year — Kantor

By AUDREY D'ANGELO
Financial Editor

GOLD could easily reach $500 an ounce by the end of this year as rising inflation in Western industrialized countries makes it an attractive hedge, University of Cape Town economics professor Brian Kantor predicts.

Commenting on the surge in the gold price yesterday, which sent the prices of gold shares rocketing on the Johannesburg Stock Exchange (JSE), Kantor said it was not yet high enough to pull SA out of trouble.

"It is not very long since the gold price was $430 an ounce. But it is not beyond the bounds of possibility that the gold price will reach $500 by the end of this year. I tend to be quite bullish about this."

One of the reasons for this, he said, was that the US economy was not well managed.

The US economy would recover, but the dollar would weaken and this would put pressure on other Western industrialized countries to inflate their economies. "This makes gold look more attractive."

'Luck and good management'

He said a high gold price alone would not be enough to solve SA's economic troubles.

"We need luck and good management. But a high gold price is a helpful factor."

Discussing the rise in gold shares yesterday, Kantor said the JSE was extraordinarily sensitive and rose in anticipation. Further gains would be necessary to keep the momentum going.

His views on the outlook for gold contrast with those in the Standard Bank economic review.

This suggests that the gold market "holds few promises" of a major price rise.

The bank says optimists who expect the surge in economic growth in the second half of last year to extend into 1987, and accelerate, are likely to be sadly disappointed.

It thinks the world economy is likely to languish and, for this reason rather than sanctions, non-gold exports are likely to be less than in the second half of 1986.

Consumers in SA have little disposable income so that the potential for an improvement in private spending is "very limited, unless taxes are cut".

This means, the bank says, "the optimism that may have been created ... by the growth surge in the third quarter of 1986 is not likely to be fulfilled".

Gold, platinum soar

JOHANNESBURG — Gold and platinum broke through current barriers at the weekend against a background of turmoil in European currencies and bearish sentiment on the dollar.

Precious metals prices soared as European Community finance ministers scurried to set up a meeting to realign currencies within the European Monetary System (EMS), in disarray as the West German mark climbed and the French franc sank last week.

The gold price went through the $405 mark in New York on Friday and in Hong Kong on Saturday.

On the Commodity Exchange in New York, gold closed at $406, up from $402,30 late Thursday. It opened at $405,79 in Hong Kong.

Platinum futures surged on the New York Mercantile Exchange on Friday as speculators interpreted the metal's ability to breach the $500 level as a buy signal.

Platinum began its assault on $500 an ounce on Thursday when the January contract closed at $494,90, up $12,50. — DDC

12/1/87

Dispatch

Gold shares continue to race ahead

(79) BUSDAY 17/1/87

MERVYN HARRIS
and LIZ ROUSE

GOLD SHARES continued to race ahead on Diagonal Street yesterday to bring the JSE all gold index within a whisker of its all time peak.

The index rose 53 points to close at 2 066, 13 points below the record 2 079 set on September 22 last year. With the industrial index easing three points to 1 431, the JSE overall index closed at 2 065, a rise of 30 points on the day and 29 points short of the record 2 094.

Buying yesterday was mainly by the small investor with no overseas or local institutional interest. The man in the street was encouraged by the rise in the gold price to above $400 on world bullion markets.

But analysts and dealers say mining share prices are overvalued and caution that a correction in share prices should be expected.

They note the rand gold price has languished at around R860 and the gold price will have to move upwards sharply or the commercial rand fall to justify current share prices.

Brokers and analysts are warning small investors that gold share prices are running ahead of the gold price. Prices should have consolidated yesterday after Monday's sharp gains, but large public buying yesterday kept the gold board on the boil.

Rodney Yaldwyn, mining analyst at Simpson Frater, says gold shares are at historically high levels in relation to the dollar price of gold. Golds last reached these levels when gold was well above $400 an ounce.

He says investor expectations are too high and that buying so far has been confined to local investors.

The financial rand has remained weak and a change in the FR might trigger off a downward reaction in gold shares.

Turmoil in European currencies

CAH Times 12/1/87 (79)

Gold, platinum break barriers

Own Correspondent

JOHANNESBURG. — Gold and platinum broke through current barriers over the weekend against a background of turmoil in European currencies and bearish sentiment on the dollar.

Precious metals prices soared as European Community finance ministers scurried to set up a meeting to realign currencies within the European Monetary System (EMS), in disarray as the West German mark climbed and the French franc sank last week.

The gold price went through the $405 mark, the resistance point on charts, in New York on Friday and in Hong Kong on Saturday.

On the Commodity Exchange in New York, gold closed at $406, up from $402,30 late Thursday. It opened at $405,79 in Hong Kong.

Signal to buy

Platinum futures surged on the New York Mercantile Exchange on Friday as speculators interpreted the metal's ability to breach the $500 level as a buy signal.

Platinum began its assault on $500 an ounce on Thursday when the January contract closed at $494,90, up $12.50.

Steve Chornowitz, director of commodity research in New York at Smith Barney, Harris Upham & Co, said the $500 level was considered significant because it represented the highest price of the past eight weeks.

The January contract closed at $520,90 on Friday, a gain of $26.

Chornowitz said that although political instability provided underlying support, the rally was triggered mainly by speculators who follow technical trading factors. Gold was also boosted by technical factors as buying emerged when the price showed strength at $400, he said.

The surge in the gold price justified the JSE's gold fever, which pushed the All Gold Index to a near record level of 2 073 on Thursday in hectic dealing.

The index closed at 2 068 on Friday, having jumped 8,4% on the week.

However, a successful realignment of European currencies and Japanese determination to lower the yen could affect the strong precious metals' uptrend.

The EMS, a mechanism for stabilizing European exchange rates, has been forcing Bonn to intervene heavily to narrow the gap between the rising West German mark and the falling French franc.

Dealers said West Germany's Bundesbank bought more than one billion French francs on Friday to keep the currency from falling through the floor within the EMS.

The central bank also bought an estimated $40m to $50m in an unsuccessful attempt to prevent the US currency from falling in Europe.

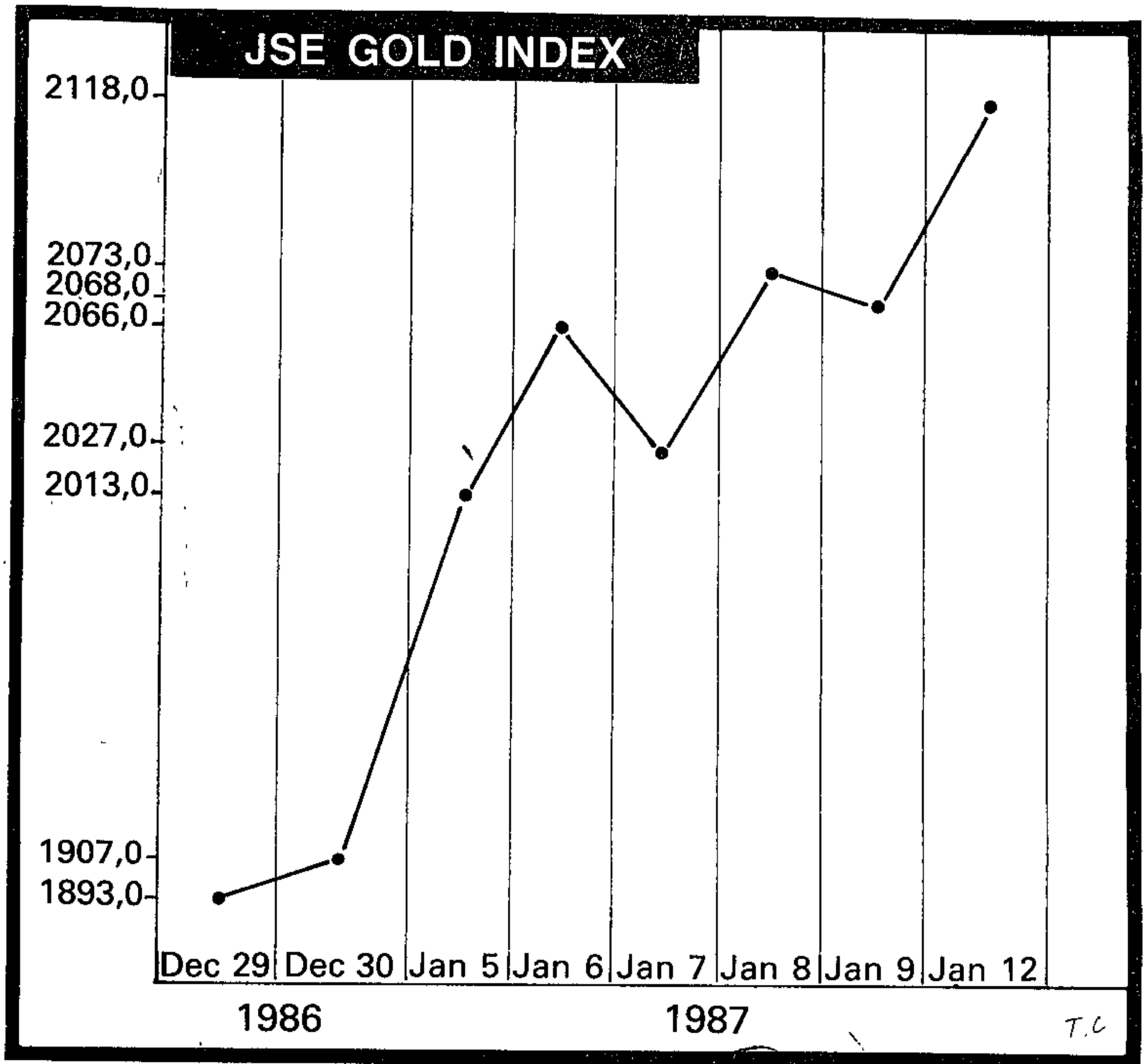
Devaluation of franc

The turmoil in European currency markets fuelled speculation that France may be forced to accept devaluation of the franc, the Danish central bank said.

The European situation had little bearing on the dollar (which was slightly higher against key currencies on Friday), except when it also became the subject of intervention by overseas banks to dampen the West German mark.

In Tokyo, where trading ends before Europe's business day begins, the Japanese central bank spent more than $2 billion to push the dollar up against the Japanese yen. A strong yen makes Japan's exports more expensive.

In New York, the dollar closed at 158,33 yen, up from 157,54 on Thursday.



Cape Times 13/1/87

London gold surges to $411,25 close

LONDON. — Gold closed at $411,00/50, up from Friday's closing $404,00/50 and an opening $409,10/60 but slightly below the day's high of $411,75/$412,25, the highest since late October.

Dealers said the market attracted steady professional buying and drew much of its strength from the rise in platinum. Weekend unrest in SA, a weaker dollar and surging energy futures were cited as positive factors.

Resistance was seen at the highs but dealers said if prices are maintained above $405 they should enter a higher trading range and attract investors.

"The market has absorbed some good selling from Switzerland, a fair amount of profit-taking and has still kept moving up. We could see speculators come back into gold at this rate," a dealer said.

Platinum, extending its rally on Friday, was quoted late yesterday afternoon at $537/$539 after a morning fix of $536,75 and afternoon fixing of $538,50, its highest levels since November 12.

GOLD

NOV + DEC 1987

JAN - DEC 1988

Gold price sinks to critical level

Star . 1/2/88

79

By Teigue Payne

The gold price in Hong Kong dropped by another $11,75 to $458,82 an ounce on Saturday raising fears of renewed weakness in the price of bullion when other international markets reopen today.

This puts the metal in a crucial area according to chartists and several fixes below $455 an ounce would indicate a possible prolonged bear phase for gold with serious implications for the South African economy.

Gold reached a four year-high of $499 an ounce during the morning fix on December 14 last year but failed to penetrate the $500 an ounce barrier and has been in a steady decline ever since. This downward move has been exacerbated by fundementals like a decline in the US inflation rate and the sharp drop in the international price of oil.

However, some chartists remain optimistic about the gold price and are forecasting a turning point for both the metal as well as gold shares.

With future trends in the gold price and in shares now almost impossible to predict on fundamentals, charts are being more earnestly consulted. They seem to indicate that gold shares may turn upwards soon.

Uncannily right

While few analysts place their entire faith in the vagaries of the charts, some would say they have no validity. Most would admit that readers of them can be uncannily right, and that they should at least be consulted along with fundamentals.

And since most institutional analysts and other big buyers study charts, they attain some momentum of their own anyway.

Some analysts are saying, the charts are now portraying the end of the second leg of a classical three-leg gold bull market.

Classical Dow Theory has it that each leg is characterised by five basic movements — three bull phases and two bear phases.

The rising bottoms trace a long term uptrend line which defines the long term bull market, which is considered to be intact while the bull market persists. If it is breached, a bear market would begin.

Chartists say the bull market in gold began in mid-1982 (see point A on the graph), and saw the five movements of the first leg, which ended at point B in late 1985. The second leg then began, and a powerful leg it was, with the index rising to a heady 2429 before the October big crash.

Two and a half weeks after the crash, as the graph shows, the gold index plummeted to 1448. After a sharp but short recovery, it has now dropped to 1371, which is nearing the area of about 1250 - the basal line.

That level, say the chartists, will provide major support, and the base for the turn upwards in the third leg of the bull market.

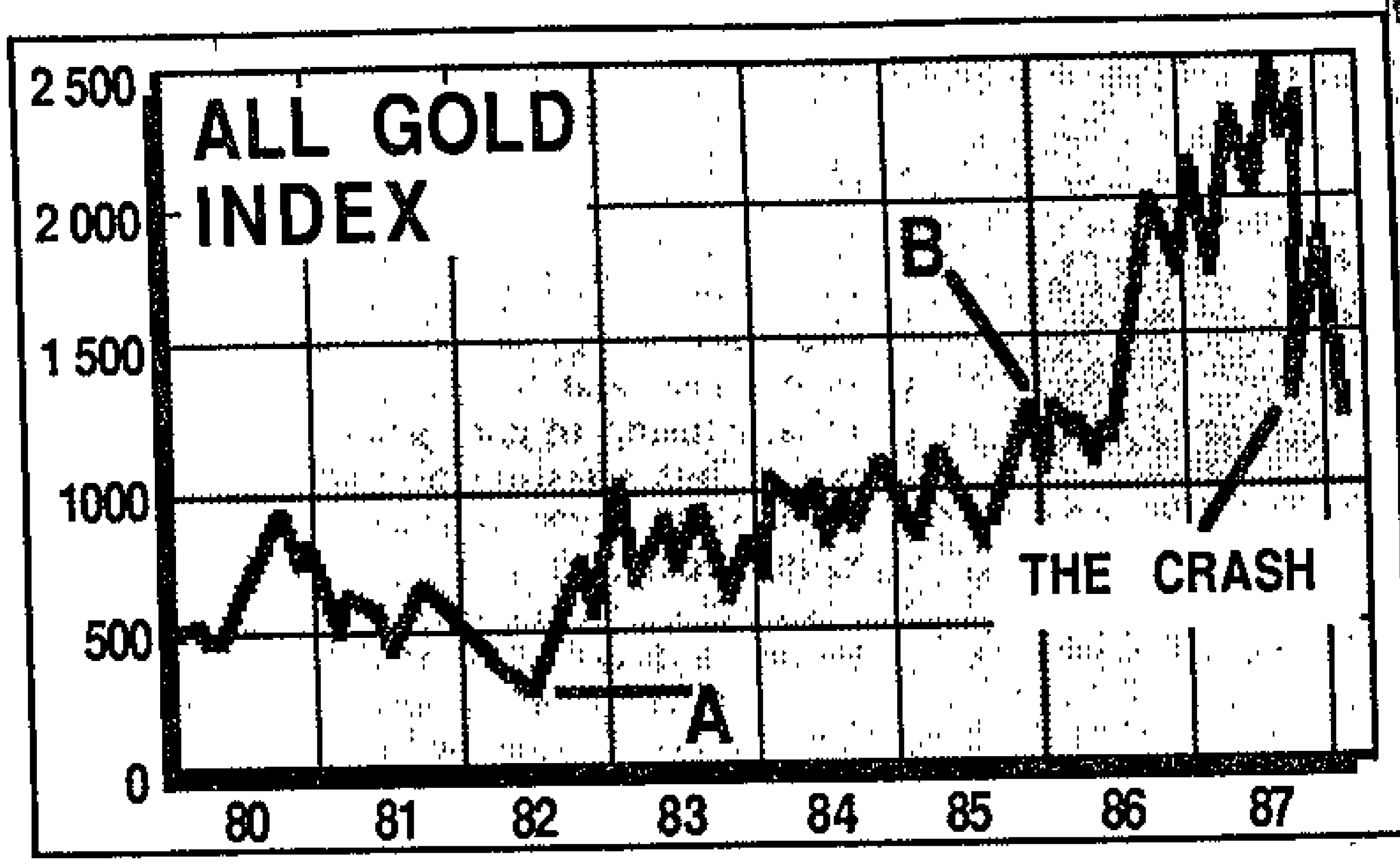
As that level is only about 100 index points lower than at present — equivalent to a few bad trading days — and as it is rarely possible to buy at the absolute bottom, a decision to buy should be near.

Some support for the upturn theory is, they say, that on the charts there are major support levels for gold at $463, then at $455. However, if the gold price falls below that level, as one chartist put it, it would be "very bad for the country".

Classical theory

Because interpretation of charts differ, and classical theory does not always adhere to jagged bent lines, analysts admit that the graph of the All Gold index could breach the basal line, signalling a bear market.

However, reverting to more fundamental factors, they say that at those levels of the index and below, gold shares will be showing dividend yields at least equal to their historic average of about six percent. This indicates that a longer term investment would be likely to safe, with capital preserved.



The long-term trend of the bull market in gold is evident from this graph with the first phase starting at point A and the second at point B — then the crash. Chart — Simpson McKie.

What a year that was on the market

Star 1/2/88

(79)

By Dr Issy Bacher

My weekly article resumes in a pretty depressing market, in sharp contrast to this time last year.

We began the series last year with some very bullish forecasts, with the problem then being to pinpoint the shares or sectors that were going to outperform the market.

In January 1987 the gold price had just gone through the $400 barrier on its way to $500. The all-gold index was breaking 2000 and Randfontein had gone over R400 for the first time on its way to its high of R500.

All in sharp contrast to today: the gold price has come down to test a vital support level at $460 which, if it collapses, will put the gold price in a bear trend. The all-gold index, in the space of seven months, has plunged from 2499 to its present 1302 low last Friday, a 45 percent drop which has already retraced more than 50 percent of the entire rise of the 1982/1987 bull market.

Randfontein has fallen from R500 to R227. The question now is whether the All Gold index at 1366 has any chance of consolidating in this area and then resuming an upward trend.

The answer will be found in the performance of Randfontein over the next two weeks.

Randfontein, together with Vaal Reefs, has been leading gold shares ever since the late bull market began in July 1982. The share has displayed the uncanny ability to precede both the up and down movements of the gold index.

For example, its weekly high of R497 was reached at the end of May 1987 whereafter it started a downward trend to R400, while the All Gold index continued its rise to a high of 2494 on August 3, a full two months later.

Study the top graph which compares the price movement of Randfontein with that of the All Gold index. The arrow at A shows quite clearly that Randfontein has been falling at a faster rate than the gold index in the past four months.

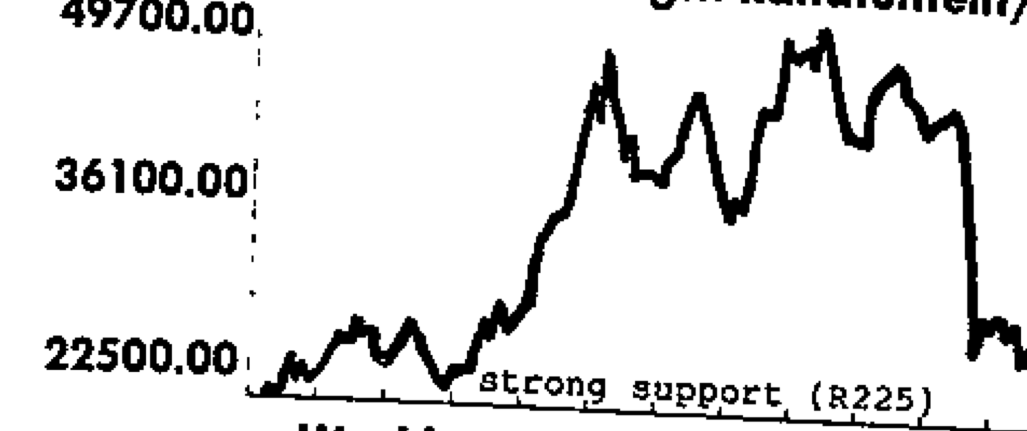
However, the past week has seen a sudden change which shows that Randfontein has strengthened by falling at a slower rate that the All Gold index (see arrow at B).

In doing so it has risen to meet the neutral line which is the dividing line between the strength of Randfontein and the All Gold index. Now any strengthening in the next few weeks which causes Randfontein to break past the neutral line would be significant for the mining market as a whole.

It would foretell that the gold market as a whole would follow its example and strengthen.

CONCLUSION: Any strengthening of Randfontein in the next two weeks would be a signal that the golds will recover. However, further weakening of Randfontein would be bearish, indicating that the gold index could begin wending its way to its next support at 1100.

Daily relative strength Randfontein/All Gold.



Weekly prices for Randfont.in.

DIAGONAL STREET

S/Times 10/1/88

Some myths about gold

(79)

THE gold price continues to be a major talking point in world finance.

Every Tom, Dick and Harry has had his tu'ppenny worth of comment about supply and demand, from Giscard bonds to Hirohito coins, from forward selling of new production to dishoarding of jewellery.

The Mining Journal carries a report from a gold conference held in London at which the president of the American Precious Metals Advisors, Jeffrey Nichols, spoke.

Mr Nichols says that in spite of much talk of oversupply of gold, total supplies in 1987 could have been 7-million ounces, or 218 tons, lower than in 1986. SA production was running at a lower rate than in 1986 before the three-week strike in August.

For the first 10 months of last year it was 32 tons less than in the same time in 1986.

SCRAP

Elsewhere, says Mr Nichols, mine production has continued to expand. But it has been countered not only by the erosion of SA output but by sharply lower sales by the centrally planned economies (CPE) and by less scrap coming to the market.

Low Soviet activity in the gold market was reported by dealers and the Chinese were absent from it for much of 1987. As a result, says Mr Nichols, sales from CPE countries could be 5-million ounces, or 155 tons, lower than in 1986.

Scrap returns were down by between 50 and 70 tons as slightly higher oil prices in 1987 meant that Middle East and other oil-producing countries, which were huge dishoarders of jewellery in 1986, no longer needed to make such fire-sales and were again net buyers of gold.

In 1986 the official sector was an important buyer of gold, Japan being the major participant with its purchases for Hirohito coins. In 1987 there was a surprising reversal in net central bank activity and International Monetary Fund statistics for the first half of 1987 showed a reduction in reported official reserves of about 60 tons.

BIG BUYERS

Mr Nichols maintains that investors were big buyers of gold for much of 1987. Consequently, he expects the gold price to rise in the next 12 months, regardless of the economic and investment climate.

"Gold thrives on fear, anxiety and uncertainty, all of which will persist for some time."

Furthermore, central banks' decision to pump more liquidity into the financial markets must eventually be bullish for gold.

Landell Mills Commodities Studies says precious metals have remained too dependent on shifts in the value of the dollar. Many investors have been disappointed by bullion's diffident response to the weak dollar. A 5% decline in the dollar added only 4% to the gold price.

However, excellent coin sales have demonstrated the continuing interest of the small investor in gold. With October distress sales now out of the way, Landell sees dishoarding as the main threat to price buoyancy. Selling is likely to appear whenever the gold price approaches $500 an oz or the oil price weakens.

INDIA

It is therefore surprising that in India, buyers of gold were willing to pay more than $920 an ounce when the rest of the world was paying $470.

One of the reasons for India's unprecedented gold boom is the sagging stock market. Indian investment companies are reported to have bought seven tons of gold on the domestic market in November.

In addition agitation by the Gurkha National Liberation Front in Darjeeling has led to a virtual closure of the border with Nepal, almost halting unauthorised gold imports.

Gold fabrication requirements exceed 145 tons a year in India. It produces perhaps two tons from its own mines and gets 40 tons from scrap. Only five tons a year is imported officially.

The remaining requirement is met through smuggled gold, whose major source is the Persian Gulf nations.

In 1986 the local gold price premium reached only $120/oz. The economic climate has been worsened by serious drought. Local lobbying of the Indian government is increasing for the enhancement of the country's own gold mining potential and the relaxation of the rules regarding the importation of gold.

Pressure likely on gold shares

B/Day 18/1/88

79

GOLD shares are unlikely to go into orbit this year, says George Joubert of Davis Borkum Hare.

International conditions are not comparable with those in July 1985 when the gold price started moving up from a low base as the dollar steadily lost value.

Movements in the gold price were likely to be restrained and even if it were to break above $500, which was possible, gold-mining profits would remain under pressure because of constantly rising working costs.

Quite apart from probable escalations in the wages bill, all other input costs, such as electricity and steel were increasing in step with the inflation rate.

Joubert says that means the squeeze will be on dividends. And, in many instances, returns on share prices are already too low, bearing in mind the limitations on earnings growth.

He says the market is not yet out of the woods and another setback should not be discounted

□□□

NORMAN Lowenthal shares this view that the JSE indices could drop further before a new base is formed, but after the consolidation he expects a new strong upward movement to develop.

He says not only are institutions sitting on the sidelines, many private investors are itching to get back into the market, some looking at the blue chips, but others are closely watching the DCM market where prices are down to realistic levels, taking into account earnings and yields.

He should know the DCM market as he was responsible for the listing of several companies. He admits there is some chaff on the DCM board but there are also many potential winners. He advises would-be investors to go back to prospectuses and study them closely.

HEARD ON THE STREET

HAROLD FRIDJHON

Some companies in his "stable" are reaching the stage when they will apply for main-board status. But at this stage he is keeping mum.

□□□

THE recent show of strength in the financial rand is baffling many brokers.

While their trade and training is based on the principle that prices go up when there are more buyers than sellers, the questions they are asking are: who are the buyers of the finrand and what are they investing in?

One investment avenue has been in the gilt market but, unless the finrand pool is short of the second-tier currency, overseas demand for RSA and Escom bonds alone should not be strong enough to move the rate to $0,3425. One broker said he had used finrands for European clients attracted by the high returns but he did not think that his deal of many millions of rands would have provided the upward thrust.

A possibility is that overseas brokers are going bull on FRs arbitraging gold and diamond shares, not for the shares themselves, but to create finrands to profit on the margins.

Shares down after gold price sags $6

News 26/11/88

By DEREK TOMMEY
Financial Editor

(79)

GOLD-share prices dropped on the Johannesburg Stock Exchange today when the gold price failed to rebound after dropping $6 to $469,75 an ounce in New York last night.

At mid-morning gold was $471,10.

In the first hour's trading on the JSE today the "all gold" share price index fell 44 points, or three percent, to 1 424.

This pulled down the "all market" index by 31 points, or 1,8 percent, to 1 671.

Shortly before noon Modder was 575c (−75), Harties 2 265c (−110c), Vaal Reefs 28 600c (−800c), Loraine 1 350c (−75c) and Kloof 3 325c (−150c).

Mining financials were also lower. Anglo American dropped 125c to 4 700c and Gold Fields of South Africa 75c to 5 250c.

Platinums were weak in sympathy. Leplat was 25c lower at 250c.

● See page 17.

Prospects bleak for share market upturn

Star 2/2/88

79

By Teigue Payne

The outlook was bleak yesterday for an immediate upturn in the Johannesburg Stock Exchange, with continued weakness in the gold price, a firm financial rand and a strong dollar.

Gold was $452,75 at the afternoon fix in London, almost two dollars lower than the morning fix, and $5,25 lower than its close on Friday. It has now dropped 7,5 percent this year, while the dollar has gained slightly less — 6,6 percent.

The JSE's overall index closed 13 points lower, and the all-gold index was also 13 points lower.

Contrary to past patterns, the finrand has recently been rising in the face of the weakness of gold.

It has appreciated 9,4 percent since the beginning of the year, excacerbating the sell-off of shares on the JSE.

Foreign investors can sell their South African shares advantageously when the financial rand is high and, since they generally hold market leaders, the decline in those shares has a particularly potent effect on the market overall.

Since the beginning of January, the overall index has declined 14 percent, and the all gold index has dropped 26 percent.

The dollar rose to its highest level since mid-November yesterday in expectation that the Japanese would be big buyers at this week's $27 billion US quarterly sale of government bonds.

"For the next couple of weeks or so, there's no reason to sell the dollar," said a London currency dealer yesterday.

Investors have also been reassured by statements by US officials speaking at the World Economic Forum in Davos, Switzerland, over the weekend. They said the dollar was where it ought to be to cut the US trade deficit without a recession.

However, historically there has always been bullish comment before the auction, and the dollar may react downwards slightly after it.

Rising inflation in the US would be bullish for gold. Yet despite the dollar's steep fall over the past few years, inflation is still only about 4,5 percent currently, although it has risen from a low base of two percent. In any case, there seems little fear of inflation in the US or Europe.

With the antithetical relationship between gold and the dollar, if the dollar continues strong, as seems likely, gold is unlikely to rise.

If gold does continue to decline, it will smash support levels which have been ascribed to it by analysts and chartists, and may enter a long-term bear trend.

Meanwhile, the commercial rand, which generally declines when the gold price is weak, and thereby provides the gold mining industry with a cushion of support, is relatively steady. It has declined only three percent since the beginning of the year.

However, in the face of weakening prospects for the gold industry, and for the nascent revival in the South African economy, it is likely to drop further.

Diagonal Street

D/P 02/02/88 (79)

Gold closes easier in aimless trading

JOHANNESBURG — Gold share prices prices closed slightly easier after an aimless and uncertain day's trading, as the gold price remained near its weekend lows and the financial rand returned to it highs after easing earlier, dealers said.

Heavyweight Southvaal ended R3,50 lower at R114,50 and Beatrix 75c down at R13, while mining financials closed mixed, Gold fields gaining 50c at R51 and Gencor easing 25c at R41,75. Platinums were also mixed while in diamonds, De Beers lost 50c at R51.

The rest of the market generally followed the easier trend. Industrial leader Barlows closed 25c lower at R20.

Shortly before the close the JSE all-gold index stood at 1290 against Friday's 1302 finish, the industrial index at 1442 against 1457 and the overall index at 1556 versus 1568.

In **London**, news that the Bank of England had raised one of its money market dealing rates by around ½ point to 9 per cent sent shares reeling from their highs after midday, dealers said.

By mid-afternoon the FTSE 100 was down 0.9 to 1,789.9, wiping out the earlier gains which took the index to a high of 1,807.3, minutes before the Bank of England announcement.

Wall Street trading got off to a firm start yesterday afternoon, helping keep UK shares steady at first. But dealers said the New York market disappointed some expectations of a powerful surge on the back of the stronger dollar and soon gave up some of the ground made in the early part of the session there.

The Bank of England's rate hike is a clear signal that it wants base rates to rise to 9 per cent from 8½. Britain's banks are expected to raise their rates quickly.

Some rise in base rates was talked about in the market following the Bank of England Governor Mr Robin Leigh-Pemberton's remarks last week. Mr Leigh-Pemberton said that interest rates may have to rise to contain UK inflationary pressures.

But yesterday's reaction was fairly violent as most analysts believed next month's UK Budget announcement would point the way to higher interest rates. "I don't think anyone was even remotely prepared for what happened today," one trader said. — Sapa-RNS

Gold prices

LONDON — Late gold prices (in US dollars per troy ounce) yesterday were:

London 453.00 bid; **Paris** 453.72 fixed; **Frankfurt** 459.87 fixed; **Zurich** 451.50 bid and **Hong Kong** 456.66 bid — Sapa-AP

Everite move

JOHANNESBURG — Everite's fibre-cement division is to transfer production from its Garankuwa plant to Kliprivier near Johannesburg.

This had become necessary for the division to remain competitive in the Transvaal, said senior general manager Mark Cvitanich.

The closure of the Garankuwa plant was linked to a rationalisation programme which has been under way for some months. This included the sale of the concrete division and the merging of PVC pipe manufacturing interests in a new joint venture with AECI. — Sapa

INDICES		
BD All Golds	1062,5	(1076)
BD Mets, Mins	596,1	(600,0)
BD Industrial	1641,3	(1651)
JSE Overall	1555	(1568)

NGW 4/2/88 19

Gold price plunges to 8-month low

By TOM HOOD,
Business Editor

GOLD dropped to to an eight-month low of $438,15 an ounce in London today after losing more than R10 yesterday.

Bullion, which traded around $455 before the morning fix in London yesterday, dipped to $439,75 in New York last night but recovered earlier today to R441 in Hong Kong.

However, the rally was short-lived and the slide continued as the American dollar gained strength on Far East foreign exchange markets.

If the latest slide continues, it could pose a threat to the future of several South African marginal gold mines whose working costs exceed the price they are likely to receive for their sales.

The rand price of gold has dropped by R60 since the beginning of the year to about R880 at the current exchange rate, at a time of soaring production costs.

DOWNTURN

A wave of selling from Zurich by disenchanted investors yesterday sparked a new downturn.

Prices of gold shares fell again today on the Johannesburg Stock Exchange. By mid-morning, the JSE gold shares index had dropped another 22 points to 1237 and the overall market index 19 points to 1518. It fell 52 points yesterday.

Eleven gold shares dropped to new lows yesterday, including the giant Vaal Reefs, Rndfontein and Freegold mines.

World financial markets were also hit by a mysterious telex message about a non-existent nuclear accident in the Soviet Union.

This rumour touched off speculation that Moscow might sell off more of its vast goldings to buy uncontaminated grains.

The rumours, which swept London markets, were later denied by the Soviet Union.

However, a Reuter report from New York today said sales of gold by the Sooviet union and other big producers in a market devoid of buyers was depressing prices.

Estimates of how much gold was sold were not available but precious metals dealers in New York said South Africa, Aaustralia and Eastern Bloc countries also sold bullion.

An estimated R5 200-million was wiped off shares in London yesterday as a result.

Analysts have put gold's crucial support level as $440. If that price fails to hold, they believe the price could tumble to $410 — a level that could make several South African marginal gold mines unprofitable and pose a threat of closure.

JEWELLERY

Increased gold sales by American gold mines are also undermining the price, reports The Argus Correspondent from London.

The underlying physical demand for gold in jewellery, industry and coin has stagnated in the 1980s and a consistent gap is opening up between new supplies coming on to the market and the regular demand.

Depending on price levels, investors must absorb between 230 and 580 tons this year and between 370 and 720 tons by the year 1990, he reports.

"In conditions of high interest rates and possible recession, it is hardly surprising that investors are turning away from gold."

See pages 18 and 19.

CAM-Times 4/2/88

Panic as gold slumps

79

By AUDREY D'ANGELO
Financial Editor

THE gold price plummeted to its lowest level since early July yesterday, with panic selling in Zurich and London. It fell to $441 an ounce in Zurich but recovered slightly to $443,25 in late trading in London. However in New York it slumped further to $439,75.

Huge sums were again wiped off the value of gold share portfolios, and the Johannesburg Stock Exchange (JSE) All Gold Index slipped further to 1 269 from 1 319 on Tuesday. Some gold shares lost as much as R11,50 on the day.

Confusion was added to world markets during the day by rumours — subsequently denied — of a nuclear accident in Soviet Russia, which temporarily strengthened the dollar.

Receding fears of high inflation in the US, coupled with higher world production of gold have made the yellow metal a less desirable investment.

Yesterday's steep fall is believed to have been started by heavy trade selling in Switzerland.

● Reuter reports that in New York gold futures were quiet at midsession after free falling to eight-month lows on reports of producer sales in a market empty of buyers.

Price plummets below $450 (79)

CAPE TIMES 4/2/88

SA gold mines under scrutiny

By LAWRENCE TOTHILL
Investment Editor

WITH the gold price falling below $450 an ounce yesterday, and the rand fairly steady at $0,50, the future of several gold mines comes under scrutiny because they could be vulnerable.

It is all very well looking at the dollar price of gold, but at the end of the day it is the rand price which counts, because the mines' costs are rands and not dollars, but to make life difficult the mines usually express their costs in terms of rands per kg.

When the gold price is around $500 and the rand around $0,50, then the mines receive a bit more than R32 000 per kg. At $450 an ounce, however, and the same exchange rate, the mines receive less than R29 000 per kg. There are several mines battling to contain rising costs, and unless they are able to do so or find some alternative they face serious problems.

With revenue of only R29 000 per kg of gold produced ERPM, Western Areas, Marievale, Rand Leases, Modderbee, Durban Deep, West Rand Cons and Grootvlei all look a bit vulnerable.

It must be understood, of course, that some of the above are special situations and won't just close for the above reason. ERPM with its new developments is a case in point, while Marievale is already due to cease being a mining company and become an exploration company holding mineral rights. Some of the others might also be able to mine richer ore and thus offset the lower revenue.

Apart from the above eight, if the gold price drops any lower the mines such as Loraine, Leslie, Doornfontein and Venters become vulnerable and even St Helena and Stilfontein are suspect.

That doesn't mean that everyone is going to rush out and sell the above shares, because recoveries do (and will) take place, although shareholders might find dividends badly slashed back.

One comforting thought — even if it is cold comfort — is that the largest loser will be the government since the tax on the gold mines brings in vast amounts of money, and some of this will fall away.

My own feeling is that the Reserve Bank will allow the rand to fall against the dollar to keep the gold revenue at an acceptable level. I cannot believe that the steadiness in the rand/dollar exchange rate during the past couple of weeks has been a coincidence. I incline to the view that the Reserve Bank is already fairly active in the forex market trying to keep the exchange rate at $0,50.

It has already been announced that the forex markets are going to be closed from February 26 to the end of the month to switch over to quoting the rand/dollar rate in a different style.

At the moment South Africa quotes its exchange rate "upside down" when compared with other countries. After the switch over we won't quote R1,00 to $0,50, but the rate will be quoted as R2,00 to $1,00. And what better rate to try and use for the switch-over, which is going to be difficult anyway, than a nice straightforward one without half a dozen decimal points.

End of the month is still a way off and the Reserve Bank might well decide to let the rand drop back before then.

Nuclear rumour starts plunge

79 Bday 4/2/88

Gold price tumbles in panic selloff

LIZ ROUSE and MIKE ROBERTSON in London

THE BOTTOM fell out of the gold market yesterday with the metal falling almost $12 to $443,50 in London after rumours of a Soviet nuclear accident sparked investor panic.

As New York opened it emerged the rumours originated from a dry-run of test telexes from the International Atomic Energy Agency. There was no question of a real accident.

This did not stop the slide in New York where the metal fell to a low of $440,40, breaking several resistance levels on the way.

In London, dealers reported that there was also strong producer selling.

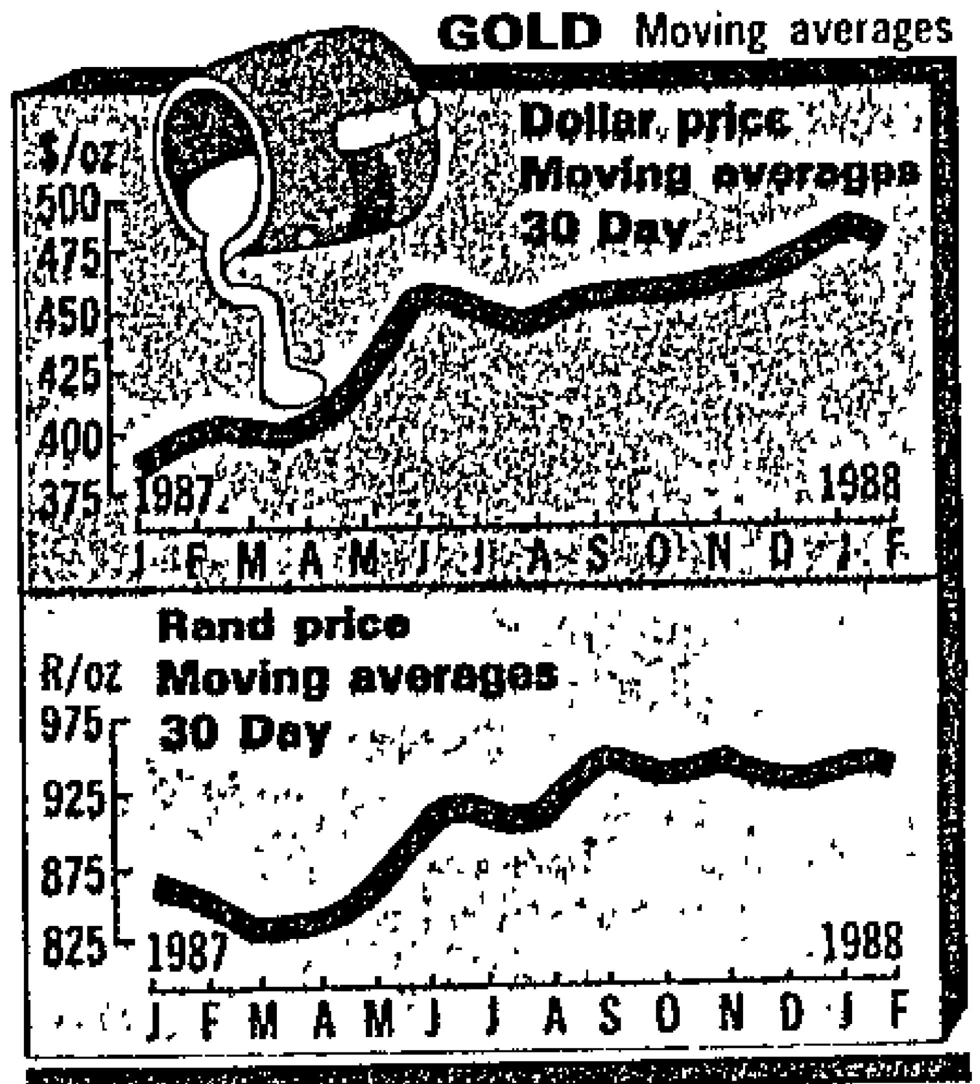
The JSE all-gold index shed 52 points to a new low of 1 267, but the fall did not fully reflect Johannesburg's pessimistic view of gold's prospects in the short term.

Analysts said there was no investor demand for gold and physical supply/-demand factors were dominant in setting a price. These factors suggested a price of $425/$430, which would put pressure on the rand.

Some analysts said the market was taking the view that the commercial rand, depressed by the current rand gold price of about R907 (the lowest since November last year) could weaken to $0,46, given no central bank support.

Leading London analysts James Capel and Shearson Lehman now believe gold is approaching its most critical support levels in both dollar and Swiss

GOLD Moving averages



Source: MAX POLLAX Graphic JOHN McCANN

● To Page 2

Gold price falls to $443,50

79 Bday 4/2/88

● From Page 1

Franc terms at $440 and SF600. Any penetration below those levels could see the bullion price spiralling downwards.

Chartists, worried that gold had fallen below its 200-day moving average, joined in the selling.

Ron Weinberg of brokers James Capel described the situation yesterday as "panic, panic, panic".

He said that for chartists the $440 level was also roughly half gold's all-time high. "A $1 a week rise from the February 1985 low and a $1 a week fall from back in 1980 also brings you to $440. It's a critical level and a lot depends on the mining companies themselves, who are often their own worst enemies."

In recent months the spate of gold loans — estimated at 150 tons before the news that Newmont Mining was doing a 32-ton deal — had put the market in a state of oversupply. In addition to this "the SA Reserve Bank had sold 400 000 ounces onto the market in December," he said.

"In the last three months, the equivalent of five or six months' supply has come onto the market." At the same time, apart from a few lone voices, most people were predicting a disinflationary period for the world economy, which further diminished investor support for gold.

CAPE TIMES 5/12/88

79

Dramatic recovery for gold

Own Correspondent

JOHANNESBURG. — A partial recovery in the gold price caused a dramatic reversal of gold share prices in nervous trading on Diagonal Street yesterday.

After declining to a ten-month low of $435,50, the bullion price staged a turnaround to go back above the critical level of $440 an ounce as professional bargain-hunters and end users came back to the market.

The metal closed in London at $443,75, more than $6 above its opening of $437,60.

The see-saw performance of the gold price accentuated the jittery sentiment on the Johannesburg Stock Exchange which saw prices fall further in the first session of trade before climbing sharply as the metal price strengthened.

At the close, the gold shares had almost wiped out all of Wednesday's sharp losses.

● Upturn rests on higher gold — Page 8

5/2/88 (79) B/day

FINANCE

Gold slump a threat to SA

IF GOLD prices continue to drop they could menace SA's current economic upturn, threatening the balance of payments surplus just as Pretoria needs money to keep up its debt repayments.

The JSE index of gold mine shares dropped again yesterday to 1 237 points after spot bullion prices in New York shed $15,20 an ounce to close at $438,70 on Wednesday — the lowest price since June.

"It is too early to judge if this is a trend or just a temporary blip in the market," said William Bowler, head of research at stockbrokers Fergusson Brothers.

If the weak prices for the metal continue to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 15% of the country's total fixed investment.

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Bowler said.

The price of other metals, such as platinum, is related to gold on international markets and can fall with it. SA accounts for 85% of world platinum output.

Erosion of income from its gold exports — 42% of SA's total income — could jeopardise the national current account balance of payments surplus, the analysts said.

Many foreign banks are reluctant to lend to SA and the country is battling to repay its existing debts under a three-year rescheduling agreement thrashed out in March. So Pretoria cannot afford a drop in its current account surplus.

The first casualty of the lower gold price is likely to be the rand, economists said.

To maintain income from gold in rand terms and protect mining houses' profits against a background of rising costs, the Reserve Bank may have to allow the rand to slip against the dollar, even though this could aggravate inflation, they added.

Several economists put foreign debt repayments at about R2bn, leaving a safe margin — so long as gold prices hold up.

The government is unlikely to allow a sharp drop in profitability of the mining houses which could damage SA's tentative economic recovery. — Sapa Reuter

● Comment — Page 6

Swiss selling blamed for plunge in the gold price

Star 5/2/88

(79)

By Neil Behrmann

LONDON — Extensive Swiss sales are behind the plunge in the gold price.

Gold traded at around $455 just before the morning fix on Wednesday and then a wave of selling from Zurich pushed the market lower.

Some dealers thought that the pressure came from "distressed" sellers.

"More likely, say Zurich dealers, disenchanted investors holding gold at the Swiss banks decided to dump their stocks.

While London is undecided about the dollar, the Swiss contend that it has bottomed,at least for a while. They are switching out of Swiss francs, Deutschemarks and yen into dollars.

And since they believe that the dollar is firm, discretionary fund managers have decided to reduce their gold holdings.

The warning sign for gold came when it failed to move in the face of a rapid decline in the value of the dollar just ahead of Christmas. Gold stuck at$485, while the dollar tumbled to new post World War 11 lows against the yen and other leading currencies. Since then the dollar has rallied and gold in dollar terms has fallen 9 percent.

In Swiss francs, the gold price has remained virtually constant, while the price has fallen slightly in terms of yen, Deutschemarks and sterling.

So again gold is reflecting the vagaries of the currency markets, although it is underperforming hard cash.

Gold has a basic problem, especially when the major nations experience disinflationary conditions. It yields no interest. If there is no capital appreciation, investors become less enthusiastic and withdraw from the market.

"Conditions have been deathly quiet in the past few weeks," says a London dealer. "Once the price began to slip, holders became disenchanted and began selling."

"On the charts gold has fallen below the 200-day moving average — technically a bearish sign. That crack in traditional support areas has encouraged gold funds in the US to sell.

In recent weeks several companies, including Newmont, have borrowed an estimated 150 tons of gold to finance future production. That gold was sold in a thin market. Since investors were absent, prices had to tumble.

Short-term factors aside, the gold market's weakness is spelt out in Timothy Green's latest book: "The prospect for gold: The view to the year 2000."

He says: "The underlying physical demand for gold in jewellery, industry and even coin has stagnated in the 1980s.

"A consistent gap is opening up between the new supplies coming on to the market and the regular demand for fabrication, plus regional bar hoarding."

In 1976, fabrication, coin and hoarding demand exceeded supplies by 196 tons. But in 1987 and the remainder of the decade, production will be well in excess of physical consumption.

When prices fall, fabrication demand improves. At the moment it is slack.

So depending on price levels, investors must absorb annually between 230 to 580 tons this year and 370 to 720 tons by the year 1990.

In conditions of high real interest rates and possible recession, it is hardly surprising that investors are turning away from gold .

The crucial support level is $440. If that price fails to hold, say analysts and chartists, the price could tumble to between $410 and $420.

Slide seen as threat to debt repayment

Star 5/2/88 (79)

If gold continues to drop it could damage South Africa's current economic upturn and threaten the balance of payments surplus just when the Government needs money to keep up debt repayments.

The JSE all-gold index dropped 30 points yesterday morning to 1237 points from 1267 after spot gold in New York on Wednesday shed $15,20 to close at $438,70 — the lowest price since June.

"It is too early to judge if this is a trend or just a temporary blip in the market," Mr William Bowler, head of research at stockbrokers Fergusson Brothers, said.

"But every South African is hoping it is just a blip," he said.

If the weak price continues to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 15 percent of total fixed investment.

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Mr Bowler said.

The price of platinum is related to gold on international markets and can fall with it. South Africa accounts for 85 percent of world platinum output.

Erosion of income from gold exports, 42 percent of South Africa's total income, could jeopardise the surplus on the current account of the balance of payments, analysts said yesterday.

Many foreign banks are reluctant to lend to South Africa, which is battling to repay existing debts under a three-year rescheduling agreement thrashed out in March. So the Government cannot afford a drop in its current account surplus.

The first casualty of the lower gold price was likely to be the rand, analysts said.

To maintain income from gold in rand terms and protect mining houses' profits against a background of rising costs, the Reserve Bank might have to allow the rand to slip against the dollar, even though this could aggravate inflation, they said.

South Africa saw an annual consumer price inflation rate of 14,7 percent in December. President PW Botha yesterday met 100 business and trade union leaders from the private sector to discuss the problem.

"Inflation is not enemy number one," economist Carmen Maynard of Johannesburg stockbrokers Martin and Co said. He felt that economic growth and the balance of payments were higher priorities.

Martin and Co forecast a R3 billion balance of payments surplus on the assumption that gold remained at $450 and the rand at about $0,47.

Several economists have put foreign debt repayments at R2 billion, leaving a safe margin — so long as gold holds up.

The Government is unlikely to allow a sharp drop in profitability of the mining houses for this could damage the tentative economic recovery. — Sapa Reuter.

Star 5/2/88

Market jittery as gold price see-saws

(79)

Finance Staff

The gold price staged a recovery on the Hong Kong market today following strong see-saw movements internationally yesterday that had a dramatic effect on Johannesburg Stock Exchange gold shares trading.

In Hong Kong today, gold rose $5,59 to $448,42, after closing yesterday at $442,83.

After the recent price plunge, which took the price to a 10-month low on the back of fears that the US economy was heading for recession, there was a sudden reversal and the price rose from $435 to $440 and JSE sentiment reacted accordingly.

Early in the day gold shares fell, then moved up sharply.

At the close of business, shares had recouped most of the losses resulting from Wednesday's gloom.

In London, the price closed yesterday at $443,25 — down $2,15 on Wednesday's close. The price in New York rose from $439,75 on Wednesday to close yesterday at $445,20.

THE JITTERS

There is little doubt, however, that the gold fluctuation will keep the stock exchange uncertain and jittery.

Adding jitters to the feeling among several leading economists that the current upswing is still very precariously based, was the news yesterday that South Africa's trade surplus for 1987 shrank by R1 328 million to R13 981 million — mainly because imports for 1987 surged by R1 884 million to R28 735 million, while exports rose by only R555 million to R42 717 million.

A sharp increase in imports in December saw the trade surplus dropping from R779 million in December 1986 to R641 million.

South Africa has been forced to maintain a surplus on the balance of payments by the imposition of capital sanctions by overseas banks and financial institutions.

The balance of payments is forecast to show a surplus for the third consecutive year, but a sustained drop in the gold price will considerably reduce it.

Bullion recovers

D/D 5/2/88

79

JOHANNESBURG — A partial recovery in the gold price caused a dramatic reversal of gold share prices in nervous trading on Diagonal Street yesterday.

After declining to a ten month low of $435,50, the bullion price staged a turnaround to go back above the critical level of $440 an ounce.

The metal closed in London at $443,75, more than $6 above its opening of $437,60.

The see-saw performance of the gold price accentuated the jittery sentiment on the Johannesburg Stock Exchange which saw prices fall further in the first session of trade before climbing sharply as the metal price strengthened.

At the close, the gold shares had almost wiped out all of Wednesday's sharp losses.

Researcher: upturn threatened

D/D 5/2/88

(79)

JOHANNESBURG — If gold prices continue to drop they could menace South Africa's current economic upturn, threatening the balance of payments surplus just as Pretoria needs money to keep up its debt repayments.

"It is too early to judge if this is a trend or just a temporary blip in the market," said Mr William Bowler, head of research at stockbrokers Fergusson Brothers, said.

If the weak prices for the metal continue to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 15 per cent of the country's total fixed investment

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Mr Bowler said

The price of other metals such as platinum, is related to gold on international markets and can fall with it. South Africa accounts for 85 per cent of world platinum output.

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Many foreign banks are reluctant to lend to South Africa and the country is battling to repay its existing debts under a three-year rescheduling agreement thrashed out in March.

So Pretoria cannot afford a drop in its current account surplus

The first casualty of the lower gold price is likely to be the rand, economists said.

To maintain income from gold in rand terms and protect mining houses' profits against a background of rising costs, the Reserve Bank may have to allow the rand to slip against the dollar, even though this could aggravate inflation, they added

South Africa saw an annual consumer price inflation rate of 14,7 per cent in December and President P W. Botha met 100 business and trade union leaders from the private sector to discuss the problem.

"Inflation is not enemy number one," economist Carmen Maynard, of Johannesburg stockbrokers Martin and Co said, adding that economic growth and the balance of payments were higher priorities.

Martin and Co forecast a R3 billion balance of payments surplus on the assumption that gold, of which South Africa sells just under 20 million ounces a year, remains at $450 an ounce and the rand is worth 47 US cents

Several economists put foreign debt repayments at around R2 billion, leaving a safe margin — so long as gold prices hold up.

The government is unlikely to allow a sharp drop in profitability of the mining houses which could damage South Africa's tentative economic recovery. — Sapa-Rns

Edited by MAGNUS HEYSTEK

(79) 6/2/88 Star

Kruggerands are worth consideration

Krugerrands, the only form in which South Africans are legally entitled to hold gold bullion, should be part of every serious investor's investment portfolio. Gold is probably the investment medium with the longest "track record" dating back to ancient times when people hoarded gold for use in uncertain times.

Despite efforts by governments, especially the US government, to demonetise gold, it still forms a very important part of the reserves of most central banks. But what percentage of an investment portfolio should Krugerrands have?

A rule of thumb would be between 10 and 20 percent, but this can vary, depending on circumstances like the trend of the gold price, the premium of Krugerrands on the dollar gold price of gold and the rand exchange rate.

Despite its drop in recent months to a level just above R1 000 per coin, Krugerrands have performed far better in the last four years than most people realise. Since January 1984 the price of Krugerrands has increased by 92 percent, which amounts to a compounded rate of increase of 17,5 percent.

Taken over a three-year period, the compounded rise in Krugerrands amounts to 16 percent, which roughly matches the average inflation rate in the same period.

The price is determined by a number of factors. New Krugerrands are sold by the SA Mint at a premium of 12 percent on the average of the two London gold price fixes a day prior to the coins being sold. At present the number of new Krugerrands sold to the public is limited to 6 000 oz per week.

The secondary market for Krugerrands is much bigger and virtually impossible to determine as coins are freely traded by banks, members of the JSE,the public and other institutions acting as brokers.

Krugerrands, being legal tender, can be sold as a last resort to the Reserve Bank. A further appeal is that they are easily tradeable

A rise in the gold price doesn't always necessarily correspond with a rise in the price of Krugerrands, just as a drop in the gold price doesn't mean lower Krugerrand prices. The key to this apparent contradiction is the rand exchange rate to the US dollar.

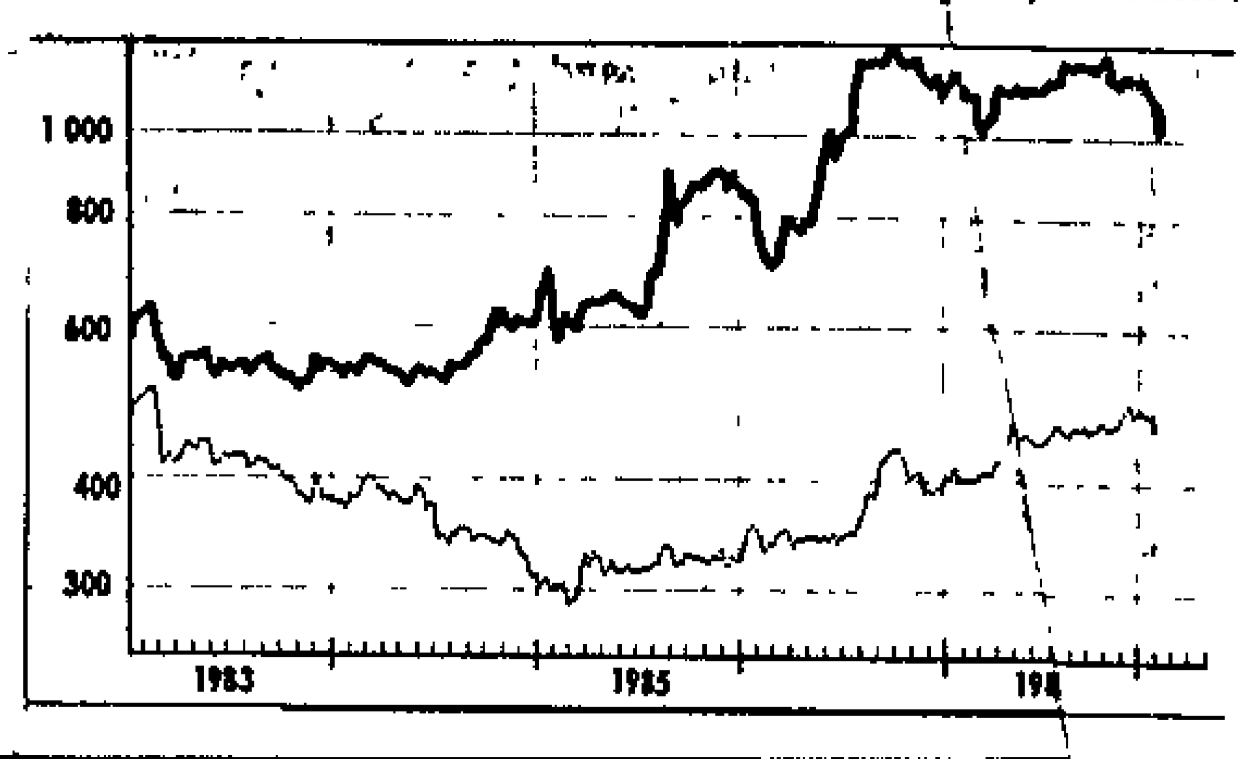
As can be seen from the graph, the rand price of Krugerrands nearly doubled in the period 1983 to 1987, while the gold price, despite volatile cyclical movement, ended the period at approximately the same level. The answer lies in the sharp depreciation of the rand exchange rate which saw the rand price of gold, and hence Krugerrands, rising sharply in the abovementioned period.

But while the rand price of gold rose from R600 an ounce to a peak of R1 000, the price of Krugerrands reached a peak of R1 250. This was due to the increase in the premium to about 10 percent, compared with the present premium of around 11 percent.

The premium of Krugerrands over the rand price of gold is also seen in some circles as an inverted measure of confidence in this country's future. The premium reached a peak in the stormy years of 1985 and 1986 and has been declining ever since, in line with the apparent decline in social unrest.

It might be a good time to start accumulating Krugerrands, not because a sharp increase in the gold price is predicted, but because the rand exchange rate is under some pressure. With the gold price acting precariously and South Africa having to repay $2 billion in international debt later this year, a drop in the rand exchange rate against the dollar to around 45c is a definitive possibility.

With the JSE still looking very fragile I would expect some money to pour into Krugerrands, which will increase the premium, and hence the price, even more.



Volatile markets could upset gold

Star 11/2/88

(79)

By Sven Lünsche and Reuter

The price of gold is at its lowest in nearly ten months and bullion analysts say it may have further to fall because investors are worrying less about inflation but more volatility in the stock markets.

Gold closed in London at $442 yesterday after touching a 9-1/2-month-low last week just above $436. It made a four-year high of just over $500 in December.

Yesterday's afternoon fixing was almost $4 up on Tuesday's close and the metal traded even higher on other markets — it closed in Frankfurt at $444,50 and the late bid at Republic National Bank of New York was $444,30. Bullion opened in Hong Kong at $443,45 this morning.

But a substantial improvement in gold shares prices on the JSE yesterday was once again prevented by a firmer financial rand, which rose from 34,13 US cents to a close of 34,75.

The strong performance of the finrand has been playing havoc with shares on the mining board, as it has caused increased selling of stock by overseas investors.

The higher finrand is in sharp contrast to the decline of the commercial rand, which hit a year's low of 49,15 US cents at the close yesterday.

It had been trading steadily above the crucial 50c mark for most of the last few months, but a steadier dollar and evident lack of support by the Reserve Bank have put pressure on the currency recently. The performance of the rand against third currencies has been similarly dissapointing.

Analysts said yesterday that the gold price, down around $40 an ounce or about eight percent since the start of 1988, has also been pressured by gold loans which allow mines to sell bullion borrowed from banks against their future output.

One London broker, Kleinwort Grievson, said the market may be witnessing the end of a three-year upward trend.

Unless there was a rapid recovery, the market faced a long period of weakness, and the outlook was for further falls, with $380 to $400 an ounce a medium-term target, it said in its latest monthly report.

Analyst Neil Buxton of brokers Shearson Lehman Bros said the price of gold could dip to $425.

Last week the market had been particularly pressured by reports that Newmont Mining Corporation of the US might raise a million ounce (30 tonne) gold loan. No details of the deal have been confirmed.

London broker ED&F Man, in a monthly review, said these loans could seriously distort the market if they become widespread. "This method of borrowing tomorrow's output to sell today has, in other markets, ended in calamatous results."

Gold key factor in upturn prospects, says Volkskas

Star 9/2/88

(79)

By Stan Kennedy

The strength of the economic upturn and how long it lasts depend on many factors, not the least of which is a high gold price, says Volkskas in its February **Economic Spotlight**.

A high gold price would ensure that South Africa obtained the vital foreign exchange required to redeem foreign debt and leave sufficient scope on the balance of payments (BoP) to pay for increased imports. This would be inevitable if real gross domestic spending increased strongly.

"It is evident," says Volkskas, "that South Africa cannot afford too strong an increase in domestic spending components of the economy.

"Given international developments and the repayment of foreign debt, too strong a recovery in domestic demand could cause serious problems with the balance of payments.

"Should this happen, interest rates would have to increase fairly strongly and the exchange rate value of the rand would have to drop. It could even be necessary to consider other measures to curb demand."

Private consumption expenditure is and always will be the largest single demand component in the economy. Without an improvement in this component, there can hardly be any increase in stocks and fixed investment or, for that matter, in the general economic growth rate.

As things are, Volkskas sees no cause for any drastic steps to control the "very delicate improvement" in domestic demand. It says the balance of payments can accommodate nothing more than a moderate upturn in domestic spending without causing serious damage.

The stronger demand so far is largely concentrated in private and government consumption spending. Volkskas says, however, that the larger part of this spending is, in both cases, financed by borrowed funds, which has economic implications for the present and future.

"Individuals, for example, will not be able to increase their spending indefinitely by incurring debt or reducing their savings unless there is an increase in their personal disposable income.

"The authorities, in turn, absorb too large a portion of net savings, leading to a higher trend in capital market interest rates. If investments by the private sector also start to increase at this stage, interest rates could increase further."

Volkskas says that last December, the money supply (M3) increased at a faster rate than the Reserve Bank would have liked. Should this tendency be accelerated, official intervention to curb growth in money supply — an increase in the bank rate, for example — could be expected.

Volkskas ends on a pessimistic note:

"Prospects for the economies of South Africa's major trading partners seem less favourable than recently expected. As a result, the deterioration already visible in the country's exports will continue, and even drop further."

Restrictions stifling jewellery manufacturers

15/2/88 (79) B/day

Restrictions causing use of gold to decline locally

MICK COLLINS

EXCESSIVE restrictions on the manufacture of jewellery in SA had resulted in use of gold by the local industry declining from two tons a year four years ago, to only one ton at present, the Jewellery Council of SA (JCSA) said at the weekend.

It said disincentives to the local entrepreneur were so great that SA was now a net importer of gold jewellery and the removal of the twin burdens of tax and overregulation, which were stifling the industry, would be top of its priority list for 1988.

JCSA executive director Tim Davidson said: "Since 1968 when excise duties were imposed on luxury goods this industry has continually lost its thrust.

"The council expects that SA, producer of 56% of the world's total gold production and 30% of the world's production of gem diamonds, would be one of the highest users of gold and diamond jewellery.

"This is not the case and it is estimated that only one ton of our gold is used in the production of jewellery compared to Japan's 30 tons — the latter being a non-mining market."

Relaxation of taxation, he said, would restimulate jewelery production and usage and would also help develop many job opportunities which the council believed was an important factor in the exercise of reducing inflation.

"The council believes the country has an abundance of unskilled labour which it could effectively engage and train once the industry starts moving."

Hansard

been entered into in the Republic since the repeal of the Prohibition of Mixed Marriages Act, No 55 of 1949, and (b) in respect of what specified period is this information furnished?

The MINISTER OF HOME AFFAIRS.

(a) (i) 28

(ii) 662

(iii) 160

(b) 19 June 1985 to 31 August 1987.

Publications Act: items declared undesirable

262. Mr S S VAN DER MERWE asked the Minister of Home Affairs:

(1) How many items were declared undesirable in 1987 in terms of section 47(2)(a), (b), (c), (d), (e) and (f), respectively, of the Publications Act, No 42 of 1974;

(2) whether any appeals have been lodged against decisions to declare any such items undesirable; if so, how many cases in respect of each of the categories referred to in section 47(2) of the said Act (a) had been (i) upheld and (ii) dismissed and (b) were still pending as at the latest specified date for which information is available?

The MINISTER OF HOME AFFAIRS:

	Publications or Objects	Films	Public Entertainment
(1) Section 47(2)(a)	301	50	1
Section 47(2)(b)	10	2	—
Section 47(2)(c)	12	—	—
Section 47(2)(d)	31	1	—
Section 47(2)(e)	485	6	—
Section 47(2)(f)	—	—	—
(2) Yes			
(a) (i) Section 47(2)(a)	9	18	—
Section 47(2)(b)	—	—	—
Section 47(2)(c)	—	—	—
Section 47(2)(d)	—	—	—
Section 47(2)(e)	8	—	1
(ii) Section 47(2)(a)	11	10	—
(b) Section 47(2)(a)	5	2	—
Section 47(2)(e)	13	—	—

Proclamation AG26/AG9: persons held in SWA

270. Mr S S VAN DER MERWE asked the State President:

Whether any persons are being held in South West Africa under Proclamation (a) AG26 and (b) AG9; if so, (i) how many persons in each case and (ii) in respect of what date is this information furnished?

The STATE PRESIDENT.

(a) (i) none

(ii) 15 February 1988

(b) (i) 29 persons

(ii) 15 February 1988.

Proclamation AG9: persons in detention

271. Mr S S VAN DER MERWE asked the State President.

(a) How many persons who are being held under Proclamation AG9 in South West Africa have been in detention for more than 30 days and (b) in respect of what date is this information furnished?

The STATE PRESIDENT.

(a) none

(b) 15 February 1988.

~~Customs Union Agreement: amounts~~ paid over

284. Mr H H SCHWARZ asked the Minister of Finance:

(1) What amounts were paid over to (a) each of the independent Black states and (b) (i) Botswana, (ii) Lesotho and (iii) Swaziland in terms of the Customs Union Agreement in the 1987-88 financial year;

(2) what was the balance that accrued to the Republic of South Africa?

The MINISTER OF FINANCE:

(1) (a)

Hansard

Transkei	Bophuthatswana	Venda	Ciskei
R350 516 000	R411 569 000	R67 070 000	R156 117 000

(1) (b)

(i) Botswana	(ii) Lesotho	(iii) Swaziland
R284 962 000	R157 396 000	R134 928 000

(2) The estimated balance in respect of customs duty, excise duty and surcharge amounts to R2 555 442 000.

Milk-powder exported/imported

285. Mr H H SCHWARZ asked the Minister of Finance:

What (a) total quantity of milk-powder was (i) exported and (ii) imported from 1 September 1986 to the latest specified date for which figures are available and (b) was the value of the milk-powder (i) exported and (ii) imported during that period?

The MINISTER OF FINANCE.

The export and import statistics in respect of milk-powder for the period 1 September 1986 to 30 September 1987 are as follows

(a) (i) 800 964 kg

(ii) 14 222 924 kg

(b) (i) R2 744 717

(ii) R23 232 576

Gold made available for manufacturing purposes

286. Mr H H SCHWARZ asked the Minister of Finance:

What quantity of gold was made available in the Republic in 1987 to (a) jewellers and (b) other concerns for manufacturing purposes?

The MINISTER OF FINANCE (79)

(a) 2 218 694.500 gram (1 064 522.200 gram in 1986).

(b) 503 608.200 gram (858 388.100 gram in 1986).

Compulsory military service: conscientious objections

354. Prof N J J OLIVIER asked the Minister of Defence.

(1) Whether any legislative changes are being considered to provide for conscientious objection to compulsory military service on the same basis as religious objection; if not, why not; if so, (a) what changes and (b) when will such legislation be introduced in Parliament;

(2) whether any consideration is being given to reducing the period of alternative service for religious objectors; if so, when is it anticipated that changes will be introduced?

The MINISTER OF DEFENCE:

(1) No, the hon member is referred to Hansard 1983, column 3548 in this regard. The situation is unchanged.

(2) The hon member is referred to the Defence Amendment Act, 1987 (Act 45 of 1987), in which this power is in fact vested in the Minister of Defence.

Mainline/commuter passengers

377. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

What was the total number of (a) first-class and (b) third-class (i) mainline and (ii) commuter passengers transported by the rail services of the South African Transport Services in the Republic in the 1986-87 financial year?

The MINISTER OF TRANSPORT AFFAIRS:

(a) (i) 248 999

(ii) 75 918 186

(b) (i) 12 132 118

(ii) 522 686 438

Own Affairs:

Private schools: subsidies

11. Mr D J DALLING asked the Minister of Education and Culture

(1) Whether any private schools in (a) the Transvaal, (b) Natal (c) the Cape Province and (d) the Orange Free State (i) have applied for and (ii) have been granted a subsidy for private schools in 1988 in terms of the Private Schools Act

Jan Smuts ATC training officers quit

B/day 10/3/88

MANDY JEAN WOODS

FIVE of the 12 air traffic control (ATC) training officers at Jan Smuts Airport have resigned as training officers, but will continue working as ATCs.

Training officers are responsible for supervising, training and assisting ATC cadets in their practical training.

Delays at Jan Smuts Airport before the recent radar problems were blamed on a shortage of ATCs, several of whom resigned over pay dissatisfaction.

Transport Department spokesman Leon Els said yesterday the department did not speculate about the reasons for resignations. But ATCs said the continued failure of the department to give recognition, either financially or otherwise, to training officers was the main reason for the latest resignations.

Els said a pay package for ATCs had been approved by the department and would take effect on April 1.

Meanwhile, executives are having their travel schedules thrown into disarray by departure delays.

An Anglo American spokesman said its business flights had been delayed up to 90 minutes in the past two days. Meetings were having to be postponed and cancelled and time was being wasted.

Comair MD Pieter van Hoven said about 80% of the company's flights had been affected in the past 48 hours.

Amgold to cut final dividend

B/day 10/3/88.

CHERILYN IRETON

ANGLO American Gold Investment Company (Amgold) has cut its final dividend by 19,4% after a drop in income from its major gold mine investments.

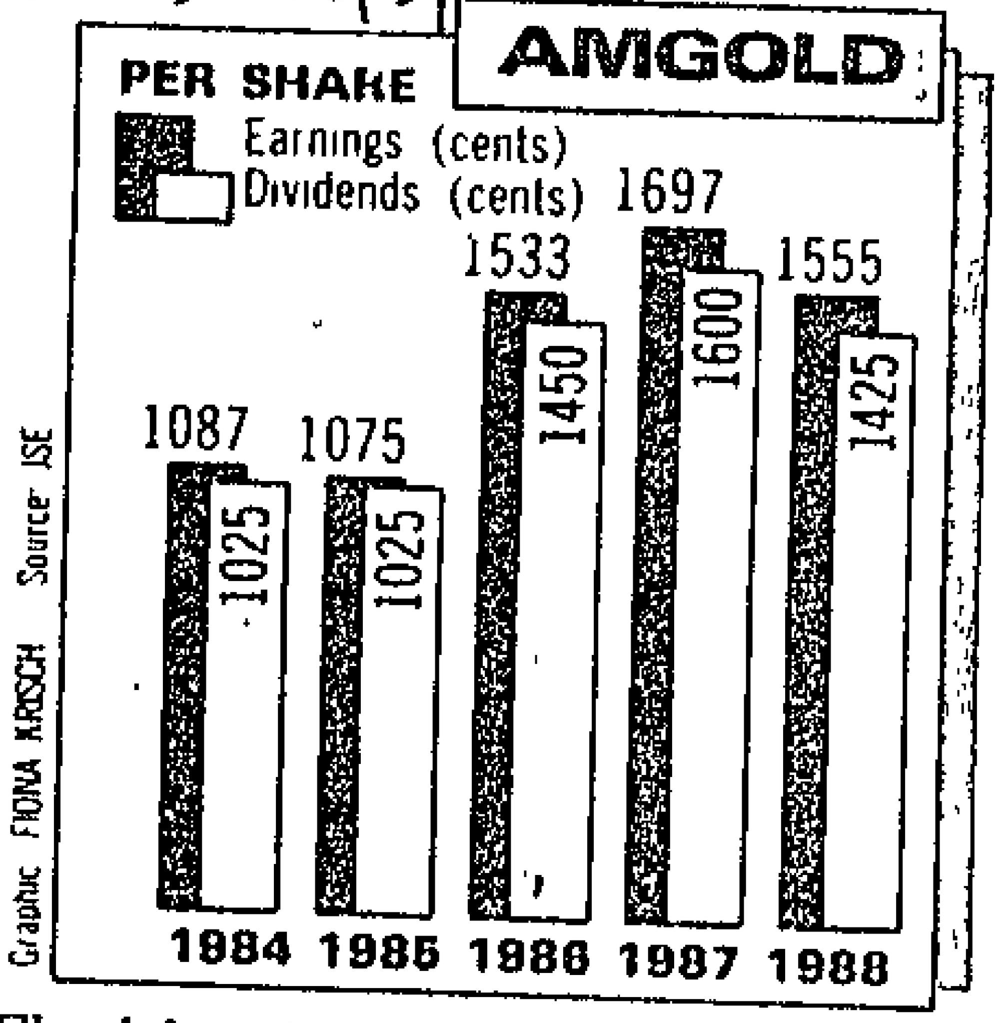
The company is to pay a final dividend of 725c a share (900c previous year) for the year to end-February, making a total of 1 425c against the previous year's distribution of 1 600c.

This follows an 8,4% drop in earnings to 1 555c (1 697c) — which was expected — after last year's dull performance of the rand price of gold, labour unrest and rising mining costs.

However the increase in dividend cover to 1,09 times from 1,06 times last year and 1,03 times in 1983, seems to suggest that Amgold directors are taking a gloomy view of short-term prospects says Edey, Rogers & Co partner John Rogers.

Some market commentators had been looking for a total dividend of at least 1 500c, and described the move away from the traditionally modest cover as somewhat alarming.

Amgold derives its income from a portfolio of quoted gold shares. Total investment income fell 7,1% to R355,9m (R383,2m) reflecting disappointing dividends from these investments, notably



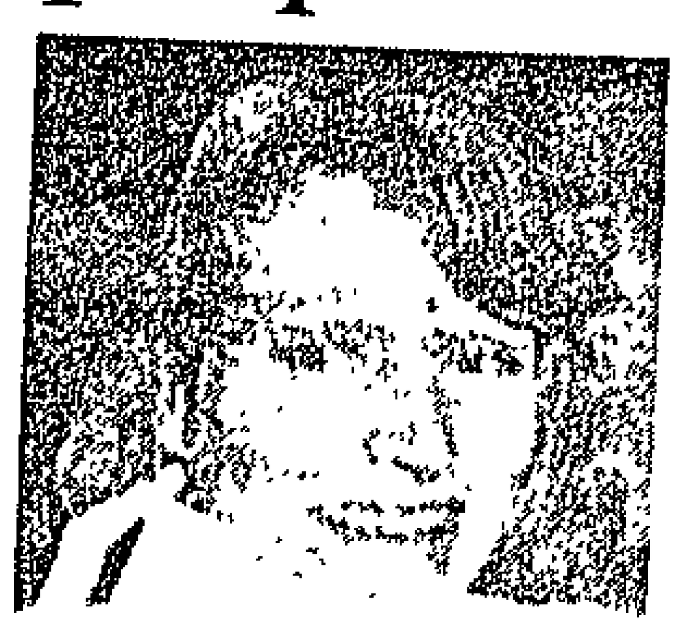
Elandsfontein and Southvaal.

The market crash had a major impact on the value of Amgold's investments, which — based on market value and directors valuations — fell 35% to R5 098,7m.

This is further reflected in the net asset value, which has fallen to R234,75 a share (R361,23). Amgold closed at R244 yesterday after firming R2, giving a premium of 3,9% on net worth.

Amgold yields 5,8% on dividend, 6,4% on earnings and is on a PE ratio of 15,7 times.

Technologist scoops prize



A WINNER! Lydia Petre, 28, a medical technologist in Alberton, yesterday won the R1 200 prize in the Blue Chip Challenge.

"At first I thought I'd missed the index by a rand, but when I added my total up again I realised I was a winner. I couldn't believe it," she said.

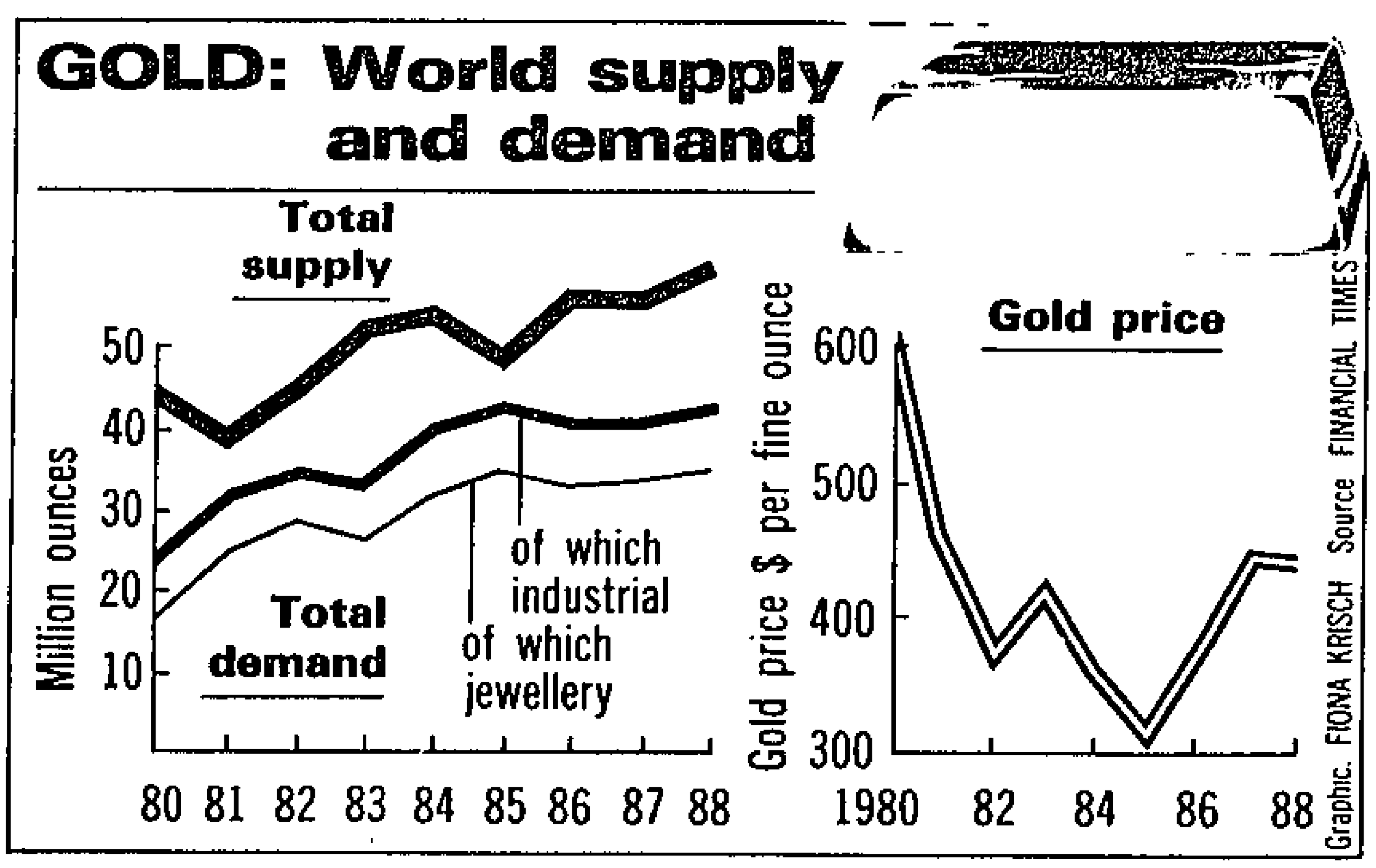
The money will come in handy — Lydia and her husband, Roger, are building a house.

"Roger is on a two-month army call-up. What a marvellous surprise this is going to be for him," said Petre.

79 B/day 19/2/88

Putting a future value on gold

KENNETH GOODING looks behind the recent slide in world bullion prices



IN THE singular world of gold mining it is possible today to raise US$450m cash and pay interest of only 2,5%. Newmont Mining, which is rapidly becoming North America's biggest gold producer, has done just that by raising a gold loan.

Newmont borrowed gold from a group of banks, turned it into immediate cash and will return the precious metal, ounce for ounce, from its own future production over the next five years.

News of the Newmont deal has been hanging over the market for weeks and has depressed the price of gold bullion.

This is not surprising: it is the biggest-ever gold loan and highlights a new form of financing increasingly popular in the precious metals business.

Some analysts suggest that Newmont might be solving its own problems at the expense of the rest of the industry — driving down the price of gold at a time when the fundamentals suggest gold should be heading fast in the other direction.

As far as many investors were concerned, gold already had a somewhat tarnished reputation. For traditional gold bugs, last October's crashing markets, the devalued US dollar and the threat of future inflation as the central banks pumped new money into the system should have meant that the gold price rose dramatically.

Instead, after having briefly gone above $500 a troy ounce just before Christmas — its highest level since February 1983 — the gold price has been gently sliding since the new year.

Those who think gold is retaining its historical status as a precious metal point out that, by ending 1987 at $487 an ounce, gold registered a gain in dollar terms of 21% over the course of the year. And that followed a 25% gain in 1986.

In fact, there were several reasons why gold failed to take off vertically after Black Monday.

There was a certain amount of selling of hoarded gold by people who had previously invested in the metal because they believed the stock markets were too high. They cashed it in, often to cover other pressing commitments caused by the crash.

But the most substantial element in the equation was the producers themselves. When the metal rose briefly to $490 an ounce on October 19, "producers everywhere, including South Africa and the Soviet Union, tried to capitalise on the high price and sold," says Jeffrey Nichols, president of the New York-based American Metals Advisors consultancy group.

Robert Guy, a director of merchant banker N M Rothschild and Sons, agrees. "The new major gold mining companies have become a major influence on the movement of the gold price. The rise in the gold price above $470 was an opportunity too good to miss."

In Guy's words, producers rushed to "lock in profitability" by selling forward as much future production as possible at the high price.

Mining companies use gold loans for one of two reasons: they either take a view that the price is unlikely to go much higher in the medium-term, or they want to raise capital for investment.

They borrow gold bullion at interest rates in the 1,5% to 3% range and the debt is denominated in ounces of gold rather than dollars. Even the modest interest can be paid in gold.

Such a system is particularly attractive to the Australians. This is because, first, the tax-exempt status of the gold mining industry in Australia makes it unattractive to borrow conventionally at high interest rates and, second, because the industry includes many very small companies which would have difficulty in providing security for more orthodox borrowing.

Peter Fells, an executive director of Consolidated Goldfields, said recently that gold loans had accounted for about half of all reported financing by Australian gold mining companies in the three years to mid-1987.

Much of the money has been used to finance further mine development.

Newmont is a special case. Last year it fought off an aggressive corporate raider, T Boone Pickens, thereby lifting its debt to more than US$2bn. The gold loan will be used to reduce the interest on a great deal of that debt.

During the past 20 years, jewellery has been the cornerstone of the gold market. In that time about 60% of the gold coming to the market has gone into jewellery.

And nearly 8 000-tons, or 30% of all gold supplies (excluding central banks), has been absorbed by a broad sweep of countries from Morocco to Egypt, Turkey, Saudi Arabia and the Gulf, the Indian subcontinent and South-East Asia.

Green, in his book, "The Prospect for Gold The View to the Year 2 000," says: "This off-take includes 18-carat gold jewellery exported from Italy, 22-carat locally fabricated jewellery, coins made in local factories, kilo bars and a wonderful range of small bars.

"They are sold on very low mark-ups over the gold price of the day, and represent the basic form of saving for millions of people in countries where banking systems, savings schemes and stock markets are not available — or to be trusted."

But can gold hold its value if — as seems possible — there is a glut of production in the next few years?

During 1985-88 some $3,2bn will be spent on new mining capacity to bring on stream an extra 238-tons of gold production — equivalent to nearly one-fifth of total Western world output in 1986.

Optimists point out that in a comparison between the years 1985 an 1986, gold supplies from Communist bloc sales and scrap increased by 358-tons but despite this the gold price rose by $50 an ounce.

"The gold production increases we can anticipate between now and the year 2000 can hardly be described as taking us into uncharted waters," says Dr David Rees, international financial services manager of GoldCorp Australia.

"Nor are the volumes of gold likely to hit the world market of such an order as to throw it into confusion."

The optimists also point out that the Japanese seem to be getting a taste for gold as an investment. In 1986 the Japanese bought six-million ounces of gold bullion, virtually the combined production of the US and Canada that year.

There is also the fact that the price of gold remained relatively high last year in spite of the impact of the gold loans and a fall in demand. It stayed firm because output also fell sharply.

Supply, including scrap and the selling of hoarded jewellery, came to about 58-million ounces (about 1 800-tons), down 13% from the record of more han 66,8-million ounces (2 087-tons) in 1986.

Nichols, of American Precious Metals Advisors, forecasts that supply this year will rise to about 63,3-million ounces and that industrial users and jewellers will take about 44,7-million ounces.

Looking at the metal's performance over the past few weeks he reckons that Newmont should not be allocated all the blame.

"Gold loans have not been the only force pushing precious metals markets lower. Both the Soviet Union and SA reportedly have been heavy sellers. Miners everywhere have stepped up their forward sales, literally racing to see who can sell first.

"The stepped-up pace of selling is itself a consequence of the increasingly bearish and pessimistic psychology that has taken hold of the market since New Year's day.

"And buyers have been absent — partly reflecting seasonal trends, but partly because of the discouraging effect of a stronger dollar, stable stock markets, favourable inflation news in the US and continued satisfactory real growth in the major economies."

Gold's supporters point out that it is worth remembering that what is sold today can't be sold tomorrow. In other words, the effect of increased forward sales like the Newmont loan is to shift the flow of gold supply from the future into the present.

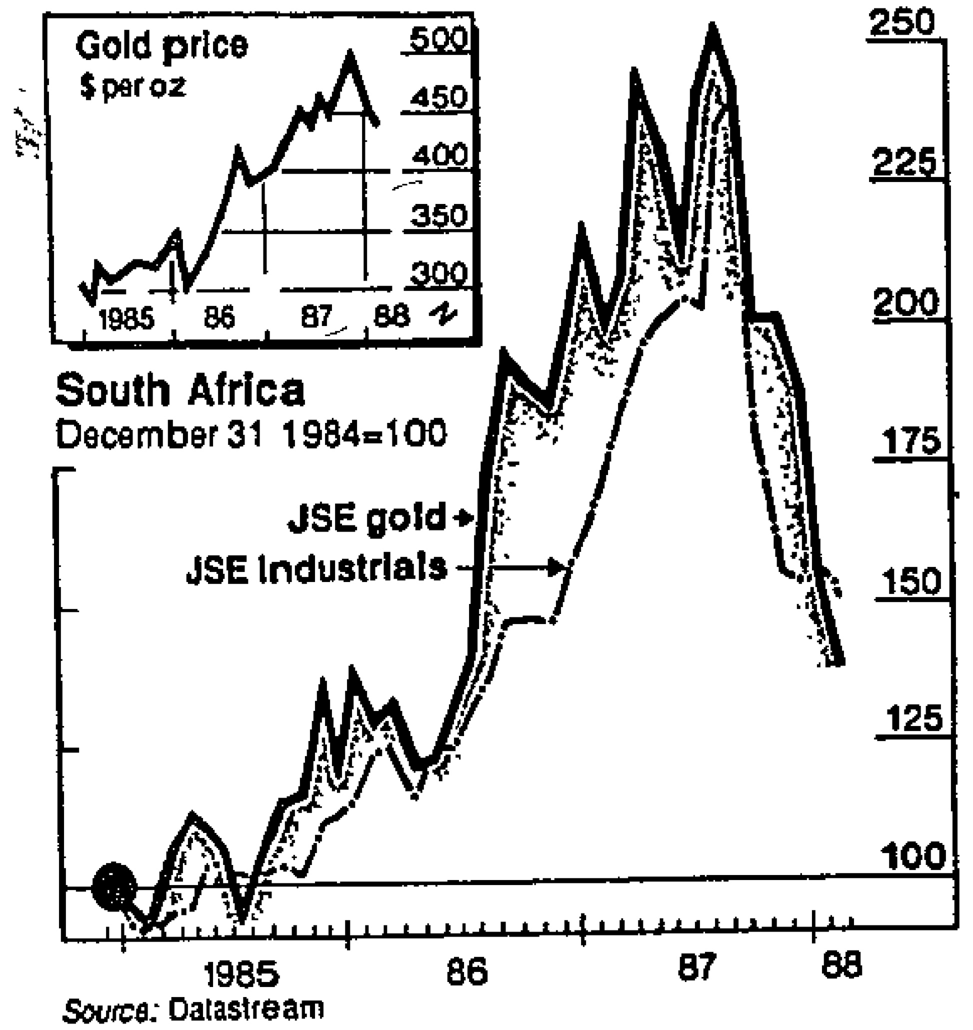
Not only will the reduction in the flow of forward selling ease the pressure on the gold price fairly quickly as the year progresses, but the flow of new mine production into the market over the second half of the year will not depress the price, because it has already been sold.

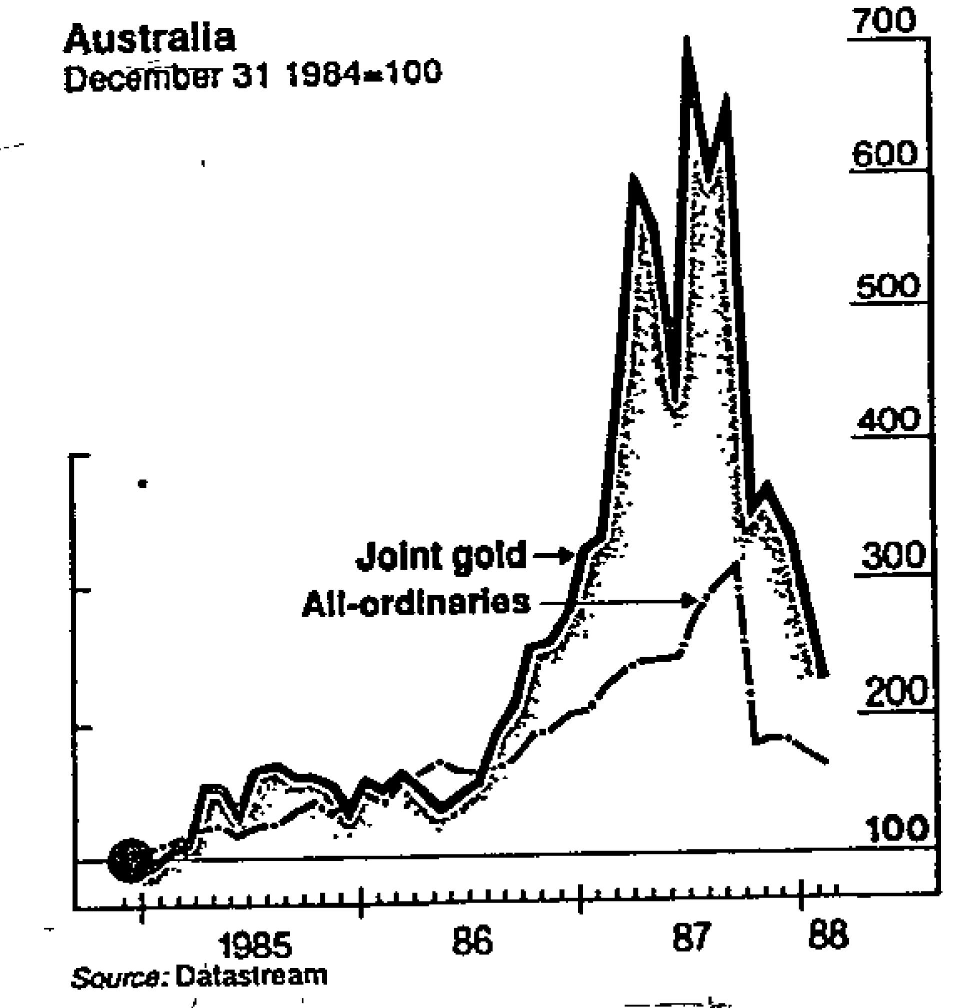
FINANCIAL TIMES

(79) 19/2/88

A comparison of the relative worth of SA and Australian gold mining shares

19/2/88 Star (79)





The crash of '87 hit the Australian and South African stockmarkets hard. They recovered slightly when the gold price topped $500 in December, but have plunged again this year. Although some shares look cheap, many will probably become cheaper still.

Both markets are dominated by gold.

Gold stocks account for almost 30 percent of the capitalisation of the JSE.

In Australia, gold-mining companies account for 10 percent of the all-ordinaries index, but gold has a bigger impact on the market than that since most other mining companies have gold subsidiaries.

Gold mining has been one of Australia's biggest growth industries.

In 1982, Australia produced 27 000 kg of gold. By 1986 it was producing 82 000.

Out of favour

A problem for both markets is that gold has fallen out of favour with investors.

On December 14 the gold price reached $502 an ounce — the highest it had been since February 1983 — sparking a brief rally in gold stocks.

Since then investor worries over inflation have diminished as the American economy has shown signs of sliding towards recession.

The price of bullion has drifted down to $440 while gold stocks have slumped.

Since December they have fallen further, proportionately, than they fell after the worldwide crash in October.

As long as gold looks likelier to fall than rise, so will shares in Australia and South Africa.

Turnover in the Australian market has dwindled from a pre-cash A$500 million a day to around A$130 million ($92 million).

In South Africa, turnover is running at R30 million to R40 million a day, compared with a pre-cash level of between R60 million and R80 million.

In Australia, the market's despondency is typified by the discount at which the futures contract on the all-ordinaries index is trading.

Usually, arbitragers keep stock-index futures contracts in line with the corresponding cash position in the stock market.

They buy the futures contract when it is cheap, compared with the bundle of stocks that make it up, because they know that when the contract expires it must exactly equal the value of the underlying shares.

Likewise, they sell the futures and buy the stocks when the futures contract trades at a premium to the stocks that make it up.

In Sydney, the futures contract is now trading at a narrowing 20-point discount to the cash index.

This is happening because investors are using the futures market (where it is often easier to sell than in the cash market) to get out of Australian stocks.

Futures contracts

This is likely to drive the "real" stock market lower since the arbitragers who are buying the futures contracts will want to cover themselves by selling stocks.

The collapse has left the Australian stockmarket on a price/earnings (P/E) ratio of nine, based on expected profits in 1988.

In mid-1987, the average was over 19 and some gold stocks traded at over 50 times their expected earnings.

The crash of Australian gold-mining stocks has been spectacular.

Unlike South African mines, Australian gold companies pay low dividends and so their share prices fall further for any given fall in the price of gold.

The collapse in the market has taken down solid companies as well as marginal ones.

Shares in Western Mining, which is capitalised at A$3,4 billion, have fallen 20 percent in the last month.

Besides gold, Western mines nickel and owns 42 percent of Alcoa of Australia, an aluminium-miner. It also has a cash hoard.

Analysts calculate that if its gold production is excluded, the company is worth A$2,65 a share, yet the share price is now just A$4.

That undervalues its gold business: by 1990 it should nearly double existing production to 1,2 million ounces — making it one of the world's largest ten gold producers.

It is also a cheap producer: Western Mining can produce gold at $184 an ounce.

In 1990, even if gold has fallen to $425 an ounce, Western's P/E ratio would be only seven.

Despite such encouraging anomalies, Australian stockbrokers are gloomy.

They say their small market — at its peak last year it only accounted for 1,8 percent of the Morgan Stanley Capital International world index — trades like an option on the rest of the world.

By that they mean that Australian stocks tend to move further and faster in whichever direction the world moves — booming when the world economy is strong, plummeting when it goes towards recession.

Like their Australian counterparts, South African analysts are keener on their market's non-resource stocks.

Consumer demand is picking up strongly in South Africa.

Stockbrokers Martin and Co forecast, for instance, that South Africa's imports will jump from R28 billion in 1987 to R31 billion this year.

And recent corporate results have been healthy.

The financial and industrials index on the Johannesburg Stock Exchange is trading on a P/E ratio of between five and six and yields 5 percent.

Investors in South African gold stocks usually enjoy the protection of a high yield.

While North American and most Australian gold mines yield a skimpy 2 to 3 percent, South African gold stocks yield well over 6 percent.

That translates into a dividend of about 9 percent for the dollar investor, since non-South African investors can profit from the 30 percent difference between the financial and commercial exchange rates for the rand.

Last bear market

At the bottom of the last bear market in 1986, the average yield on South African gold-mines shares touched 15 percent.

The yield on South African gold-mining stocks could be risky.

South African producers are vulnerable both to wage costs — labour accounts for 45 percent of their total costs — and to the price of gold.

Bracken, for example, is yielding around 17 percent, but the dividend must be in question since its cost of production is $460 an ounce. That spells a loss. — *The Economist*.

Middle East sellers drive gold price down

Star 1/3/88

79

By Teigue Payne

The gold price made a sharp recovery in the Far East this morning, opening in Hong Kong at $433,15, after closing the day's trading in New York at $426,15 and touching a low of $423 in the morning in London.

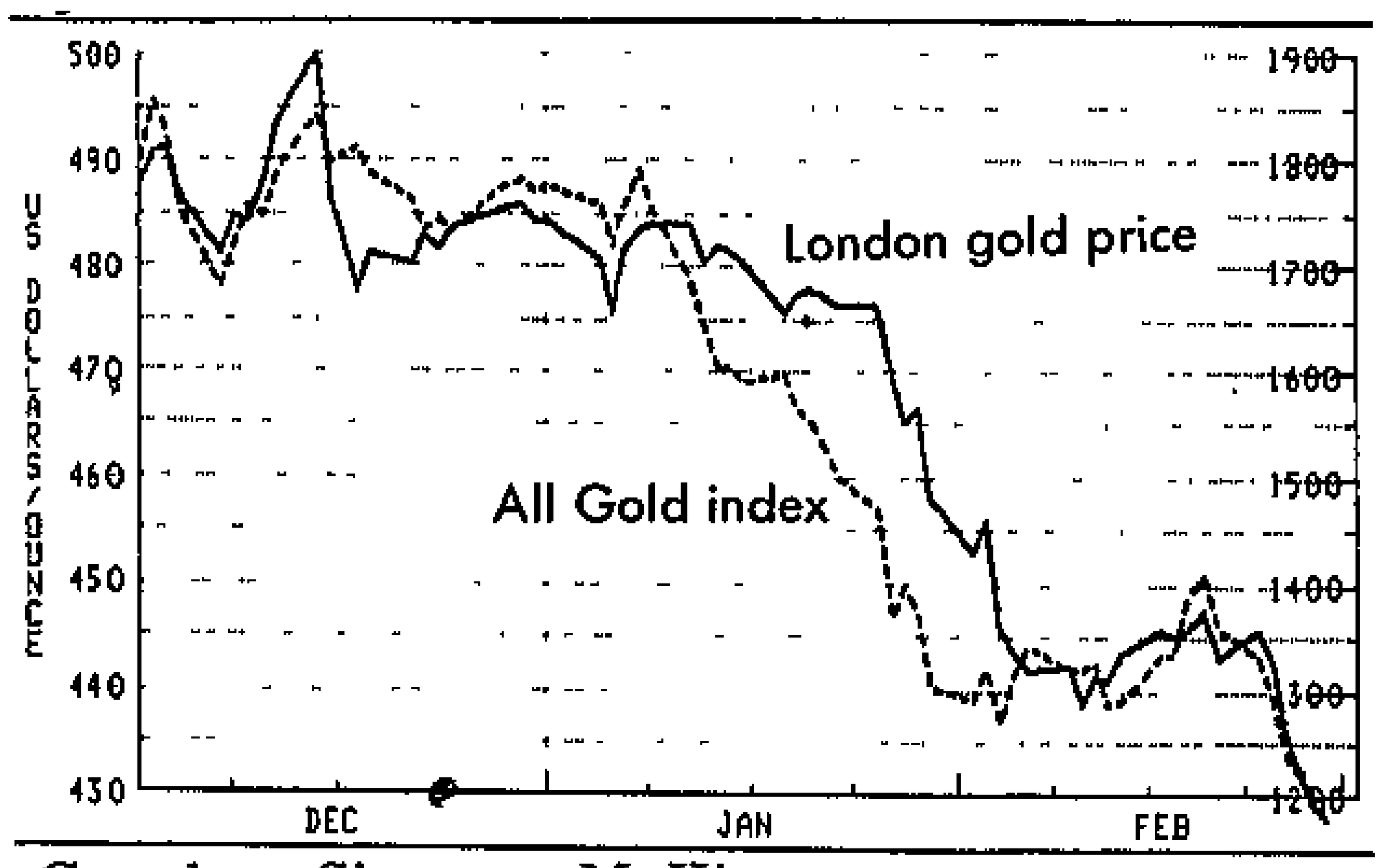
The metal showed resilience at the crucial technical mark of $422, but most analysts were still bearish on the short-term outlook for the metal.

Reuter reports that yesterday's decline in the gold price was attributed by London dealers to heavy selling from the Middle East.

Some bullion holders feared that the metal would fall further while analysts said they saw signs of panic selling by mining companies.

"The market is now heading for $400," a trader with one of London's leading bullion firms said.

The dollar meanwhile held steady, just below DM1,69 and just above 128 yen. Share prices were mixed in the various world stock markets, showing no clear trend and emphasising renewed uncertainty about world economic growth.



Graph — Simpson McKie

Graham Birch, a gold analyst at London brokers Kleinwort Grieveson, said he expected the price would keep sliding until, at between $380 and $400, jewellers started buying again.

For now, many dealers believe governments have controlled inflation, which cuts demand for gold.

A leading South African economist commented that there was now increasing evidence that the US economy will slow down this year.

However, inflation has been controlled and will decline slightly this year because of the economic slowdown from 4 to 5 percent last year to 3,6 percent.

The economist said he expected the dollar to weaken to below DM1,60, because US inflation, even at its current modest rate, was higher than its main competitor nations and because its current account deficit was still massive.

However, he did not believe that the dollar's decline would be dramatic.

He said gold's slide would stop when evidence appeared that inflation was rising in the United States. He expected US inflation to begin increasing in 1989.

While the the gold price usually rises on a weak dollar and vice-a-versa, this has not been the case recently. According to the economist, gold loans by financial institutions to future gold producers have been an important factor in driving bullion's price down recently.

He said the only bright aspect for gold was that its demand fundamentals had not deteriorated in the last few months.

For the moment, however, supply fundamentals had deteriorated, and probably the best that could be hoped for was that the bullion price would react slightly upwards with a weakening dollar.

Asia is key to gold's recovery

Star 2/3/88 (79)

By Neil Behrmann

LONDON — An oversold gold market is expected to rally in coming weeks, especially if poor US trade figures place pressure on the dollar.

Yet even though gold has fallen by 13 percent since the end of last year and is at its lowest levels in a year, Swiss and London bullion dealers say that the metal remains in a bear trend.

The most pessimistic contend that if the price breaches $420, it could easily fall to $380 an ounce.

Gold closed around $425 on Monday but staged a slight recoverty yesterday to $429,30.

Immediate reasons for gold's decline in the past fortnight were a sharp increase in Soviet and Middle Eastern sales. South Africa was also an active seller, say Swiss sources.

Australian and North American mines which had borrowed gold for resale, also depressed the market.

But as has been mentioned repeatedly during the past six months gold has a basic weakness. Its annual production is rising too rapidly and exceeds fabrication demand by a wide margin. When the price fails to perform and slips, investors are increasingly reluctant to absorb the surplus.

Especially since Alan Greenspan, chairman of the Federal Reserve Board made it clear that he would not be influenced by the Administration in an election year and that he intended keeping inflation down.

Hoarders

Disenchanted Middle Eastern investors, for example, have been offloading the metal.

At last, however, lower gold prices are beginning to attract hoarders from the Far East. Sources say that demand in Asia is surging again — an excellent long term sign for gold.

"Once again the Far East is likely to come to gold's rescue," says Rhona O'Connell in Shearson Lehman Brother's latest annual gold review.

"Indeed, the centre of the market's gravity is moving inexorably eastwards with gold interest surging in India and Taiwan," she says.

"Gold is flowing fast and furious into Japan, not least because tax changes there in April will abolish tax-free savings allowances."

In the first three months this year, Ms O'Connell says, the Japanese are likely to import about 150 tons, well above the same period in 1987.

An upturn in Far Eastern demand can mean that the bottom is nigh, but in the past, these purchases did not necessarily prevent any further decline in the price. The market is far too international.

Japanese

Gold in yen terms has fallen from 200 000 to the ounce in 1980 to 55 000, says David Fuller in his newsletter Fuller-Money. He contends that the price will fall to around 50 000 yen which is about $380 to $400 an ounce. Then it is probable that the Japanese will raise orders considerably, he says.

Meanwhile Ms O'Connell finds that the stockmarket crash has had a negative impact on gold. Prior to the crash, majority opinion believed that there would be a rush into gold. Instead investors preferred cash.

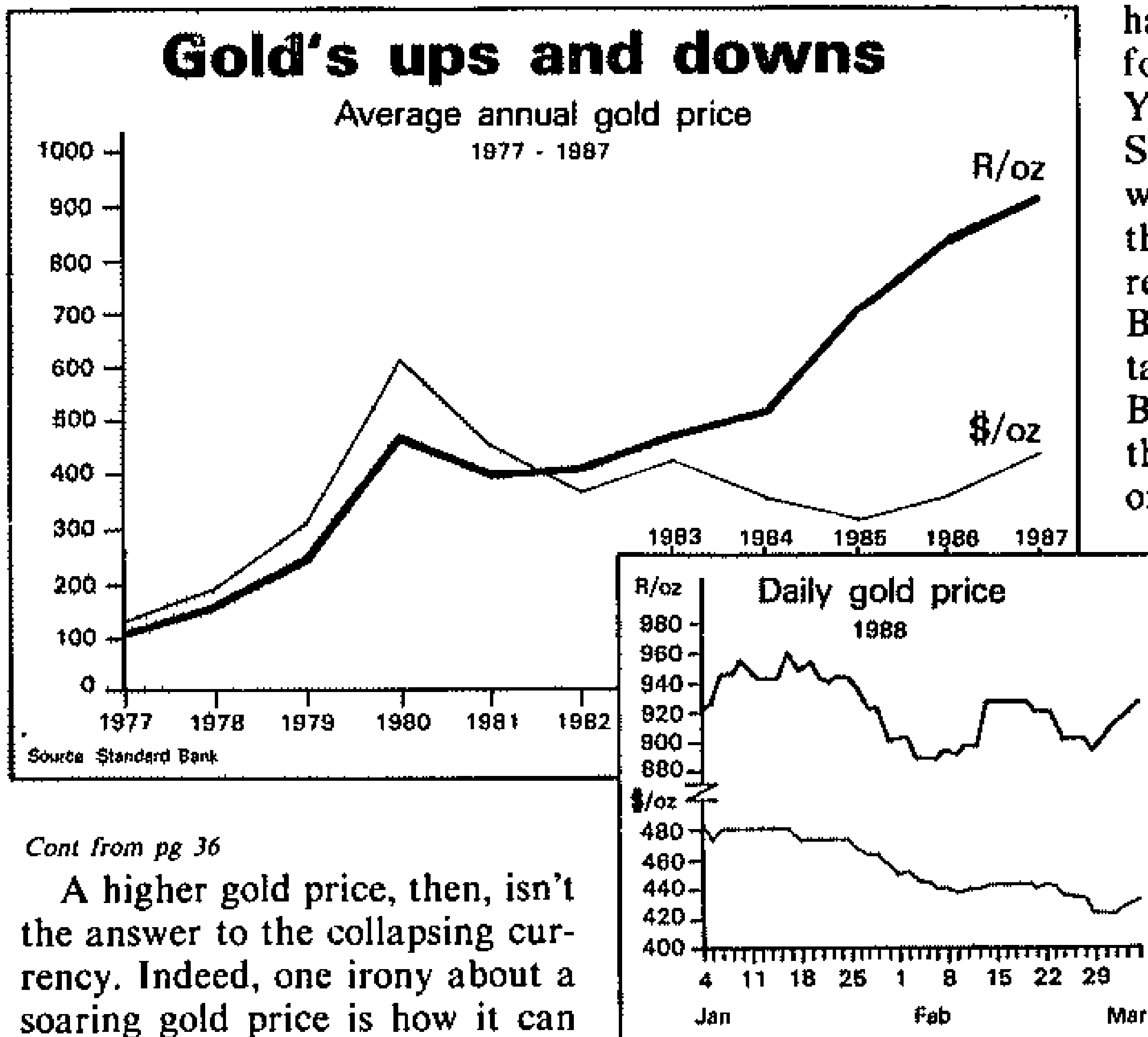
Gold mining companies which found it difficult to raise funds via the equity market were also forced to borrow gold. They then sold the bullion to improve their financial position.

The warning sign for gold came when it failed to move in the face of a rapid decline in the value of the dollar just ahead of Christmas. Gold stuck at $485, while the dollar tumbled to new post Second World War lows against the yen and other leading currencies.

Since then the dollar has rallied and gold has fallen by 13 percent. It has also slid in Swiss francs, sterling, yen, deutschemarks and other leading investment currencies. Producing nations such as South Africa, North America and Australia are also suffering, because their currencies are much steadier and the mines are no longer protected by devaluation.

When major nations experience disinflationary conditions, gold faces problematic times. It yields no interest and if there is no capital appreciation, investors become less enthusiastic, withdraw from the market and eventually increase supplies by selling. The year of the Dragon, has hardly been auspicious for gold.

(19) FM 11/3/88



Cont from pg 36

A higher gold price, then, isn't the answer to the collapsing currency. Indeed, one irony about a soaring gold price is how it can lead to a *lower* rand. The trouble stems from the way gold mines are paid.

As Free Market Foundation administrative director Eustace Davie explains, the mines don't get paid in dollars for gold. Because of exchange control, the Reserve Bank gets the dollars and the mines get rands.

When gold shot up in 1979-1980, government had to provide the mines with an abundance of rands, which it could get by taxing, borrowing or printing them. Unfortunately, Davie says, it chose the last option.

The narrow money supply aggregate M0 doubled between mid-1979 and mid-1981, guaranteeing high, double-digit price inflation in the ensuing years. That inflation then destroyed the external value of the rand. "Exchange controls change what should be a bonanza into a disaster," Davie says.

That brings us to the second point: gold has been a mixed blessing for economic growth. Yes, Johannesburg and SA were built on it and we're better off with gold than without it. It will remain important. Mike Brown, economic consultant to stockbroker Davis Borkum Hare, projects that R26bn will be spent on new gold mining projects by the turn of the century.

But gold doesn't guarantee growth. As Econometrix chief economist Azar Jammine notes, SA has enjoyed higher growth in times of a *lower* gold price. From 1961-1967, gold averaged \$35/oz and growth was 5,9% a year. From 1972-1979, gold averaged \$200 and annual growth was 3,7%. And from 1980-1986, the figures were \$417 and 1%.

Concludes Jammine: "The way to get growth is through enterprise, productivity and hard work, rather than a windfall profit from an increase in the gold price. We've got to use our human resources."

There are many reasons why gold doesn't guarantee growth, but a couple stand out. Firstly, government often interprets a higher gold price as a signal to step up spending. Much of the windfall, therefore, is lost to government largesse. Secondly, because gold has so enriched SA, Pretoria has been able to afford to keep whites happy and most of the rest of the population in economic chains.

"We still have Third World controls on our economy," says Wits business economist Richard Grant. "It seems we're a gold-dependent economy because heavy regulation and taxes discourage the growth of manufacturing and services sectors. Government won't allow entrepreneurs to release their creative energy."

This is the tragedy of gold. In countries like Japan and Hong Kong, with no natural resources to speak of, the authorities have had to set free human capital. And so Japan — whose average citizen was *poorer* than the average South African in 1960 — grows into one of the richest countries in the world. But SA, always able to fall back on natural resources, covers the cost of national socialism with gold.

The masses are seen as the *swart gevaar.* Yet, if allowed to, they could generate immense wealth which would make gold just another source of income. Government must start thinking of blacks as 25m potential entrepreneurs, workers and consumers, not as a mob to be controlled.

Gold isn't everything. Though it's a valuable resource, we shouldn't blame a falling rand and a stagnant economy on a drop in its price. Likewise, we shouldn't expect a rising gold price to save us. Our troubles run deeper than that.

As long as Pretoria debases the currency and sacrifices economic freedom for a bankrupt ideology, no metal can save us. ■

RESERVES DIP

Reserve Bank gold holdings slipped to 6,08m oz (at R816,98/oz) in February from January's 6,12m oz (at R837,67). This lowers the value to R4,97bn from R5,12bn.

Total gold and forex reserves fell to R6,18bn from R6,43bn in January. Reserves were R6,22bn in February 1987.

79

GOLD

It doesn't always glitter

Here we go again. It looked like the gold price might stay firm following the uncertainties of the stock market crash and we began to smile at our fortune. But suddenly it has softened. After touching US$500/oz in December, it has fallen by some $60.

A falling gold price induces fear in forecasters and some economists — but this isn't necessarily valid. Gold is a valuable commodity for which SA is wealthier than otherwise. But the potential of the major South African resource — its people — remains untapped. Growth and gold need not be linked.

The loss of wealth will be felt immediately by the gold mining industry and eventually by the rest of us. Among the effects of a low gold price are:

☐ Slower economic growth. Gold mining accounts for about 11% of GDP — some 19% if you include its indirect contribution. The economy may not slow down immediately and economists are hesitant to change their 1988 forecasts every time gold moves. Nevertheless, if the price stays low for long, we can expect lower forecasts for 1989;

☐ Lower wage increases in the industry. Gold mining employs 562 000 people. With costs rising faster than the inflation rate, wages are bound to be an area that mines will try to cut back in. That could re-ignite labour trouble;

☐ Reduced mine profits. Higher costs combined with a lower dollar gold price are squeezing mining profits. JSE gold shares are expected to weaken (**see box**);

☐ Budget trouble. Government will see lower tax revenue from mines. Though not as important now as in the early Eighties, an expected drop of several hundred million rands in taxes from gold will squeeze the Budget. Says Sanlam economist Johan Louw: "Lower tax income from gold mining will leave less room for tax concessions in the forthcoming Budget." All the more reason to rein in government spending; and

☐ Lower export earnings and a falling rand. Gold makes up about 40% of total exports. Gold averaged $447 last year; every $10 variation affects annual export revenue by $200m. Shrinking exports mean a tighter current account surplus and weaker rand. Since January, the rand has fallen from US52c to about US47c.

Clearly, a lower gold price is nothing to applaud. But for too long we've seen gold as both the sole source of salvation (when it's high and rising) and the root of all evil (when it's not). It's time to take a broader look.

Amid all the talk of gold, two points need to be made. gold is not the overriding influence on the rand and a rising gold price has not always guaranteed economic health.

Firstly, the rand fall has been the quickest and most visible reaction to the fall in gold. That tempts us to blame the rand's plight on gold — and simply pray for the gold price to rebound.

But it's not that simple. To begin with, the recent falls in gold and the rand can both be explained by the strengthening dollar, without even mentioning gold.

The gold price can have an effect on the rand: witness the currency's strength in 1980 during the gold boom. But that doesn't keep the rand up forever.

JCI economist Ronnie Bethlehem has drawn a useful graph comparing the rand-dollar exchange rate with what we'd expect it to be based on purchasing power parity, determined by comparing the inflation rates of the US and SA since 1972.

He finds that despite swings in the gold price, capital flight, unrest, sanctions, foreign debt and all the rest, the commercial rand is about where we'd expect it to be, because of SA's high inflation (**see graph**).

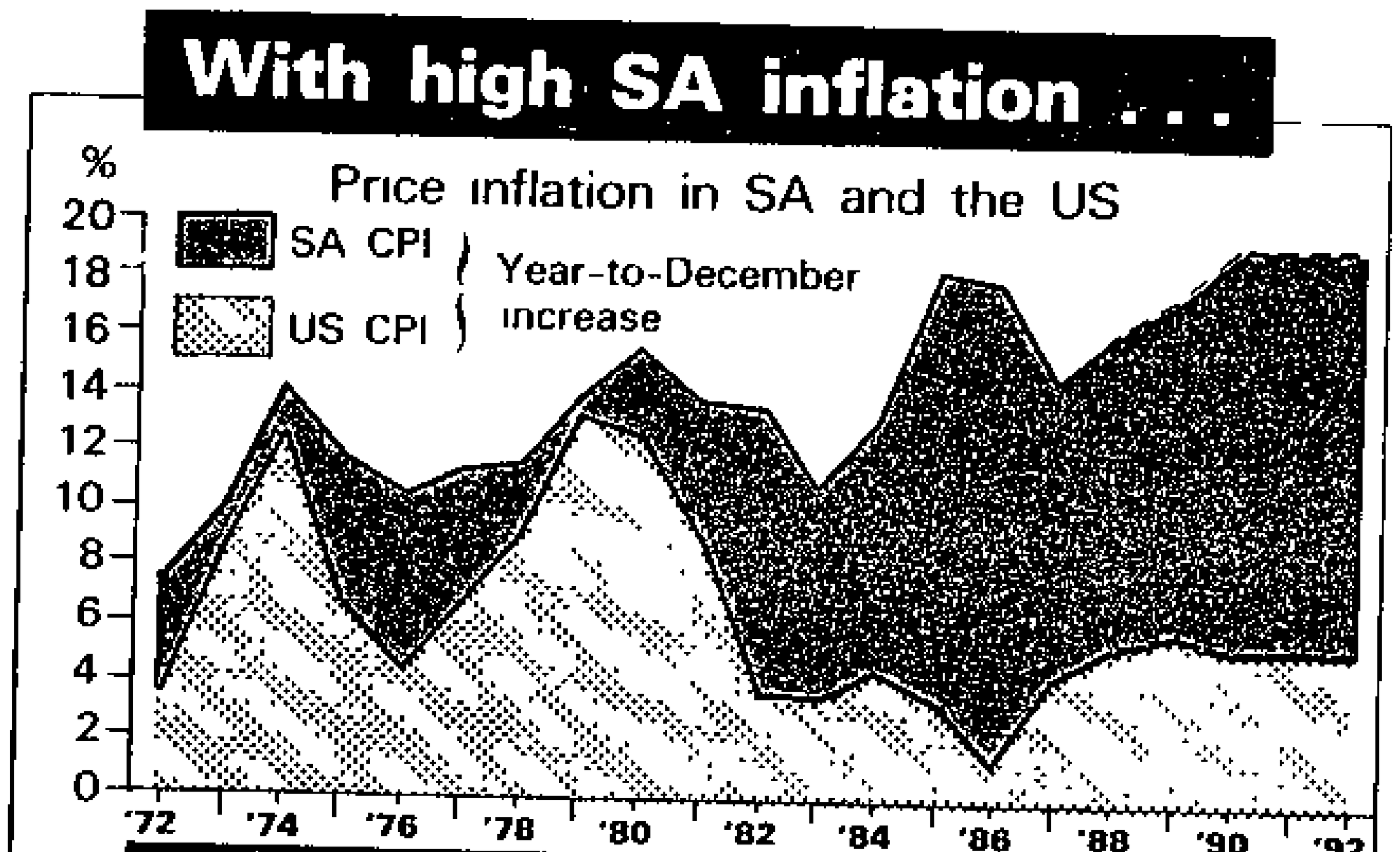
With inflation staying high, there's only one way for the rand to go: down. Simply, if SA consistently has 15% inflation and the US 5%, the rand will depreciate by about 10% a year. Short-term good news — a rise in gold, a surge in exports — might keep it strong for a while. But it won't stop the long-run fall.

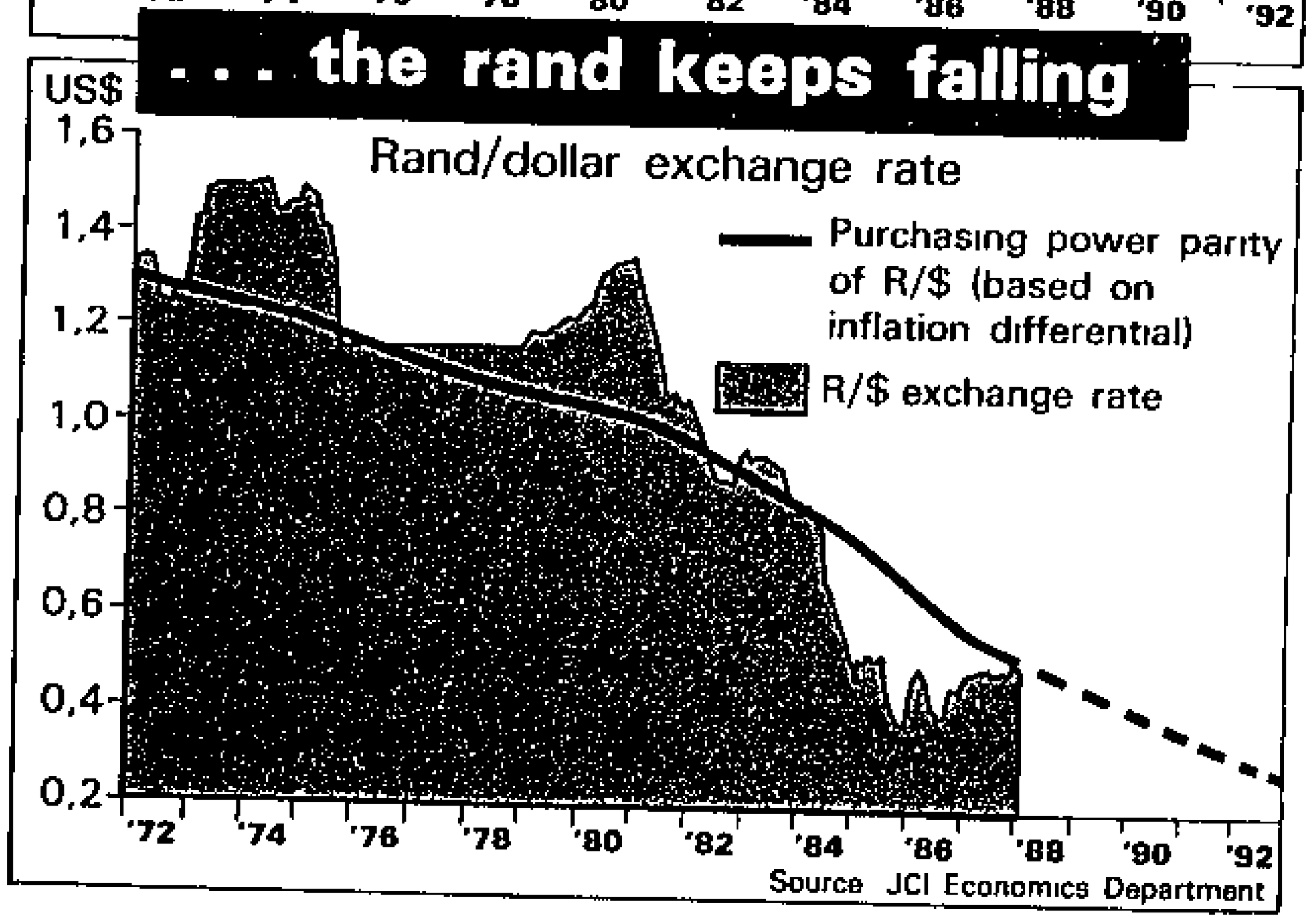
How far will it fall? With SA's inflation likely to pick up late this year, Bethlehem predicts a US47c rand on average this year, dropping to about US42c, US37c, US33c and US29c over the next four years.

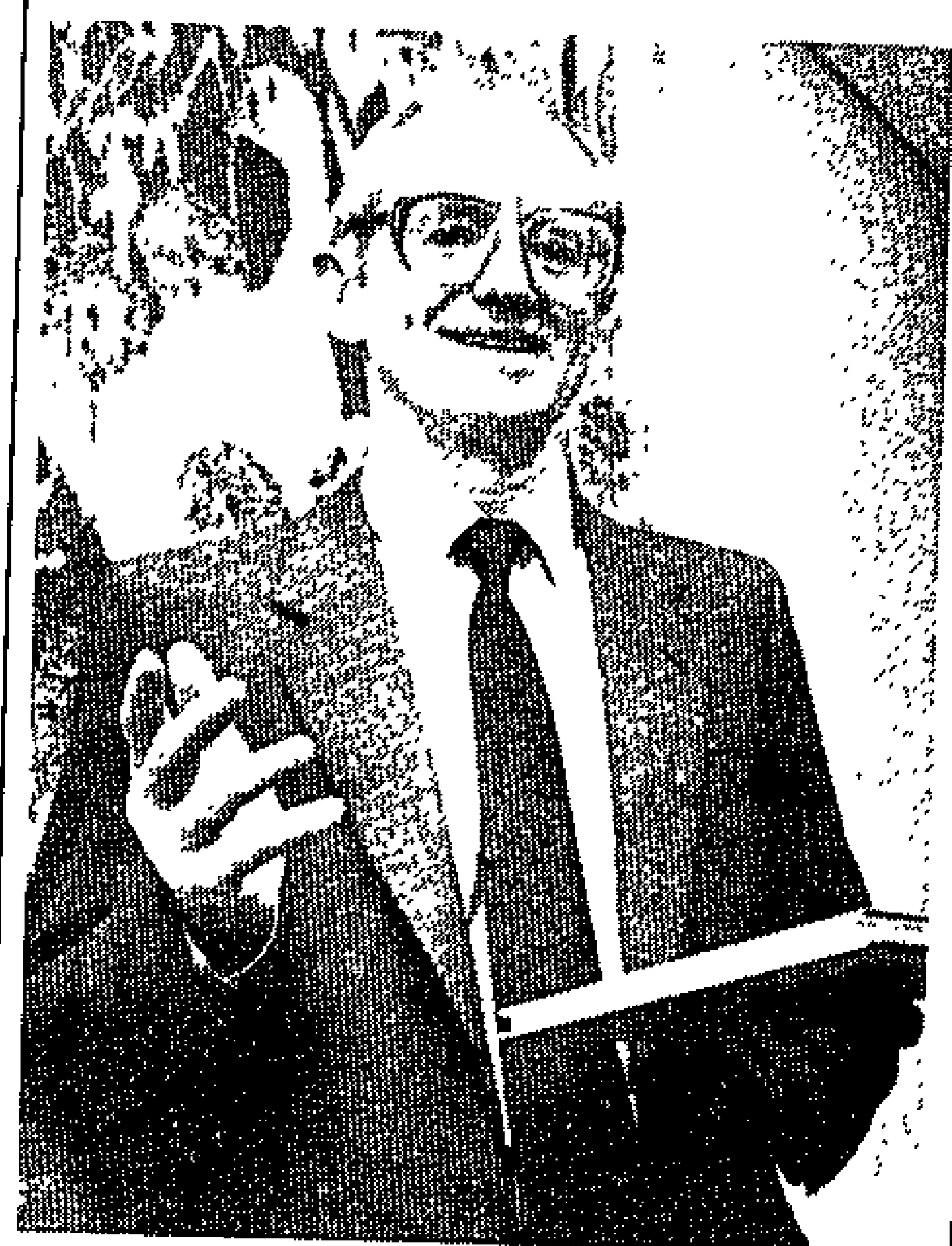
And that's just an average scenario. Unusual social, political and economic trauma could keep it below the purchasing-power-parity line: "If the current account remains under pressure, inflation soars, the gold price is weak and the Conservative Party gains on the National Party, you don't need to be a genius to know where the rand is going."

But, he stresses, "the underlying problem is inflation."

The rand will stabilise only if Pretoria stops debasing it. That means firmly controlling the money supply — a task made much easier if government would cut back spending and take pressure off the Reserve Bank to monetise the debt.







Free Market's Davie . . . gold goes into rands

Continues on pg 38

AS THE GOLDEN GLOW DIES DOWN

When the year started, there was good reason to argue that the atmosphere around Diagonal Street was simply too bearish. The gold price was still close to US$500/oz, the economy looked poised for more vigorous growth than many were prepared to concede and the sanctions threat appeared to have receded.

The weeks since mid-January have poured some icy showers on confidence. Outstanding disappointment has been the gold price. In less than two months, gold plummeted by virtually $80/oz from the end-December high of just over $500 and the recent low of $423,75c on February 29 even caused some analysts to fear that the long-term bull trend had been broken.

And while privatisation — with the potential to soak up liquidity on the JSE — has hogged much of the attention, other elements of P W Botha's economic package could restrain growth this year and next. A stockbroker's economist calculates that curbs on public-sector salary increases, will subtract about R1,5bn from personal incomes this year. In addition, recent trade figures have been disappointing. They could turn out to be a temporary hiccup. If not, then these and the lower gold price will almost certainly mean the overdraft rate will continue heading towards 16%-18% by year-end

"The economic scene has taken a significant turn for the worse," says the broker's economist. "We expect to see the economy growing more slowly than was forecast early this year, yet with interest rates rising as much as we originally expected. And rising rates have traditionally been associated with a falling or at least not a rising equity market."

Gold shares are currently thought to have the dullest prospects. After recovering late last year, gold counters have been clobbered in 1988 (**see graph**). They have featured almost daily in the new lows and, by this week, the All Gold index was at 1 265. This was some 48% down on the October 19 high of 2 429 although 4,4% up on the February 29 low of 1 212.

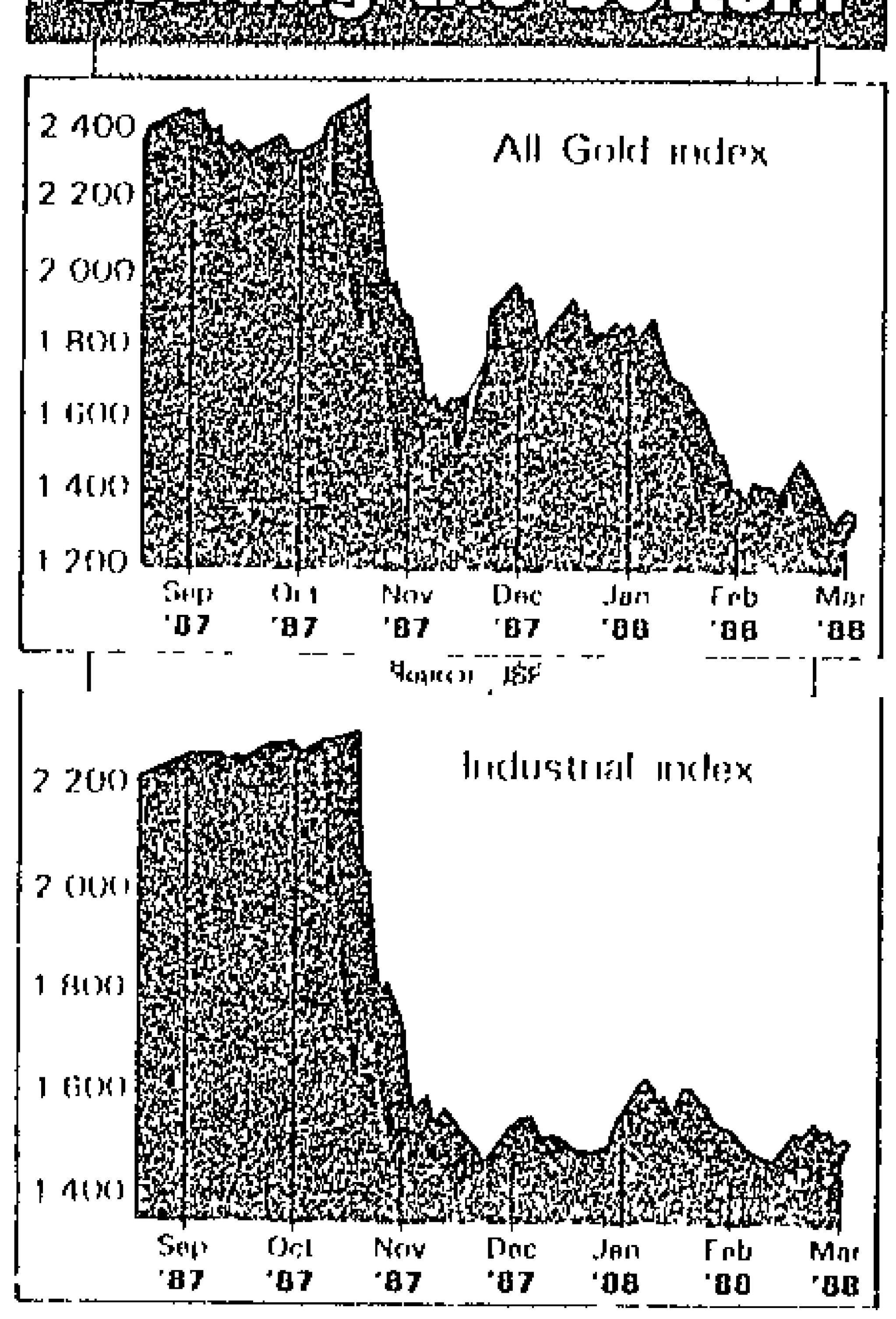
This week's rebound in the gold price to around $438/oz was encouraging but does little for the fundamental outlook. With the rand price merely stagnating, cost pressures and productivity weakness continue and strikes remain a concern.

But if investors should assume that the All Gold index is going nowhere, that implies similar worries about the industrial sector. In the past, the Industrial index has tended to follow the All Gold index after a lag. One reason for this is that the gold price influences the overall health of the economy and ultimately corporate profits. Martin & Co's Richard Jesse says the firm has taken account of changed economic prospects by revising its forecast downwards for average industrial earnings growth over the next 12 months from 27% to around 23%.

But these are average figures which will be exceeded by many companies. Even the effects of rising rates should be seen with circumspection. For more than two years before the Crash, scores of companies used rising profits and equity issues to repay or avoid borrowings. By late last year, most had trimmed debt: equity ratios to conservative levels, while some of the rest had lifted interest cover to historically high levels (*FM* December 18). The worst impact of too-rapid increases in rates may lie in constraints on consumer spending which could hurt profits.

Another concern is the liquidity levels currently held — and targeted — by the

Seeking the bottom



institutions. Liquidity has obviously climbed steadily in the past four months. But, given that institutional liquidity was virtually rock bottom before the Crash, these levels are unlikely yet to have risen high enough, particularly in view of privatisation expectations.

Lower profit forecasts, rising rates and higher liquidity requirements are unlikely to help sentiment. But they do not necessarily imply markedly lower share prices — certainly not across the board. Sanlam investment GM Ron Masson notes that rising industrial profits should help to support prices. Higher earnings and dividends will mean lower ratings for the shares even if prices simply remain roughly static.

"The risk is more in the time investors may have to wait for higher prices than in falling prices," Masson says. "I think the market will stay dull and listless for quite some time. But I don't foresee any big shakeout unless it originates overseas."

A number of analysts feel that the dozen or so major stocks that comprise the bulk of the Industrial index may not have further to fall. Controversial among these is Rembrandt, on which there are contrasting views. Some worry about the share's dividend yield of 1,7% -- razor-thin in today's market — while others favour the counter for its rand hedge qualities and consistent growth record.

As much as 10% of the Industrial index is represented in Sasol and the group is most unlikely to do more than maintain its dividend this year. But here, too, the worst could already be reflected in the 7,1% dividend yield and 670c share price, down by 58% from the high of 1 575c on August 17.

Most other major stocks in the index are still achieving robust growth, yet almost all have been knocked down to low p:es and attractive dividend yields which undoubtedly indicate good value. Barlow Rand, for example, stands on a p:e of 7,1 times, Federale Volks on 6,3 times and AECI on 7,6 times. It is not only the large groups that now show attractive ratings on historical performance - analysts are at present sifting through dozens.

Many are taking the view that when solid companies are showing p:es of between four and six times and are thought to be set for more growth this year and next, such counters have got to be considered very good value. Attracting particular attention at present are those companies that would benefit from a weaker rand. Among these are Sappi, on a p:e of 6,6 and yielding 6,2%; Sammcor, yielding 9,5%; Highveld, yielding 5,5%, and CMI yielding 10,3%. There are also the non gold-based mining shares and mining financials, notably De Beers.

Other industrials have been cited for their low p:es, such as Morkels, National Trading, Rex Trueform, Fenner and Unispin. All of these need to be carefully assessed, as do the dozens of new listings that were barely analysed before the Crash and then got savagely marked down simply for being unknown quantities.

Recent events may mean gloomier sentiment and a more protracted bear market. But there is good reason for seeking rays of light -- even if by taking a contrary view. Simpson McKie's Charles Booth says his own mood brightened when he realised that attitudes had become so bleak the market could only go up.

Andrew McNulty

77

GOLD

Fall off in exploration has cost country dearly

By Tom Hood

Gold production has plunged by 40 percent from 1 000 tons to 605 tons a year in the last 18 years — a drop equal to wiping out two of the country's greatest goldfields, the West Wits Line and the Free State mines.

And this, say two researchers, means a loss of $36 billion in earnings which, had it been avoided, would have meant an economy "immeasurably stronger" and the country "a better and happier place in which to live."

Mr David Gleason, a leading gold analyst, and Mr Chris von Christierson, managing director of Southern Prospecting, say in a controversial report in Leadership magazine the mining industry would have served the country better had it maintained its share of world production.

The industry could have maintained this share had it sustained the exploration drive at high levels in the 30 years since the mid-50s, they claim.

They argue that holders of mineral rights must be compelled to explore and define them. "They must not be allowed to sit on them indefinitely, as so often happened in the past."

Often ownership of mineral rights to private land were acquired in the distant past by a mining company and since there was no financial burden in holding the rights ad infinitum, there was no urgency to prospect or evaluate these holdings.

With reserves being depleted faster than they are being replaced, the industry is in "the painful process of going out of business."

The average grade of ore has also fallen from 13,28 grams a ton in 1970 to 5,28 grams in 1987 — a 60 percent decline.

On the basis of the current average grade, the industry needs to discover and prove a total of about 108 million tons of reserves each year.

But the major factor inhibiting exploration is financial. South African investors are grossly underinvested in exploration, say the researchers.

Only R30 million was raised last year from the investing public on the Johannesburg Stock Exchange for exploration compared with the equivalent of R1 billion in Australia.

"Quite simply far more money needs to be channelled into exploration by the mining houses, institutions and investors.

Yet South African exploration in the past had the highest success-expenditure ratio compared with competitor countries.

But the Government must now seriously consider stimulating exploration in a way similar to the Canadian tax system In Australia, moreover, there is no tax on gold mining.

Without changes to the mining taxation system, such as making available tax shields for the non-contiguous mining areas, it may well prove too onerous and risky to open new mines.

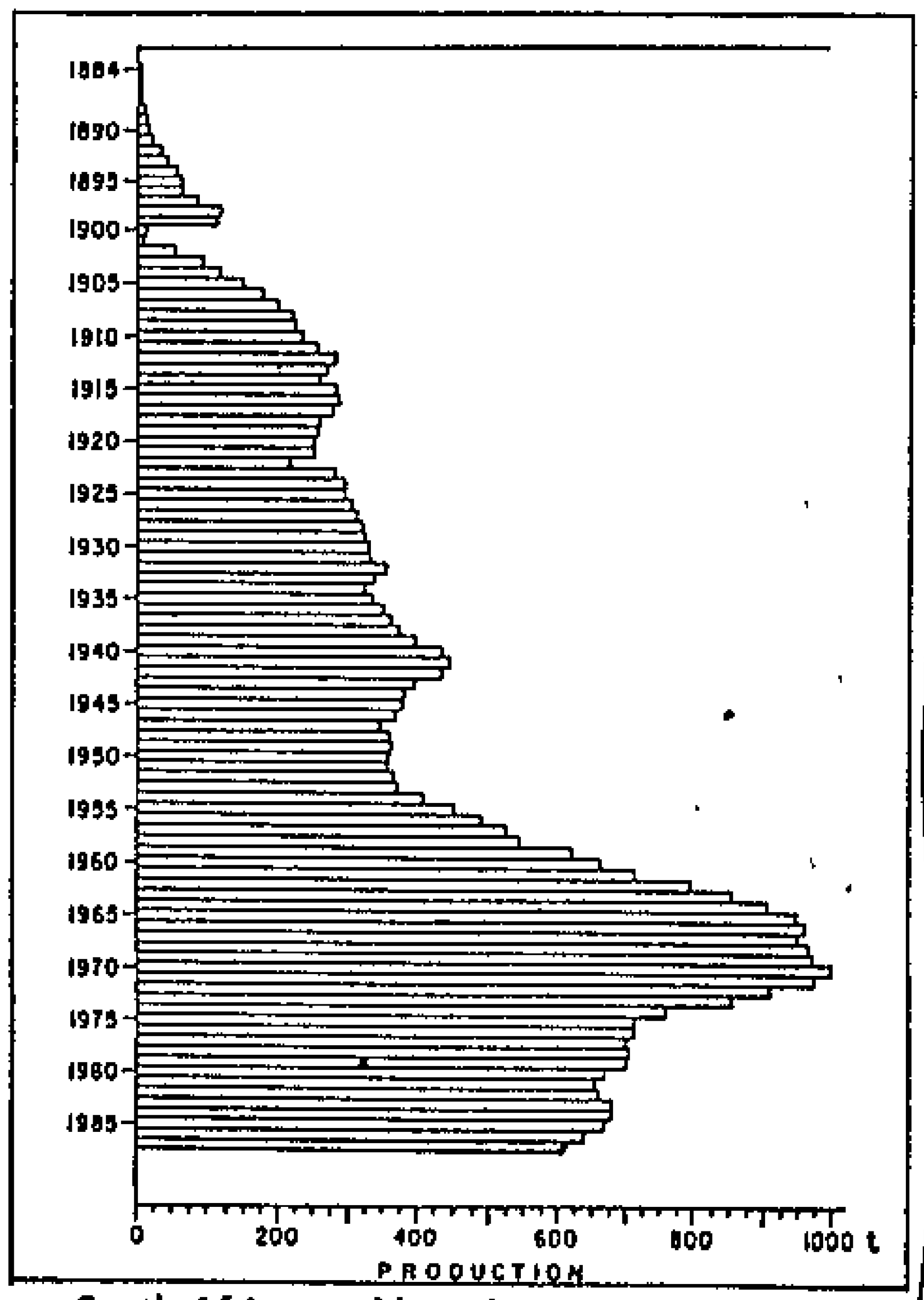
Mining executives must also be certain theat Government understood the problems and that the industry's labour force, and particularly its leaders, understood the critical nature of the issue.

Investors could minimise the high risk of exploration through spreading risk geographically and over prospects with different maturities, by investing in areas of good potential, backing sound management and seeking out mining house involvement, say the researchers.

They conclude: "Never mind the Margo Commission: We are faced with a near-calamitous situation. Only courageous action will rescue us.

"Only through such accommodation will the South African mining industry arrest the decline in production over the long term and all the economic consequences for the country that go with it."

"It is essential that South Africa's mineral rights be turned to account."



South African gold production 1884-1987.

Unlike Australia, where about 90 percent of gold is obtained by open cut methods, South African miners have to dig deep for their gold, often to depths of 3 000 metres or more.

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BUSINESS

DD 30/3/88

(79)

Investors' role crucial as gold output rises — Gush

JOHANNESBURG — Physical demand for gold remained strong into 1988, according to Vaal Reefs chairman Mr Peter Gush in his review with the company's annual report.

He adds, however, that: "With newly-mined gold forecast to continue increasing in coming years, the role of the investor remains crucial to the absorption of surplus bullion in the market."

The gold price for 1988 would be influenced heavily by the state of the developed countries and the views of their investors.

"The decline of the dollar towards the end of last year offset the advantage of the bullion price increase to non-US dollar investors, and the price of gold in Deutschemarks, yen and Swiss francs was lower at the end than at the beginning of the year."

He says the erosion of the non-US dollar price had discouraged investor interest. Also, the "increasing resort to gold loans to finance the development of new gold reserves has placed a further burden on the market.

"However, while the activation of gold stocks to finance future output increases the volume of bullion on the market today, these transactions have a positive effect on the market in the future by withholding gold from the market while the loans are repaid."

Discussing manpower on the mines, Mr Gush says government procrastination in implementing the amendment of the Mines and Works Act to remove the "scheduled persons" provision is "of great concern and is preventing the essential advancement of black workers into higher skills grades."

He says the relevant provisions in the latest draft regulations are unacceptable to the industry "But it now appears that government intends to make certain modifications.

"We hope this will lead to an early and acceptable amendment to this outdated law"— Sapa.

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Reserve Bank's gold stocks drop

B/Day 8/4/88 (79) (400)

HELOISE HENNING

CONFIRMATION of the possible current-account deficit was seen in the Reserve Bank statement of its gold and foreign reserves for March.

The Bank's foreign currency holdings declined to R893m from R1,1bn in February notwithstanding the sale or disposal of gold bullion which dropped to 5 863 932 ounces from 6 078 096 ounces in February.

Gold bullion stocks were last this low in December last year when they fell to 5 830 350 ounces.

Gold assets, valued at a considerably higher average gold price of R867,95 for the month, compared with R816,98 in February, rose to R5,08bn from R4,96bn in February.

This brings the total gold and foreign assets to a not much changed R6,09bn compared with R6,17bn in February. Reserve Bank governor Gerhard de Kock says this indicates the capital account "is behaving itself" since the change in total reserves has not been affected by indications that the current account is running a small surplus or deficit.

The increase in bank deposits to R705,5m from R607,9m in February reflects the rising demand for bank credit.

Although bank credit figures for February are not yet available, by January they had increased 7,5% since October 1987 when credit demand gained momentum.

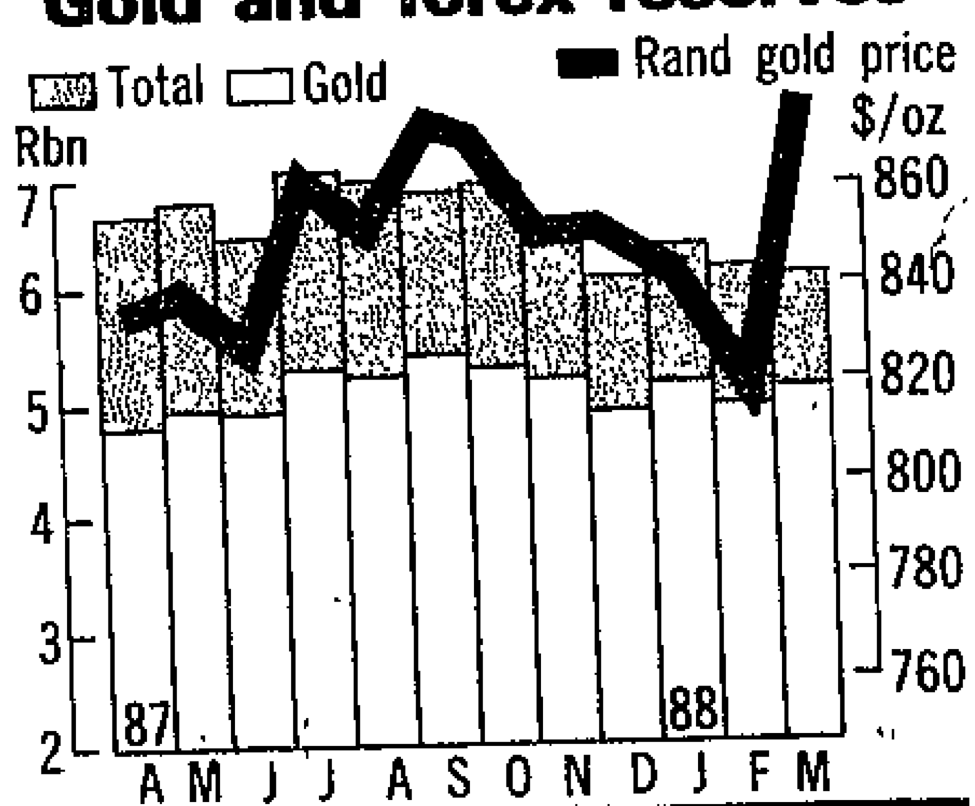
The March Reserve Bank quarterly bulletin says demand for bank credit accelerated abruptly in the fourth quarter last year, bringing the seasonally adjusted and annualised figure for that period to 36,2% compared with the previous quarter at 13,1%.

Higher bank deposits could also be attributed to reintermediation, lending coming back onto bank balance sheets.

Notes in circulation at R6,38bn for March is close to its record high of R6,5bn in the middle of December.

De Kock says this is another signal that economic activity is booming and explains why the money market has been tight with the Bank accommodating it through repurchase transactions.

Gold and forex reserves



Source: SA RESERVE BANK Graphic: JOHN McCANN

D/D 8/4/88

Gold reserves up R124 million

79

PRETORIA — South Africa's gold reserves increased by R124 million during March to total R5,09 billion on March 31, according to the Reserve Bank's monthly statement of assets and liabilities released here.

Total gold and foreign assets amounted to R6,1 billion (R6,2 billion at the end of February).

Gold reserves were valued at R867,95 a fine ounce, compared with a valuation price of R816,98 for February.

Notes in circulation amounted increased to R6,39 billion from R5,87 billion.

Government deposits totalled R1 659 931 046 (R2 369 108 546), provincial administrations R704 102 274 (R365 403 233) and bankers R705 529 967 (R607 924 673).

The ratio of gold reserves to liabilities to the public less foreign assets was 64,90 per cent (66,4 per cent). — Sapa.

Gold gets better role in the world economy

DID 15/4/88

WASHINGTON — Finance leaders of the seven major industrial nations have endorsed a plan that would restore a small part of the prominence that gold once played in world monetary systems.

The plan, pushed by US Treasury Secretary, Mr James Baker III, would use gold as one of a "basket" of commodities to be watched by financial officials for indications of worldwide inflation.

Using the commodities as a guide would help them stabilise currency exchange rates, according to the plan.

The so-called Group of Seven, including the United States, Japan, West Germany, Britain, France, Canada and Italy, also agreed at their meeting to continue efforts aimed at preventing the dollar from declining any further.

The United States and its six allies decided in September 1985 to push the dollar lower to correct America's huge trade deficit, but the countries have been trying since February 1987 to halt the currency's decline.

The effort did not meet with much success last year, and the steadily deteriorating dollar was cited as one of the reasons the world's financial markets were thrown into turmoil last October.

Mr Baker first unveiled his commodity price indicator at the last meeting of the seven countries' finance leaders in September. Some nations expressed scepticism then, wondering whether the idea was a veiled effort to re-introduce a gold standard.

But Mr Baker picked up enough converts to get the proposal endorsed, although other finance ministers stressed that many details of the plan, including just what commodities to include, still remain to be worked out.

Mr Baker has insisted that his approach is not an effort to return to the gold-based monetary system that existed between the end of World War II and 1973. For most of that time, the price of gold was fixed at $35 an ounce and the currencies of other governments were set at fixed rates based on the dollar.

President Richard Nixon broke the link with gold in 1973 as the system crumbled under the weight of rising inflation and large trade imbalances.

The meeting also reaffirmed their determination to prevent a further decline in the dollar and work toward the elimination of global trade imbalances.

They said they welcomed the welcomed the stability in exchange rates since their last policy communique in December.

In a strongly-worded section on Third World debt, the seven rejected grandiose solutions to the crisis and said the current strategy of tackling each country's problems separately was the only viable and realistic approach.

Banks had to lend more, and debtors had to push through more economic reforms, but any plan that transferred risks from the private sector to the taxpayer was unacceptable.

"Toward this end, they urged them to continue to take actions to reduce trade barriers and to allow their currencies to reflect fully the underlying strength of their economies," the communique said.

Although it did not name any countries, officials said this was a reference to Taiwan, South Korea, Hong Kong and Singapore, nations criticised by U.S. officials in the past for doing little to cut their huge trade surpluses.

The G-7 also stressed its strong opposition to protectionism and the importance of progress toward trade liberalisation. — Sapa-Rns

BUSINESS

D|D 20/4/88

De Kock urges gold, jewellery industry

(79)

JOHANNESBURG — It would be reasonable to assume the price of gold would continue to show marked fluctuations in the short term around an upward trend, the Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

And he urged that South Africa should move into manufacturing gold jewellery.

He was speaking at the official opening of Anglo's Eastern Gold Holdings project near Welkom.

He said the incline of the upturn would be largely determined by the success or failure of the main industrial countries in achieving and maintaining domestic and international monetary stability.

He added, however:"The truth is that nobody knows for certain how the gold price will behave in the months and years ahead".

Dr De Kock said official circles were in the process of recognising the changes in the mining industries since the early seventies.

He said that between 1970 and 1987, the dollar price of gold had increased by 16 per cent a year and the rand price by 23 per cent while the average cost per ton milled had risen by 16 per cent a year.

He pointed out, however, that the rise in the price of gold had been accompanied by a decline in gold production. This fell from just over 1 000 tons in 1970 to 605 tons last year — a decrease of nearly 40 per cent.

The net result of the rise in price and the decline in output was that gold mining became more important to the South African economy than before.

As a result, the percentage contribution of gold to the gross domestic product increased from 5,5 per cent in 1970 to 9,1 in 1987.

During this period, Dr De Kock said, South Africa's share of world gold production declined considerably It fell from 79 per cent of the non-communist production and an estimated 68 per cent of total world production to 50 per cent of non-communist production and 39 per cent of total produced in 1986.

On the sales side, Dr De Kock said that Japanese demand for the metal was showing an upturn after declining last year. Imports in Febraury alone hit 40 tons and some analysts expected the total for the year to pass 400 tons.

He pointed out that considerable value could be added to South Africa's gold production if part of the gold were converted into jewellery as well as alloys and sheets. There were grounds for arguing that South Africa could become a manufacturer of gold jewellery. — Sapa.

D|D 20/4/88

Taiwan to buy more bullion

TAIPEI — The Republic of China plans,to buy the equivalent of one quarter of the world's annual gold production this year, mostly from the United States, to cut its trade surplus, gold dealers in Taipei said.

Economists said Taiwan was effectively trying to manipulate its trade figures with the United States to head off demands from Washington for currency appreciation.

Central Bank Governor Chang Chi-cheng told reporters the bank had bought 69 tonnes of gold in the first two months of this year, worth around one billion U.S. dollars at current prices.

"It will help reduce our trade surplus," he said.

Chang said the bank would buy more gold when the price reached a "proper level".

Gold purchases are being financed from Taiwan's foreign-exchange reserves of 75 billion U.S. dollars, the world's largest after those of Japan.

Falling reserves would also ease upward pressure on the Taiwan currency and encourage the exodus of speculative capital that has fuelled the growth of money supply and led to fears of inflation.

Economists said increasing gold imports was at best a temporary solution to balancing Taiwan's trade with the United States and would certainly not fool Washington. Sapa-Reuter.

Sell-off of golds feared if US sanctions prevail

SKV 29/4/88

US proposals for tough new anti-apartheid sanctions could force a heavy sell-off of gold shares by American investors and send prices tumbling, mining analysts say.

South African gold shares quoted in London are hovering around two-year lows. Further heavy falls are predicted if the US enacts legislation due to come before Congress next month proposing mandatory disinvestment by US corporations and individuals.

Brokerage firm Davis, Borkum, Hare estimated recently US investors held one-seventh of mining shares on the JSE, valued at last week's prices at about R14 billion. Most US holdings are in gold shares worth about R10 billion, according to Davis, Borkum, Hare.

The sanctions proposals have already cast a pall over the JSE, prompting local and foreign investors to steer clear of gold mining stocks.

This year South African gold stocks have drifted steadily downward. "The FT gold mines index, currently at 213,30, is at its largest discount to the gold price for many years," says London brokerage firm Warburg Securities.

The JSE's all-gold index has dropped more than 500 points from 1 774 at the beginning of this year to around 1 240.

"Undoubtedly, the Johannesburg market could absorb a sell-off, but it's going to be at a price," says Warren Meyers, chief gold analyst at Merrill Lynch Capital Markets in New York.

"The only thing that could cushion the shock would be the gold price going through the roof," he says.

US investors, anticipating tougher sanctions, have already started offloading local gold shares.

"We haven't seen everybody rushing for the exit, but there is a steady trickle of selling," Mr Meyers says.

"There is a certain feeling of inevitability that some form of restrictions will be imposed on American investors holding our gold shares," says JSE president Tony Norton.

"We are already seeing net sales by foreigners of about R30 million a week," he says.

Mr Norton believes, however, the effect of an American sell-off will be cushioned by the financial rand.

"This would cheapen share prices and and there will certainly be buyers in the Far East, Britain and Europe looking for bargains. That's what markets are all about," he says.

Stockbrokers agree that cheap South African shares could be snapped up if an American sell-off sends prices lower.

"European investors don't have the same sort of scruples that Americans have about South Africa. They would be looking for bargains," says Mr Meyers.

South Africans, their funds bottled up inside the country by tough exchange controls, take a rosier view of local gold shares and are likely to turn buyers if US holdings are unloaded at bargain prices. — Sapa-Reuter.

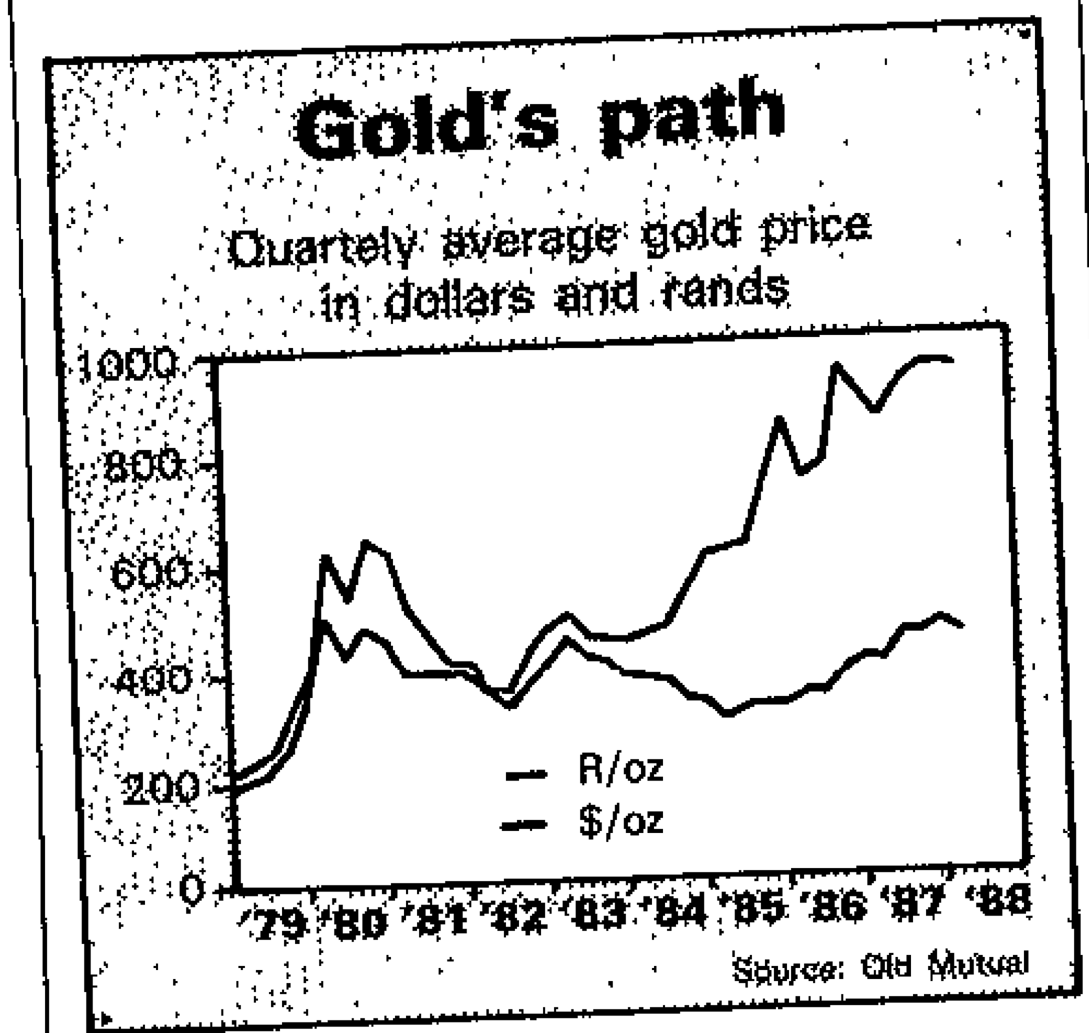
79

FM 6/5/88

GOLD (79)

Down, but not out

The gold price dipped between fourth-quarter 1987 and first-quarter 1988, in both dollars and rands. But while the outlook for the dollar price is not particularly bullish, the rand price seems destined to head higher, says Old Mutual's latest *Economic Monitor*.



Gold averaged US$454/oz in the first three months of this year, down from $473 in the previous three months, when it briefly topped $500.

The rand price fell to R936 from R945, a more modest decrease because of the currency's depreciation.

Old Mutual will not be surprised by "a moderately declining trend" in the dollar price for the rest of the decade, arguing that a stable or strong dollar is bearish for gold.

It believes the dollar is in bottom territory now, having fallen to post-war lows against both the D-mark and yen in December. It also expects subdued inflation in the US in the next few years, which would keep pressure off gold.

But for those who think in rands, the outlook is different.

Old Mutual expects the rand price of gold to rise as the rand continues to fall. It cites two pressures on the currency: the balance of payments, and the large inflation differential between SA and the US.

Demand for dollars to buy imports and pay off foreign debt puts short-run downward pressure on the rand. Meanwhile, the difference between US and South African inflation (now about 10 percentage points, with little hope of narrowing significantly) keeps pushing our currency down in the long run.

Here's what it could mean:

☐ If gold drifts to $400 but the rand falls to US35c, the rand price rises to R1 143; and

☐ If gold is $400 but the rand drops to 30c, the price becomes R1 333 — up about 40% on where it stands today. ■

GOLD QUARTERLY AVERAGES

		$/oz	R/oz
1979	I	238	204
	II	259	219
	III	317	265
	IV	414	342
1980	I	631	514
	II	544	430
	III	649	492
	IV	627	471
1981	I	519	399
	II	478	401
	III	421	395
	IV	420	404
1982	I	363	358
	II	333	358
	III	380	437
	IV	427	482
1983	I	465	503
	II	428	467
	III	417	462
	IV	388	457
1984	I	384	474
	II	379	484
	III	345	543
	IV	334	607
1985	I	302	618
	II	319	626
	III	324	733
	IV	324	854
1986	I	343	739
	II	344	765
	III	381	944
	IV	404	905
1987	I	406	846
	II	450	909
	III	457	944
	IV	473	945
1988	I	454	936

Source. Old Mutual

May 10 1988

Ster 10/5/88

79

Investor demand for gold is increasing in Far East

Pundits who look at the gold market fall into two types: those who pay attention to supply and "fabrication demand", and therefore currently predict that the gold price will fall; and the rest, who focus more on speculative and investment demand, without ever quite knowing what this means or what determines it.

The talk of the industry is of a new factor that could make the gold price rise, and turn even Western bears more bullish.

The chart shows that there has been a consistent trend in the market throughout the 1980s: mines have produced more gold than has gone into jewellery, electronics, dentistry, medals or whatever.

Supplies

In 1988, according to Shearson Lehman Hutton, a New York investment bank, the supply of new gold will exceed fabrication demand by 444 tons, or $6,5 billion-worth.

Similar surpluses over the past seven years add up to more than the amount of gold that is dug up in a year. A recent report by the WEFA group and Resource Strategies, a pair of Pennsylvanian forecasting firms, predicts that gold production will rise by aother 16 per-cent now and the mid-1990's.

In a partly speculative market, the effect that this will have on the price depends essentially upon how much extra supply traders already expect. If they have already swallowed the consequences of new capacity there will be little or no price effect.

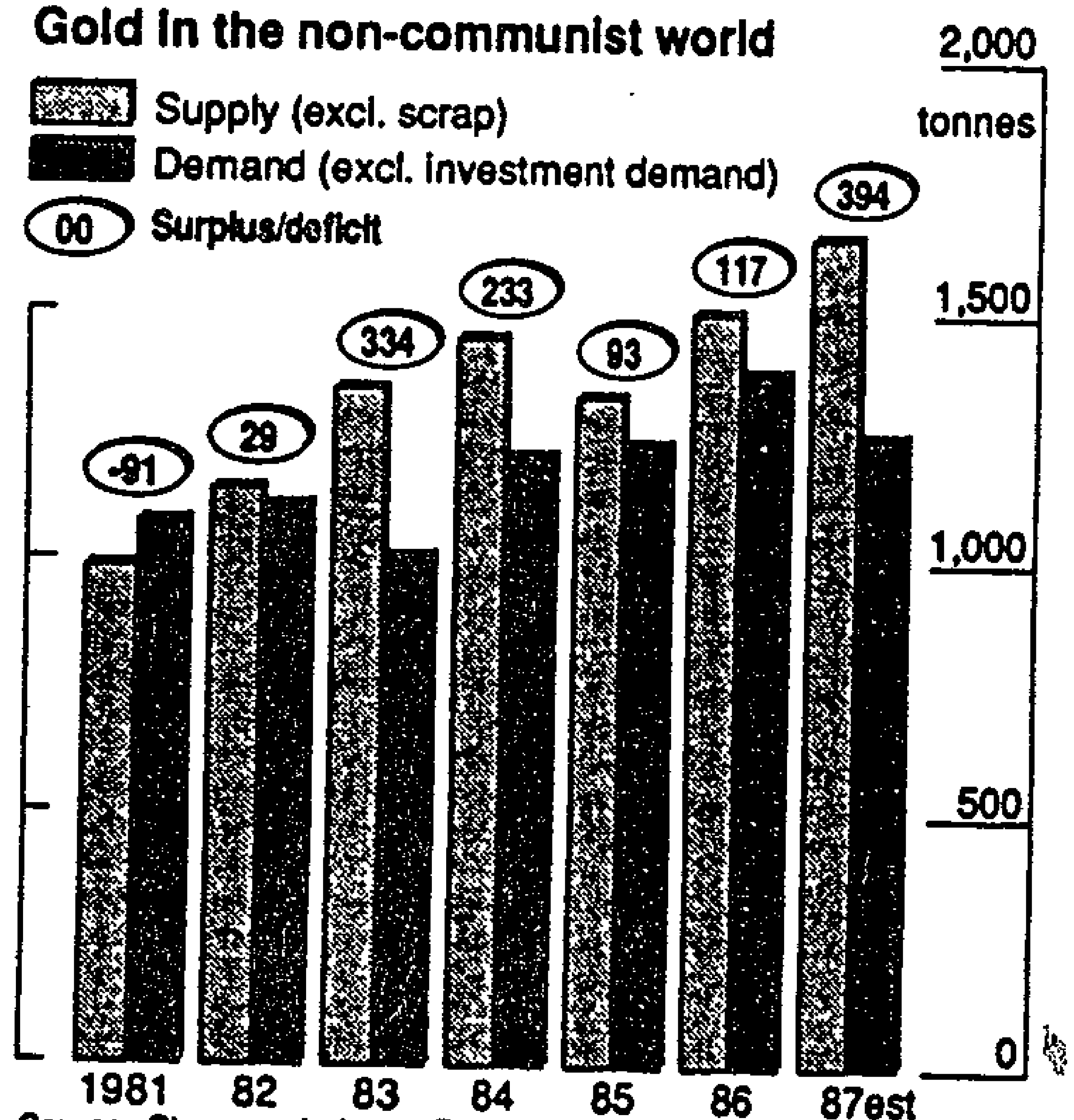
It is likely that they have not. This suggests the price ought to fall well below its current $450 mark — unless a new source of demand is found.

Some gold bugs believe that the new demand will, or indeed has, come from Asian investors and central banks. Investors in East Asia operate in a way that has Western statisticians baffled.

Unlike many Europeans and Americans, who are happy with a piece of paper which proves they own the stuff, Asians think a bar in the hand is worth two in the vault.

Customers carry high-deonomination yen bills into the Tanaka gold firm in Tokyo, and carry out kilo-bars of the metal under their coats. The reason does no seem to have much to do with tax dodging.

Private investors in Europe and America rush to buy gold in a rising market; that is what successful investors are meant to do. Asian investors often



Source: Shearson Lehman Brothers

seem to buy in a falling market, arguing that gold has become cheaper, and thus a better bargain for the longer term. They have had plenty of chances in the past two years. In January and February Japan imported 51,5 tonnes of gold, worth about $750 million.

Taiwan eased restrictions on private gold trading last November, leading dealers to predict that it will overtake Japan this year as Asia's biggest buyer. Its central bank has announced purchases of 26 tons, after buying 65 tons during 1987.

Another booming gold market, though a less visible one, is India's. Offically, only 3 tons of gold were imported into India last year; unofficially, another 100 or more tons were probably smuggled in.

The size of this year's imports will depend mainly on the marriage season and the weather. More marriages means more demand for jewellery; good weather gives the smugglers an easier trip.

But does the market know? Stocks of gold at New York's commodity exchange (Comex) fell by almost 30 tons, $430 million-worth between the beginning of March and the first trading day of April.

One reason for the fall may be the customs fee imposed by the federal government last year. Dealers say this has added almost $1 an ounce to the cost of importing gold to the Comex.

But many think the main reson for the decline is that the metal has moved east. They note that refining demand for the East Asian market is tight — evidence perhaps that gold is being reshaped into the sort of bars East Asian buyers seem to favour. One refiner reports an eight-week backlog of work where a fortnight would be more usual. — The Economist

World markets sluggish as inflation fears mount

Star 20/5/88

79

By Finance Staff

After rising almost constantly for two months stock markets worldwide have been on the slide over the last week in the wake of renewed fears of higher inflation rates.

Both Wall Street and the Tokyo stock market recovered some of their recent losses but the spectre of higher inflation and interest rates continue to dominate the markets.

The currency markets have also caught the inflation anxiety gripping the stock and bond markets, and the dollar was slightly weaker in early trading in Tokyo.

It was unchanged at 124,88 Japanese yen in morning trading Friday in Tokyo, slightly down on the New York closing level.

But gold, which is a favourite investor refuge when inflation seems to threaten the value of other assets, advanced to its best levels in a month in early New York trading, which is expected to give the JSE a much-needed injection of confidence.

In Tokyo, the Nikkei Stock Average gained 29,57 points to finish the morning session at 27 402,81. Yesterday it fell 394,34 points in its largest single-day fall this year.

The Dow Jones average of 30 industrials, which fell a total of 56,54 points on Tuesday and Wednesday, rose 7,63 points to close at 1 958,72 yesterday, but only after it had dropped by another 25 points at noon.

Brokers attributed the rebound to slightly lower yields in the bond market, which made bonds less alluring to investors.

London share prices also fell on Thursday for the second day running, with the FTSE 100 index closing 17 points lower at 1 760,6.

The sluggish mood on Wall Street was highlighted when Tuesday's release of the US trade deficit in March, at $9,75 billion, was far smaller than expected, suggesting an overheating economy.

Many dealers expected the US Federal Reserve to drive interest rates higher in an effort to rein in inflation. A move by the central bank toward higher interest rates would, however, tend to bolster the dollar.

The negative reaction in US financial markets to Tuesday's news of a substantial improvement in the US trade deficit in March has sent a worrying message to markets overseas.

This apparently contradictory behaviour highlights the extreme vulnerability of the mood in the US and provides evidence of a negative psychology which could prove destabilising and start to make policy decisions more difficult.

There is a propensity in financial markets to read higher inflation into every economic statistic and to paint only extreme pictures of prospects for the US economy.

In the wake of the uneasy financial markets James Baker, the US Treasury Secretary, will today seek to give added impetus to efforts by leading industrial nations to strengthen the international monetary system with proposals for tighter co-ordination of their economic policies.

In a speech in Paris to the Council on Foreign Relations of the OECD, Mr Baker is expected to call for closer cooperation in economic and exchange rate management in the Plaza and Louvre accords and at the Tokyo and Venice world economic summits.

ST 24/5/88

Gold returns above $460

(79)

By Sven Lünsche

The price of gold in Hong Kong this morning opened at $460,60, after it fell back yesterday afternoon in London by about $3 from its morning fixing of $460,25, which was the first time gold was fixed above $460 since last January. Earlier in New York the metal closed at $460,25.

In rand terms, gold hit a record high of R1 020 yesterday, driven largely by the weak rand exchange rate, which should boost profits at local gold mines.

Gold has over the last few weeks risen from a low of $440 to its present levels in the wake of anxiety that buoyant economies in most industrial countries will boost inflation rates worldwide.

"People start considering inflation as a factor when commodity prices rise," a Japanese gold dealer told Reuters. He said that in the gold market, "participants take those higher prices as buying signals".

The American economy has shown accumulating strength of late, accompanied by some stirrings of inflation. That has fueled expectations that the Federal Reserve will sooner or later feel compelled to tighten credit.

Financial markets around the world were unsettled by news that a key measure of commodity prices ended last week at its highest level in three years.

Star 24/5/88

It is time gold made a break

TECHNICAL VIEW
By Dr Issy Bacher

Anyone concerned with the immediate prospects for the economy should be watching the present critical level of the gold price with bated breath.

Investors already committed to holding shares should soon be in a position to know whether the JSE is going to lift from support levels recently established or sink back into the grip of the bear.

Yet the course of the gold price is out of our hands and depends primarily on overseas market players who are betting whether gold can break through resistance established at $460 or not.

My reading of the gold cycle is that the first phase of a new bull market began when the gold price broke through a resistance line of $320 in July 1985. Up to this point gold had been in a bear trend.

The first leg of the bull cycle took gold to the $500 level in December 1987. This phase had thus taken 2,5 years to develop.

The first leg down took the gold price to the strong support level which existed at the $425 mark.

Since then the price has risenand has now marginally broken through $460.

Why is that level important? The answer lies in the chart below.

When the gold price fell to $425 it penetrated through its 65-week moving average which technically constitutes the last line of defence of a bull market. But the market very often sets up traps and as can be seen from the chart the break was marginal.

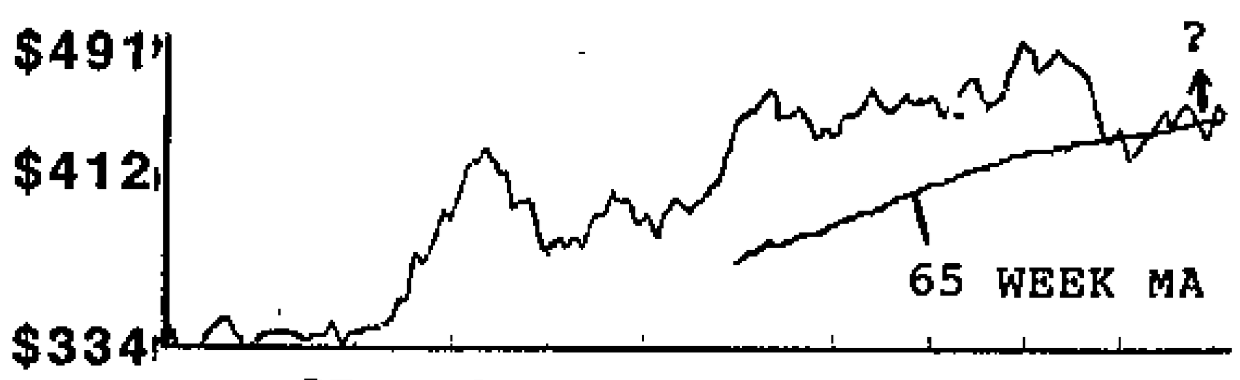
The present rise to $460 has taken bullion marginally through its 65 week moving average and an upward thrust to $465 is needed to make a complete breakthrough.

If this happens then the technical evidence based on its 65-week moving average would be that the bull market is intact. The next conclusion if this happens is that gold has the potential to test resistance levels near $490.

The lower graph is the gold price with a shorter term 15-week moving average superimposed on it.

Note that at $460 the gold price is nudging through this line. Thus $465 would be a break both in terms of its 15-week and 65-week moving averages.

CONCLUSION: Can the gold price break through? My bet is that it will.



65 week prices for GOLD

15 week prices for GOLD

News 25/5/88 (79)

Investors buy up surplus gold

From NEIL BEHRMANN

LONDON. — A resurgence of international investment demand, is absorbing surplus gold supplies with ease, says Consolidated Gold Fields in its latest annual gold review.

Including purchases by the Taiwanese Central Bank, the Asian market alone bought over 250 tons of gold in January and February — more than the whole of estimated Western mine production for the two months.

"Investors worldwide are clearly concerned about the stability of present international monetary arrangements and the outlook for world stockmarkets," says George Milling-Stanley, author of the report.

As gold traded around $460 an ounce, nearly 10 percent higher than its depressed levels at the end of February, Mr Milling-Stanley said that the market was much "healthier" than pure supply demand fundamentals would lead people to believe.

CONCERN

"Rising gold production has been the focus of a great deal of attention in recent years and has aroused considerable concern," says Mr Milling-Stanley.

"But it should not be forgotten that it is infinitesimal when compared with the estimated level of total accumulated production of 100 000 tons."

The most authorative survey of the gold market estimates that total supplies of gold including scrap were 2008 tons in 1987, about the same level as the previous year.

These supplies exceeded jewelley and industrial fabrication demand of 1589 tons by a wide margin of 419 tons.

Even though the surplus is the widest since 1983, it was absorbed by bar hoarding of 275 tons in South East Asia, Japan, Latin America, India and Middle East. Investors in Europe and North America bought the remaining 144 tons.

Features of the report include:

- Purchases by Japan and other Far Eastern jewellers, investors and dealers totalled 570 tons last year, 28 percent of world supplies. And from estimates in the first four months, total Far Eastern demand will be well in excess of 1987 levels this year.
- In an unusual trend, Japanese companies are buying gold as an investment. "Some of the younger Japanese companies which do not have the advantage of possessing substantial properties purchased gold to build up their asset base," says Mr Milling-Stanley.
- Mine production grew by 6 percent to 1373 tons, the highest level ever recorded. South African output fell to 607 tons from 640 tons last year. But from less than 100 tons in 1980, the combined production of the United States, Canada and Australia surged to a record 383 tons last year and is set to top 400 tons in 1988.
- The United States will maintain output growth for several years to come and there is some potential for an increase in Canada.

Australian production will rise sharply again this year.

Papua New Guinea is about to join the ranks of the major producers outside of South Africa."No fewer than three major mines are scheduled to open within the next few years."

Similar expansion, albeit a few years later has been mooted for the Phillipines and Asia. Meanwhile Brazil's production soared to 84 tons from 67 tons in 1986.

TAPER OFF

"But there is a growing body of opinion which holds that the increase in gold production will taper off afterwards," says Mr Milling-Stanley.

Surface and near surface deposits which provided for the bulk of the growth in output will become scarcer, he said.

Gold mining remained "an extremely profitable business" in spite of a rise in operating costs.

Average cash operating costs rose by $39 to $227 an ounce, well under the present free market price.

Communist bloc sales, notably from the Soviet Union, fell to 303 tons in 1987 from 402 tons in 1986 and central banks purchased more gold.

What does the future hold for that 'barbarous relic'?

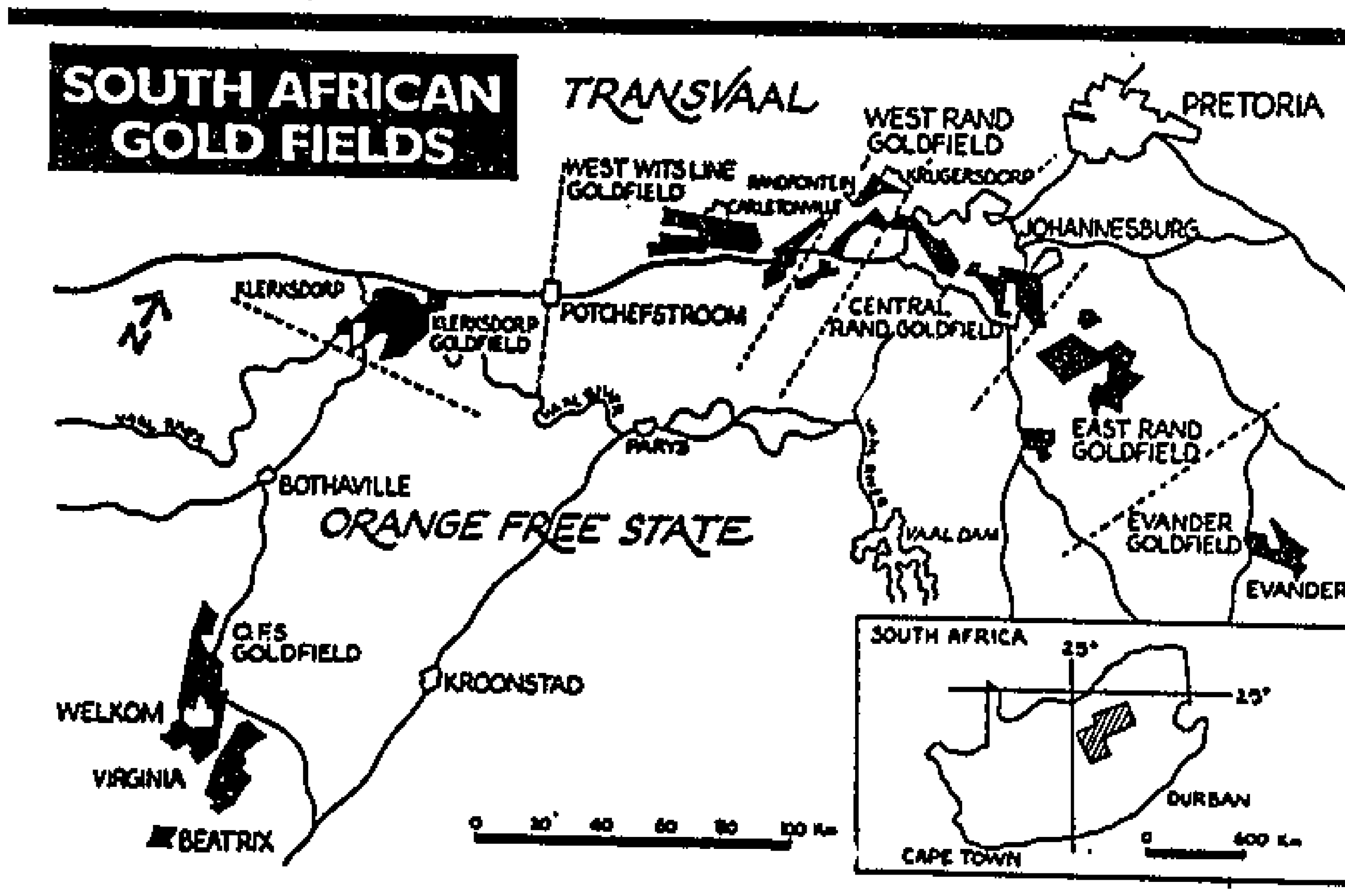
79

Star 30/5/88

Johannesburg economist Henry Kenny, author of *Architect of Apartheid*, reviews THE PROSPECT FOR GOLD: THE VIEW TO THE YEAR 2000, by Timothy Green (Lowry Publishers)

Gold was famously described by the economist John Maynard Keynes as "a barbarous relic". For him it was a commodity which had no place in an international economy organised on rational (ie Keynesian) lines. The extraction of gold required the use of labour and capital which could have been more usefully employed elsewhere. It could not be consumed. A country's need to protect its gold reserves was a permanent constraint on policies of economic expansion. For Keynes, in short, gold was a pretty useless kind of thing.

South Africans (of the white variety, at least) do not see gold quite this way. For them gold has become akin to the last best hope of an economy which has been mismanaged by politicians and is now the victim of an endless and hypocritical campaign of international sanctions. A steep rise in the gold price does wonders for the morale. The bleakness of the future begins to recede. The professional praise-singers for gold waste no time in announcing that this is what they had been expecting all along, that even more splendid times are ahead for their metal.



Fantasy and ignorance

Plainly, we can do with a decent guide through the thickets of fantasy and ignorance. This is what Timothy Green attempts to provide in **The Prospect for Gold: The View to the Year 2000.**

Green, of course, is an old gold hand, as distinct from being a bug or a bull; he has, in fact, bearish tendencies. His first book on gold appeared 20 years ago. He is a consultant to Consolidated Gold Fields in London. Green keeps up with trends in gold markets by travelling to large parts of the globe every year. Gold is his subject.

Green's message is simple: gold is likely to be facing hard times ahead because of the continuing boom in production throughout the globe.

"Gold mining has become the last really profitable mining game in town. If investors are not inclined to favour gold, we could be heading for oversupply in the 1990s, unless radical new initiatives can stimulate the regular 'bread-and-butter' demand for jewellery, industry and coin. A scenario of no increase in the gold price in real terms to the end of this century can be painted as easily as one projecting $1 000 or more."

We are looking at a "renaissance in gold mining". Between 1980 and 1987 mining output in non-communist countries rose by 50 percent, a trend which is expected to continue into the next decade.

Mining technology has so improved that recovery yields are far higher than before. Exploration expenditure has risen sharply.

United States production increased from 30 tons in 1980 to an estimated 140 tons in 1987. During the same period Canadian output more than doubled to reach 115 tons. Australia registered a more than sixfold increase, from 17 tons to 115 tons. Growing quantities of gold are being produced by Russia, China and Papua New Guinea.

The conspicuous exception to the trend has been the world's largest gold producer, South Africa. Output in the '80s has tended to decline, both absolutely and relatively. The Republic's share of non-communist production was less than 50 percent in 1987, according to Green's estimate, compared with about 70 percent in 1980. But this is largely due to the high rand price of gold, which limits output by enforcing the mining of lower grade ore.

Green, however, anticipates a rise in output. He comments: "Despite inflation and much higher wages paid to the black work force, the industry is very profitable. Those profits have encouraged major expansions."

The truth is that technological change has made gold production a rewarding business indeed. It will remain so even if the price were to come down considerably. Green estimates that non-communist output will rise to a peak of 1 553 tons in 1990, compared with 959 tons in 1980, after which it will gradually subside to 1 523 tons in 2000.

The big question for Green is: how is all this newly mined gold to be taken off the market? A common response of true believers in gold is that it is not really a problem. The gold market is quite small relative to the huge amounts of money all over the world just looking for profitable outlets. As Green summarises the bullish scenario, "only a trickle of it has to be diverted into gold for the price to take a quantum leap".

Now there is something in this but wishful thinking can transform even Gorbachev into an old-fashioned liberal. The arrival of what Green calls "the electronic marketplace" has in fact amounted to "a radical change in the gold business". The emergence of a global market, largely due to a revolution in communications, has meant that dealing in gold is no longer just a physical business. Paper-gold instruments in the form of futures options can be bought by simply picking up the phone.

Gold has largely ceased to be a monetary asset. Central banks are no longer the major buyers of the metal. It has become primarily a commodity, to be traded in for profit. Gold is now liable to attract more of that "surplus" money supposedly slopping around in the world economy.

One snag, however, is that the gold price becomes more volatile. Profit-seeking investors can move into gold and out of it overnight if their expectations about the price change suddenly. And there is really no particular reason why gold should be high if investor sentiments about its future are bleak. Bullish scenarios sound fine, but may be no more than dreams.

Green believes that a high gold price can be sustained only if physical demand can grow at a respectable rate. But, as he points out, such demand for gold in industry, jewellery and coins has stagnated in the 1980s. In particular, Green argues that jewellery, which still accounts for more than 60 percent of Western mine production, should be marketed in new, more attractive forms. The emphasis should be more on high-carat, low mark-up jewellery, as against the present concentration in the West on the low-carat, high mark-up varieties.

Not too plausible

He may be right. The only problem is why jewellers, who after all are in the business for a profit, have not been selling these forms already. Is it due to conservatism, myopia, ignorance? This is not too plausible. The argument implies that better-informed outsiders, like Green, can enter the market and make a killing. So what's stopping them? Perhaps the unpalatable truth is that tastes in the West have simply turned against gold jewellery.

However, gloom about gold need not be the inevitable conclusion. As Green points out, gold has maintained its purchasing power over long periods. It can reasonably be expected to improve in line with inflation. Whether it will bring sustained super-profits is perhaps doubtful.

Timothy Green has written a book from the perspective of the highly informed journalist. It contains plenty of information not conveniently to be found elsewhere. It should be read by bugs, bulls, bears and, not least, interested lay persons. But there is still scope for a book on the economics of gold, written by that much maligned figure, the economist.

Cost inflation, falling grades mean . . .

SA 'needs rand gold price to continue rising'

6/Bday 3/6/88

GERALD PROSALENDIS

ENTRENCHED cost inflation in the gold-mining industry, coupled with falling ore grades had made it imperative that the rand gold price continue to rise, Nedbank chief economist Edward Osborn said.

Writing in Nedbank's latest Guide to the Economy, Osborne said in the absence of a rising gold price abroad and because of the gold-mining industry's dominant importance to the economy, SA was committed to a state of perpetual exchange-rate devaluation and domestic price inflation.

This could be relieved by one of three situations:

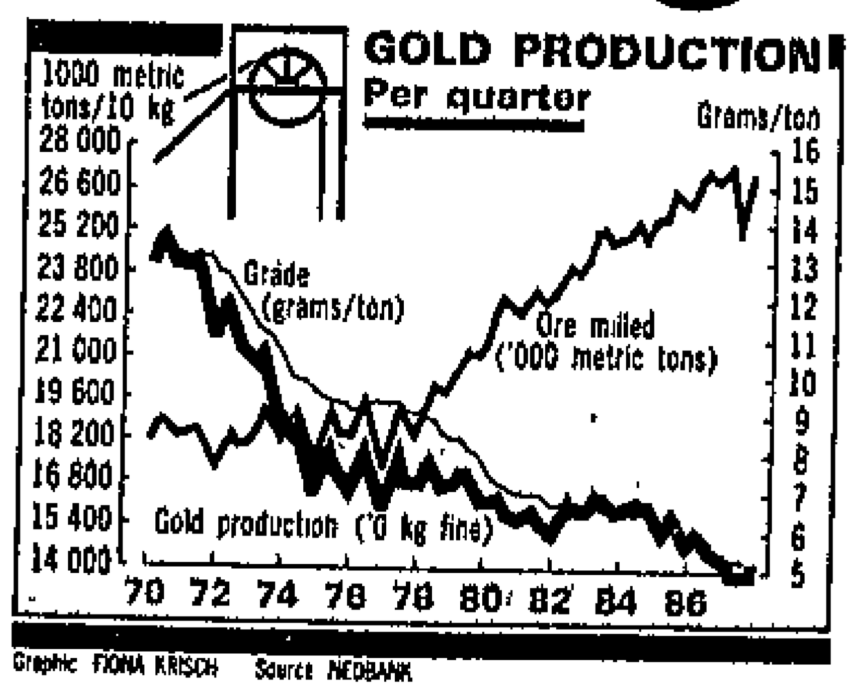
☐ A rise in the dollar price of gold, which is not in SA's power to control;

☐ Abandoning exchange-rate protectionism of the gold-mining industry, which could have dire economic consequences;

☐ Technological advances in mining that would reduce the use of labour but have undesirable social repercussions.

Osborn said since the end of 1971, costs a ton of gold milled had increased by more than 10% a year, with two exceptions in the first quarter of 1980 and the fourth quarter of 1984.

"The cost inflation has been as high as 30%, but has fluctuated predominantly between 10% and 20% a year."



Graphic FIONA KRISCH Source NEDBANK

The inflation rate for gold produced, however, had been even greater because of the steady secular decline in grade for the industry.

"Declining grade in the ageing gold-mining industry has been an important contributory factor to costs of production of the final produce, pure gold."

In spite of the large expansion of the mining industry from some 18-million tons of ore milled a quarter in 1970 to nearly 28-million tons a quarter today, gold production had declined from 1 000 metric tons a year to 600 tons a year.

"This has come about because of a decline in the average grades in the industry from 13,3 grams a metric ton in 1970 to 5,2 grams a ton."

Reserves rise by 5% in May

By Sven Lünsche

Total gold and foreign exchange assets increased by some R314 million, or more than five-percent, to almost R6,2 billion in May, the first time since January that the reserves have shown an improvement.

The figures show that South Africa will be able to repay another R400 million within a month to reduce its foreign debt — without depleting gold reserves. The repayment, which falls inside the debt standstill net, will be made next week.

The figures will be welcomed by the authorities as the current account surplus had recently declined to such levels that many economists feared the country would have problems in meeting its repayments.

Total reserves climbed from R5,878 billion to R6,192 billion in May, latest figures released by the Reserve Bank in Pretoria yesterday show. Gold holdings, which were valued at R916,71 per ounce, rose by some R25,7 million to R4,94 billion in value during May, although in physical terms the reserves declined by about 260 000 ounces to 5,39 million ounces.

Notes in circulation rose from R6,197 billion to R6,406 billion, while the ratio of reserves to liabilities to the public less foreign assets was 71,2 percent at end-May compared with 68,7 percent in April.

79

Guessing about gold

Johannesburg economist HENRY KENNY says the price of gold is not dependent on demand for newly-mined metal

A FASHIONABLE story about gold goes something like this:

The supply of newly-mined gold has so bounded ahead in recent years that the demand will be far too small to absorb it, except at a much lower price. Hence, if gold cannot be marketed in novel ways, hard times could be ahead for the metal. And (need we say?) for the economy and the political prospects of SA.

The story has a superficial plausibility. The output of newly-mined gold has been rising steeply. In 1980 the non-communist world's mine production came to 959-tons; by 1986 it had risen to 1 281-tons.

Most of the increase has come from the US, Canada and Australia. In 1980 they produced a total of less than 100-tons of gold. Six years later their output had gone up to 190-tons.

The conspicuous exception has been the largest producer — South Africa. Its output since 1980 has fallen, both relatively and absolutely. A higher rand price for gold has meant that the mines have had to exploit lower grade ore, which usually means a reduced output of gold.

The victim

SA produces less, but the rapid growth in total gold supply is bound to continue. In his recent book, "The Prospect for Gold: The View to the Year 2000," Timothy Green of Consolidated Gold Fields estimates that by 1990 non-communist mine production will have risen to 1 553-tons, of which SA will contribute 44%.

The reasons why the mines have never had it so good are simple. Mining technology has got so much better that recovery yields have risen enormously. The gold price has for long now been high enough to make shallow open-pit mines in many countries hugely profitable.

Even at US$200 or less, prospects for development are plenty. "Gold mining has become the last really profitable mining game in town," Green comments.

But — and paradoxically, the story goes — gold may end up as the victim of its profitability. Green argues that "if investors are not inclined to favour gold, we could be heading for over-supply in the 1990s, unless radical new initiatives can stimulate the regular 'bread-and-butter' demand for jewellery, industry and coin. A scenario of no increase in the gold price in real terms to the end of the century can be painted as easily as one projecting $1 000 or more".

Humdrum

It sounds tough. But the bark of this argument is a lot worse than its bite. The truth is that the outlook for gold is rather more humdrum than the pessimists (or the gold bugs, for that matter) would have.

Even if annual gold output were to grow still more rapidly, it is in fact difficult to see how it could have more than a slight effect on the price. The explanation is straightforward. The outstanding stock of gold — i.e., all the gold that has ever been mined — is incomparably bigger than the amount produced every year. This annual flow is at best equal to just over 1% of the total stock, which is in the region of 100 000-tons.

Gold is a conspicuously durable asset. It is a feature of such assets that expectation about the future plays a dominant role in determining their price. Given such expectations, the current price of gold would then be that price at which the gold market as a whole would be willing to hold the outstanding stock of metal.

It is not the price which equalises the flow demand for gold with the flow supply of gold, as the fashionable pessimists — and quite a few other "experts" — assume.

So it is easy to see why much higher output from Canada, the US and Australia is unlikely to affect the gold price in even a minor way.

The point gains added force when we remember that physical trading in gold has been supplemented by massive dealing in a variety of paper-gold instruments, further cutting down to size the newly-mined gold which arrives on the market each year. This is only a miniscule part of the total supply of gold.

If central banks decide to unload their hoards of gold — about a third of the total amount which has ever been produced — then, of course, the gold price will take a knock. But they show no eagerness to do so. We can safely conclude that increased supplies of gold, whether newly-mined or not, are quite unlikely to depress the price.

A further conclusion is that changes in the gold price are essentially driven by changes in demand. The crucial factor is the ratio of demand to current stocks of gold. And, as the history of the last two decades has shown, it is only changes in the investment and speculative demand for gold which are likely to change this ratio dramatically.

Volatility

So what are the chances of the price taking off again as it did in 1979 and 1980? Probably not very good, at least as long as global inflation remains subdued and gold loses its attraction as a hedge against the continuous erosion in the value of money.

The volatility of the price is likely to persist, as investment and speculative funds move into and out of the relatively small gold market in response to changing perceptions of the future.

But gold has retained its purchasing power over long periods. It can be expected to keep up with inflation, even if it does not bring consistent super-profits. And it should be a comfort to know that all those extra supplies reaching the market every year will not really do all that much to depress the price.

World's bankers unable to agree about merits of gold

S1-v 16/6/88 (79)

VIENNA — Bankers at a gold conference are unable to agree about the merits of the metal.

Robert Strebel, a member of the executive committee, Bank J Vontobel, says that over the past 70 years gold has offered an excellent hedge against currency depreciation and it can be assumed this will continue in the years ahead.

In any long-term investment strategy, about 5 percent of a portfolio should be in gold and in times of political or economic uncertainty this should be raised to 10 to 20 percent, he suggests.

In contrast, Fritz Plass, senior vice-president, Deutschebank, suggests there has been no recent bull market in gold, but merely a dollar bear market.

From the low point in dollar terms of $285 in February 1985 to the peak of $503 last December, gold lost 17 percent of its value in Deutschemarks, 14 percent in yen, and even 1,5 percent in lira.

Mr Plass says the gold ma[illegible] is suffering from a new bre[illegible] of investor: one who wants to ta[illegible] quick profits from rising prices.

The willingness to buy an[d] hold gold has decreased and this has made the market more volatile.

The ultimate task of the gold market is to find a reliable and stable equilibrium. Investor demand cannot do this in the long run.

Over-supply of gold is here to stay, he says. Likewise, the demand is there to stay, but it is much less reliable and much more diffuse.

Dennis Suskind, partner in J Aron, on the other hand, claims volatility is good for gold.

He says that for 10 hours in every gold-trading day, New York is open for business and provides the most price-volatile market in the world.

He insists this volatility can be used to good effect by both producers and consumers.

One of New York's advantages is its liquidity, partly provided by the explosion in North American gold production, which this year could reach 310 tons.

Thus, Canada and the US together would displace the Soviet Union as the world's second-largest producer.

Itsuo Toshima, regional manager, Far East, World Gold Council, predicts the second stage of Japan's big tax reform programme next year will, in the short term, cut investment in gold by more than 20 percent.

The changes will involve the introduction of a 3 percent value-a[dd]ed tax, but the current 15 percent commodity tax will be eliminated.

While this will cut total gold investment for a time, there is likely to be a boom in gold bullion coins, which currently attract the commodity tax.

Mr Toshima says the Japanese gold market will again be volatile next year because there is bound to be a rush by investors to buy gold between the day full details of the tax reforms are announced and the time they are implemented.

Gold price predictions have come from Alfred Schneider, first vice-president, Swiss Bank Corporation.

He says US inflation, a major influence on the gold price, seems to be rising and that this could increase its price towards $500this year.

At the low end, Far East support should keep the price above $420.

Looking to the longer term, he reflects on the fact that the debts of many Third World countries and those of the US have reached proportions which mean they will never be repaid and will have to be liquidated in some other way.

Whether this would be by way of substantial inflation or a severe deflationary crisis is an open question, he says. — Financial Times.

79 B/day 17/6/88

Why perestroika can affect world's precious metals

KENNETH GOODING in Vienna

THERE WAS a reminder at this week's Financial Times gold conference that countries with most to gain or lose from gold price movements are South Africa and the Soviet Union, respectively the world's biggest and second-biggest producers.

Their senior representatives seldom sit side-by-side — but they do at gold conferences.

As glasnost's spirit has advanced there has been great demand for Eugene Uljanov. He is general manager of the treasury division of the Soviet Bank for Foreign Affairs, which has sole legal authority to sell Soviet gold on international markets.

He made a telling point. He said that if perestroika — the Soviet Union's efforts to improve its domestic economy by restructuring — succeeded, the country would have more room to manoeuvre when deciding in what quantity and when to sell gold. It could wait for suitable market conditions.

He said: "I think that will be helpful for the development of the international precious metals markets."

Tom Main, assistant general manager, Chamber of Mines of South Africa, charted the fall of his country's gold output from the peak 1 000-tons in 1970 to 60-tons last year, but insisted it would remain the world's largest producer well into the 21st century.

He said the Chamber's official forecast was for output to rise by 3,8% a year, to 720-tons by 1992, and then stabilise until the middle of the decade. His view was that output of 660-tons by 1992 and of 680-tons by 1995 was more likely.

Gold exploration in SA had risen in the past five years because of the high US dollar price — he listed new mines with projected combined output of 33-tons a year by 1995 — and suggested entrepreneurial groups mining at low depths or in open pits would feature.

It was almost impossible to estimate the loss of output caused by the miners' three-week strike last year. The impact was still being felt, because some deep mines were not back to normal.

He said the strike produced no winners. He refuted an implication by Ferdinand Lacina, Austria's Minister of Finance, that SA's armed forces intervened.

Lacina suggested gold's monetary role was a thing of the past. Hoarding precious metals had unfavourable macroeconomic consequences in that it took investment money from circulation.

The position was worsened if a country also imported gold. However: "We have to admit that any investment-portfolio manager has to think about having a gold content."

Timothy Green, consultant to Consolidated Gold Fields, said that in spite of official protests about gold's monetary role, central banks had been net buyers of 709-tons in the

☐ MAIN ... impact still being felt

Eighties. The trend was likely to continue.

Green said: "One reason for some official buying in the Far East has been to try to balance their trade with the US (the gold for both Japan and Taiwan has largely been shipped from the US). But that, of course, is entirely in keeping with the old-fashioned gold standard — a nation in deficit lost gold. The difference is this gold is not out of US reserves."

Three delegates touched on gold loans, which became a popular form of mining-industry finance after world stock markets crashed last October.

Robert Guy, director N M Rothschild & Sons, said the gold-loan market had grown but the chance to extend fixed-rate loan commitments for ever-lengthening maturities did not exist.

Rolf Willi, general manager and treasurer Dresdner Bank, said companies no longer argued that their shareholders were interested in a purely gold-related investment.

It would be wrong to hedge any part of the gold price. The banking community had available, apart from gold loans, "a range of instruments to enable the mining financier to provide tailor-made solutions to almost any financial requirement".

Gordon Parker, chairman Newmont Mining, which raised the biggest gold-loan revealed — 1-million ounces for US$448m — said his company was forced to raise it because of an unwelcome bid from a group led by T Boone Pickins, the corporate raider.

This event "dramatically raised the question for Newmont of how a mining house can implement a plan to finance prudently, with due attention to the very long-term nature of its undertakings, in a market environment which is poised to act on the short-term views".

Parker added: "To Newmont management — and, I dare say, to the majority of its shareholders — the company was prudently postured to exploit its long-term operating potential. The arbitrage community viewed the underlying asset-values and debt-capacity as an attractive opportunity to break apart the company in return for immediate cash."

He said that perhaps institutional investors or even regulators concerned with the national economic health would break the pattern where arbitrage money reshaped entire industries and sometimes crippled leading components.

Amy Gassman, vice-president Goldman, Sachs, said a modified finance-house structure was apt for mining companies wanting to survive cyclical falls and to spread risk in 1990s' research and development.

The one speaker to tackle head-on where the gold price might go was Brian Marbler, the chartist who heads the company of the same name.

Gold recently behaved as never before, but seemed to have set itself up for a fall in all major currencies. However, Julian Baring, gold analyst with James Capel, said gold was still relatively cheap compared with equities.

FINANCIAL TIMES

River of gold flows to Orient

Star 23/6/88 (79)

NEIL BEHRMANN

LONDON — A sharp rise in the US dollar this week has pushed gold below a critical support level of $450 an ounce. The gold price was fixed at $443,25 yesterday, $6 down on Thursday's level and almost $13 lower than the Hong Kong opening rate on Monday.

The break down of union talks helped support the metal, but does not explain why platinum plunged nearly $18 to levels of about $564 this week. There has, however been considerable speculative activity in platinum in recent months.

The key to gold's performance in the short term will be the behaviour of traders in New York in the next few days.

If they decide to sell, they could push the price lower.

In the longer term gold appears to be trading within a band of $430 to $480 an ounce and in the past few weeks has begun to appreciate against the Deutsche mark, Swiss francs, sterling and the yen.

It is higher in rands because it appears that the South African authorities have decided on a course of depreciation against the US dollar to counter rising costs on the mines.

The performance of gold in the next few months will depend on whether buyers from the Orient offset potential sales of gold in the US futures markets.

So far, Western investors have been relatively disenchanted with gold even though a severe drought in the United States and an increase in world money supply over the past eight months are raising fears about inflation.

Investors in this region contend that a rise in the dollar and interest rates in the United States and Europe will make bullion less attractive.

Priced in dollars, gold has traded within a 10 percent band either side of $450 for some 18 months.

Tom Butler, precious metals analyst at Samuel Montagu, however, estimates that Far Eastern gold demand — mainly from Taiwan and Japan — is running at an annual rate of 750 tons this year, about 10 percent higher than 1987. Including purchases in the busy Middle Eastern "soukhs", or bazaars and India, well over half the world's supplies are flowing into the Orient.

The Central Bank of Taiwan boosted its gold reserves to 12,3 million ounces from 11,1 million ounces in March.

Rising imports have pushed gold reserves, including gold held in Taiwan's private sector, to around 33 million ounces, according to estimates there. In 1985 Taiwan's gold holdings were only 1,3 million ounces.

Most currency traders contend that the dollar will remain firm in the summer months. The US unit was bolstered by a Toronto summit statement indicating that the leading powers favoured a rise instead of a dollar fall.

Alan Greenspan, chairman of the Federal Reserve Board said however that central banks favoured a stable dollar so if the currency attracts too many buyers, central banks with huge amounts of currency under their belt will sell.

Brendan Brown currency economist at County NatWest Bankcontends that the market is over enthusiastic about the trade deficit and the dollar will fall again towards the end of the year. But it will remain above the lows seen at the end of last year, he predicts.

Finance world 'has become a way of life'

Star 29/6/88

79

By Sally Sealey

Doing a doctoral thesis on gold

For Johannesburg economist Dr Paula Huyshamer, gold means more than just the precious metal that makes up the wedding band on her ring finger — it is the subject of her doctoral thesis.

Dr Huyshamer recently graduated from the Rand Afrikaans University with a doctorate in commerce with a thesis on the relationship between the physical and futures market for gold.

She began her doctorate in 1983 after graduating with a Master's in commerce (cum laude).

"I decided to study gold because it is South Africa's most important commodity and the gold price has such a profound effect on the economy.

"To really understand our own economy, it is of the utmost importance to have an understanding of how gold markets function.

Something new

"The study of futures markets is something new. It is a new development in our financial markets and also a subject that is not very well known in this country."

At present, Dr Huyshamer is working as a private consultant.

"It's work that I can do from home and it also gives me the extra time I need to be with my family".

Her research took her to the financial capitals of the world, Hong Kong, New York and London.

"I first developed my interest in commodities and the futures market when I lived in Houston, Texas, in the Seventies.

"I became involved in trading commodities on the futures market and that's what really sparked my interest."

She finds the world of finance fascinating — a continual challenge and in constant flux.

"It becomes a way of life."

Dr Paula Huyshamer . . . studying gold because it is South Africa's most important commodity.

Apart from the relationship between the physical and futures gold market, Dr Huyshamer has also looked at the role of gold in the international monetary system, taking it back to ancient times — through the Classical and Middle Ages, to the present day. She also researched the demonetarisation process gold went through.

Main currency

She says since the end of the Second World War, the world has become more finacially integrated. Since comming off the gold standard in 1971, the dollar has become the dominant currency of international trade.

Dr Huyshamer says in 1980 South Africa mined 77 percent of the Western world's gold, in 1987 this had dropped to 54 percent mainly because of new gold mines opening in North America, Brazil and Australia and the higher gold price.

"I found on studying some of the gold pricing models, that not one of the models managed to forecast the gold price correctly over time.

Gold trade

"The reason being, of course, that gold is traded on a worldwide basis and prices are fluctating and changing all the time. Gold pricing models rely on expectations and it is very hard to quantify expectations in a scientific sense.

"Today, gold's main function is as a financial asset which has to compete in a portfolio with other assets."

Gold has lost its mysticism, she says, and is now traded like any other commodity.

Gold sheds $10 as dollar climbs

Star 30/6/88

79

By Sven Lünsche and Sapa-Reuter

The gold price tumbled by more than $10 to a four-month low as investors worldwide grew less weary of inflation.

"The market seems as if its back has been broken," said a bullion dealer in Zurich where gold ended at $433,45 yesterday after Tuesday's $443,75 close.

In London gold closed at $433,55 and in New York yesterday the trend continued with the metal closing over $5 down at $435,75. In Hong Kong this morning gold opened at $438, $6 down.

Local mining analysts suggested that the metal's weakness indicated a lack of interest from investors worldwide, but added that Far Eastern buyers, mainly from Japan and Taiwan, could alleviate the situation in months to come.

Jewellery and industrial demand from the Far East have been the major driving force behind the relatively stable performance of the gold price since early last year, accounting for 23 percent of total demand last year — a figure which experts predict will be much higher this year.

Gold has also been riding on the back of the platinum price this year and yesterday's collapse in gold was preceeded by a $16 decline in platinum to $565.

But the major reason behind the decline in gold was the fact that inflationary fears in the US receeded this week as rain in the farmbelt suggested that drought damage to crops might be less severe than had been thought, thereby diminishing the risk of higher grain prices. New evidence of oversupply in the petroleum market kept oil prices weak and also allayed some inflationary fears, which pushed gold to just over $460 early this month.

As a result of better rain prospects and lower oil prices, gold, a favourite investor haven when inflation threatens, quickly lost some of its recent allure.

Gold is also under pressure from the US dollar. The currency continued a rally which it began in mid-June, despite what dealers said were renewed dollar sales by European central banks.

The dollar is back in favour after beginning 1988 at historic lows. This is largely because of an optimistic view in the markets of the US economy and a belief that America's huge trade deficit is finally being narrowed.

In early Tokyo trading this morning, the dollar opened at 132,90 yen, up 0,50 yen from Wednesday's close of 132,40 yen, but a dealer suggested that the upswing was slowed down by central bank readiness to take action to slow down the rise in the US currency.

Bank of Japan Governor Satoshi Sumita said Wednesday that appropriate action would be takento break the dollar's rise.

The decline in the gold price was expected to hit gold shares on the JSE hard yesterday, but the blow was softened by a dramatic five percent decline in the financial rand and the all-gold index actually firmed by one point to 1 289.

The financial rand closed at R3,4400 compared to Tuesday's close of R3,26, as overseas investors remained heavy sellers of local mining shares, despite the fact that in old terms, the finrand is now trading below 30 US cents for the first time this year.

JSE President Tony Norton commented recently that there was a certain feeling of inevitability that some form of restrictions would be imposed on American investors holding local gold shares.

"We are already seeing net sales by foreigners of about R30 million a week," he said.

But Mr Norton added that the effect of an American sell-off would be cushioned by the financial rand.

JSE showing signs of greater strength

Star 8/7/88

By Magnus Heystek
Finance Editor

A surge of institutional and overseas buying yesterday saw the Johannesburg Stock Exchange put up one of its best performances since the Crash of '87 with the overall index rising by 2,8 percent to 1890, extending its gain since the beginning of the week to more than 11 percent.

The All Gold index rose strongly on the back of a strengthening in the late gold price to above $440 an ounce in London to record a gain of 62 points and closed at 1451.

Heavyweight industrials also come into favour amongst local institutional investors and the index rose by 40 points to 1740, compared with 1658 on Monday morning and 1587 at the beginning of June.

Overall, the market has recovered by 16,2 percent since the beginning of June despite the weakening in the gold price during the same time.

Several factors are contributing to the current bullish mood on the JSE, including a weakening of both the commercial and the financial rand, institutional interest in selected industrial blue chips and, in certain cases, some overseas buying from Europe and London. Investors from the United States are still net sellers, say brokers.

Unit trust management companies have been reporting decreased levels of liquidity this week, indicating a preference once again for equities. This apparently triggered off fears in some quarters that a massive increase in local institutional buying will lead to severe shortages of stock. Large numbers of blue chip shares were traded yesterday, partuclarly Barlows (385 178), Fedsure (218 450), De Beers (215 680), Tongaat (122 236), Doornfontein (121 200) and Powertech (120 718).

The Overall index of the JSE has been boosted in recent weeks, somewhat artificially due to their relative weightings, by the sharp increases of shares in the Rembrandt Group on the one hand and De Beers on the other.

Coupled with a steady flow of buying orders for so-called rand-hedges, this has tended to underpin the market.

According to some analysts there has been a marked improvement in investors' sentiment in recent weeks, despite a general forecast of a slowdown in the growth of corporate earnings.

"Investors are suddenly finding current PEs, earnings yields and dividend yields very attractive," one analyst at a large broking firm said yesterday.

A lessening of fears about higher interest rates has also contributed to the improvement in the general sentiment towards the JSE Until recently the interest rate structure was seemingly heading sharply higher.

However, in recent weeks the money market has been characterised by a steady downward shift thereby alleviating some of the fears of sharply higher interest rates in the immediate future.

Most economists are predicting that the prime interest rate will not rise to more than 17-18 percent in the current cycle.

Counters on the Development Capital Market yesterday also attracted some selected attention with several shares recording strong advances. Topping the list was computer-related company Don Gray which rose by 20c to 55c on high volumes. Other DCM-stocks to show good increases were Milly's and Deale and Huth.

Stick to blue-chip golds — Syfrets

Star 16/7/85

(79)

Investment in gold shares over the past year has generally been extremely disappointing.

The question many investors are asking is. Should gold shares feature in a new investment portfolio, given the current negative scenario for bullion?

No, says Syfrets, the leading financial services company. But it adds that the holding of certain gold shares in existing portfolios can be justified.

In an article in its investment newsletter *Money Matters*, in which gold shares are scrutinised, Ian Hamilton of Syfrets says his selection criteria include:

- Tthe life of the mine, as well as the grade and past record of the mine's cost structure.
- Labour relations should be considered, in view of current wage negotiations

Mr Hamilton says: "More important is the ability to maintain dividends or, better still, to have the potential to increase dividend payouts. This may appear to be well-nigh impossible for the highly geared mines in the current gold price scenario.

"Nevertheless. there are mines that are increasing gold output or have decreased capital commitments, such as Harties, Driefontein, Kloof and Randfontein.

"These mines and the mining houses to which they belong have undoubtedly an important role to play in the structures of a South African investor's portfolio."

By implication, Syfrets' view is that one should not buy gold shares now.

Syfrets' advice. "The only shares we would retain in a portfolio are the blue-chip gold producers which have a relatively small gearing to the gold price."

Britain's gold trade deficit sets a puzzle

87ev 18/7/87

LONDON — Britain's gold trade in the first five months of this year was R2,8 billion in deficit. That may not sound much, but it is more than twice the deficit for the same period last year.

In 1986 there was actually a surplus. The funny thing is, few specialists in the London gold market have noticed that the deficit is so big — and those who have cannot explain why.

Here are four possible explanations, in diminishing order of plausability:

● South African sales. The figures show that South Africa sent at least R1,572 billion worth of gold bullion to Britain in May, bringing its total gold exports to Britain so far this year to R6 billion, or 194 tons. That is 10 percent of the Western world's entire production last year. Nine Boeing 747's would have been required to ship it to London.

The Reserve Bank of South Africa admits that it has been exchanging some of its gold reserves for cash and London would be the obvious place to do it. Odd that the selling has not moved the market, though.

● Future gold embargo. The South African Government might be bringing gold to London not to sell now, but to keep away from home. If it suspects that there will be an international embargo on South African gold, it knows something Mrs Thatcher does not.

● Fishy statistics. In January Customs and Excise changed its entire import-export classification system. There has been much confusion, some traders have put the wrong reference numbers at the top of their forms, and so imports and exports have been recorded in the wrong columns.

Statistics on gold might have been affected. For instance, the figures suggest that Britain imported R700 million worth of gold "waste and scrap" between January and May.

● A cunning Treasury ploy. The Bank of England has frequently said that it wants interest rates higher and sterling lower. A bigger current-account deficit makes that easier to achieve.

Gold appears in the balance of payments in two places. As a commodity (for example, jewellery), it goes into the current account, as an asset (for example, bullion or coins), it appears in the capital account.

To sort out which is which, the trade department makes "compensations" to the recorded gold-trade figures. Just suppose a little imported gold were to find its way into the current account rather than the capital account. Who would notice? And if anyone were to, it was only a mistake. — **The Economist.**

W/Mail 22-28/7/88

THE ECONOMY (79)

Stormy weather ahead for SA gold watchers

If Dukakis wins, gold is in trouble. But gold is in trouble even if he does not.

By JEAN TEMKIN

IF the Democrats have everything their own way, South African gold shares are in for a bumpy ride between now and the United States elections in November.

Thereafter if Michael Dukakis wins the election and files his teeth sharp enough to influence Europe, the situation could get worse.

The prices of gold and, to a lesser extent, platinum shares are being bashed by the financial rand, the currency which foreign investors use to buy South African shares.

The value of the financial rand against the US dollar fell on average one percentage point a day during the last week of June and first two weeks of July. The fall was caused, and will continue to be caused, by oversupply of the currency as the US disinvests.

Already sanctions publicity has pushed the prices of South African gold shares to their lowest levels for two years on the London market, and in dollar terms, dropped them to 50 percent below their early 1988 levels.

Because local institutions have been snapping up shares which come on offer, especially quality shares, the fall on the South African market has been limited to 32 percent since the beginning of the year.

The Dellums-Wolpe Bill currently before the US House of Representatives reads: "A United States person may not directly or through a foreign affiliate of that United States person make or hold any investment in South Africa."

However, South Africa is likely to get a breathing space. Limited time available may well mean the Bill will not pass through Congress or the Senate before the election. And Republicans are likely to try to avoid Ronald Reagan having to veto another sanctions Bill.

While restrictions on new investment in South African shares by US persons is not new, the reference to "holding" South African shares is. It is this reference that has caused the recent off-loading of shares, which in turn has caused an oversupply of financial rands, that has caused the slide in the value of the investment currency.

Disinvestment isn't new. At the end of the 1970s, some 42 percent of South African mining shares were held by foreigners — now the figure is 24 percent. Of this 24 percent, some 14 percent are held in the US.

However, of late it's not the intrinsic value of the shares that has kept foreign investors with South African shares, it's the ability to strip them of their dividends. Dividend stripping is one of the few ways of getting money out of South Africa in commercial rands.

The foreign investor uses financial rands to buy South African shares thereby benefitting from the discount between the financial and commercial rand. When 2,39 commercial rands bought one dollar and the cost in financial rands was 3,41, foreign investors bought South African shares at a 42 percent discount.

However, while he pays financial rands for the shares, the dividends on those shares are paid to him in commercials rands which means that his dividends are boosted by 42 percent.

If the dividend yield to a South African resident is 10 percent, it is 14,2 percent to the foreigner. What's more, while the South African shareholder is taxed on two-thirds of his dividend income, all the foreigner must pay is a flat 15 percent non-resident shareholder's tax.

Therefore, while some blue chip gold shares are held by foreigners, marginal and short-life mines are the favourites — they are bought and held purely for dividend stripping. Blue chip shares are typically on a lower dividend yield than a less intrinsically valuable share.

The favourites, and therefore the shares which are most in danger of being dumped on the market by forced US selling, are Cons Modder, Blyvoor, Bracken, Grootvlei, Loraine, Durban Deep, Doornfontein, Venterspost, Afrikander Lease and Buffels.

Gold speculators hit panic button

(79)

Star 27/7/88

By Neil Behrmann

LONDON — A sudden slump in silver prices on the New York futures exchange on Monday has punctured the gold market.

But following their lows in New York on Monday, precious metals prices began to recover in the more liquid and stable European markets by noon yesterday.

Gold was fixed at $431,20, silver at $7,12 and platinum at $538 an ounce.

London and Swiss bullion dealers say that speculators on the New York markets panicked when silver began to slide.

In the past few weeks silver rose around $1,50 an ounce or 23 percent to nearly $8 an ounce. Soaring grain markets and fears of inflation helped spur the metal. Yet it mainly surged because of impending strikes in Peru, a major producer. There were also leaks in the market that the Peruvian government intended withholding silver exports.

Speculators bought, but when the Peruvian government confirmed the rumours and announced that it would stop exporting silver, prices actually fell last Friday.

"It was buy on the rumour and sell on the news," said a Swiss bullion dealer. "The futures markets are terribly volatile and when the market turns, they tend to become illiquid."

"Buyers withdrew as soon as they detected large sell orders in the market and silver suddenly slumped from a peak of around $7,90 last week to $7,04 in New York before rallying slightly in London yesterday.

When they failed to get out of their silver positions, speculators begain selling in other precious metals markets. Gold fell to a low of $426 an ounce from $441 an ounce while platinum collapsed from $555 to $536 an ounce.

The market was not helped by the rally of the US dollar and reported sales of Russian gold in London during the morning and afternoon "gold fix's".

Meanwhile says a Swiss trader "physical offtake in the gold market is unexciting at this time of the year. It has not been sufficient to absorb gold supplies."

Besides Soviet sales some mines, notably Australian, have been raising funds via gold loans. The net effect is that this gold was also sold when the price recently rallied above $440.

"It seems that $440 is a fair resistance barrier," says a London bullion manager. "Physical supplies are in excess of demand, so gold cannot be described as exciting from a fundamental point of view."

"There is sand in the gold gearbox," says Union Bank of Switzerland in a comment on bullion.

Experience over the past few months could "prompt investors to favour alternative investments."

"Gold production is high and is rising, the downtrend in energy prices is easing inflation fears, the stronger dollar is not helping and in the European holiday season fabrication demand drops."

Moreover, says the bank, South Africa will have to meet interest and principal payments on its foreign debt in September. This means that the nation will be forced to step up sales of gold to cover its foreign exchange needs.

Despite these short term negative factors, however, the Swiss bank contends that gold will rally towards the end of the year.

"Life is not that simple in the gold market," says the Bank.

Chamber confident

The Chamber of Mines believes gold's long-term bull trend is still intact.

Chamber economist Professor Beukes said yesterday one of the major factors in the decline was computer sell signals, which had probably helped trigger off the wave of selling.

He said that a number of investors programmed computers to sell when gold reached a certain level and that this had happened when gold hit $435.

Other factors were a drop in the consumer price index in the US, which relieved fears of inflation, a decline of 20 percent in the platinum price, a falling silver price and a drop in US grain futures prices.

He said a good indication of the outlook for gold could be seen in the extent to which investors had bought the metal in Hong Kong yesterday morning.

Professor Beukes said that the gold price was affected by many factors, most of them volatile and not too much should be read into short-term movements. He expected gold to be back at $445 in the near future. — Sapa.

Seven-morth drop of 28%

BDay 8/8/88 79

Gold, forex reserves in further slide

GRETA STEYN

SA's gold and foreign exchange reserves fell by R83,9m to R5,57bn in July, reflecting the precarious state of the balance of payments.

The reserves, a cushion of currency enabling the country to meet its foreign payments when export earnings are inadequate, have dwindled steadily as SA's surplus on the current account of the BoP disappeared.

In dollar terms, the reserves now stand at about $2,28bn, down from June's $2,42bn and a far cry from $3,175bn held by the Bank in gold and foreign currency in December 1987. This represents a drop of 28% in dollar terms over seven months.

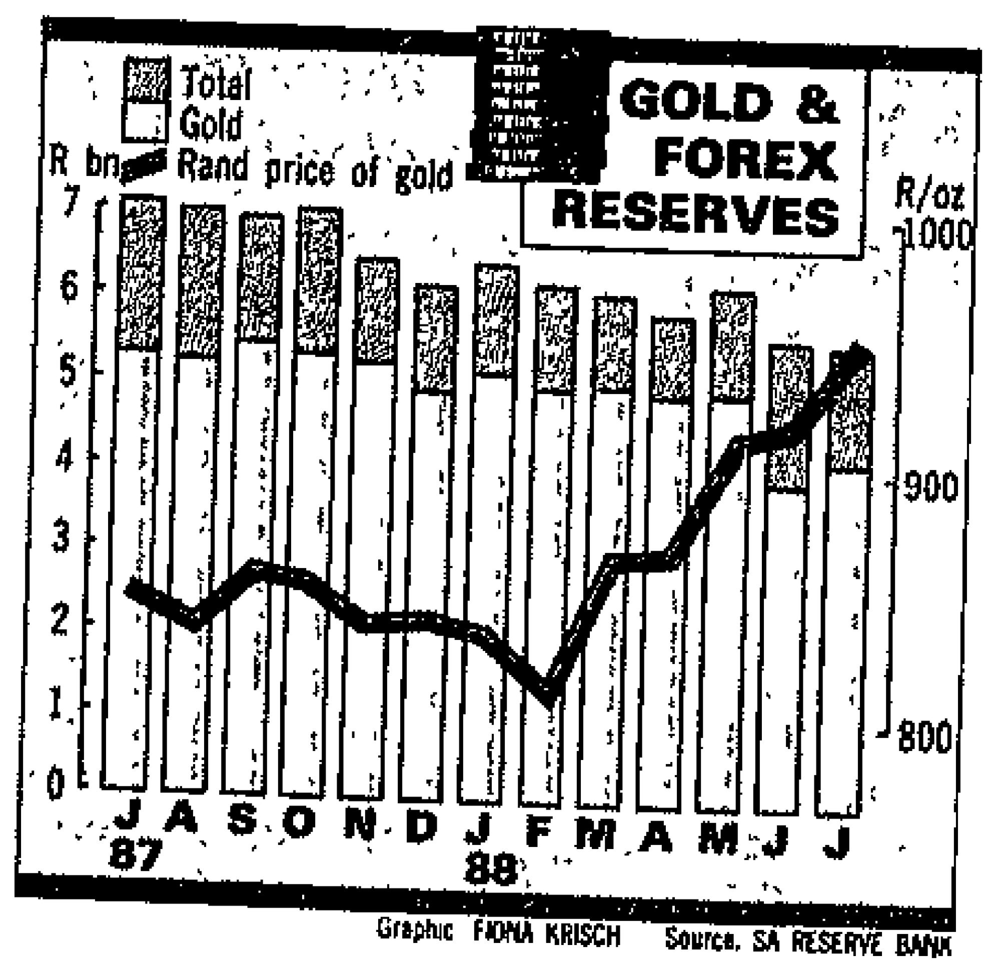
Reserve Bank Governor Gerhard de Kock said: "Obviously we are not pleased with the present level of the reserves, which reflects the balance of payments situation. But the reserves are much higher than the previous low point in 1986."

In April 1986, the Reserve Bank's holdings of gold and foreign exchange reserves stood at R3,24bn, significantly lower than July's R5,57bn.

On the BoP, De Kock said: "The trend on the current account improved in the second quarter, when there was a small surplus, seasonally adjusted, after a small deficit in the first quarter. But the trouble lies with the capital account — it is estimated that capital outflows in the second quarter amounted to more than R2bn."

He reiterated that further policy measures could be announced to protect the BoP.

The foreign exchange component on the Bank's balance sheet dropped by



● To Page 2

volved with the people and channel all ed for comment yesterday.

SA's gold, forex reserves slide further

BDay 79

● From Page 1

R345m to R1,25bn. However, physical gold holdings rose in July, by about 93 300 ounces to almost 4,4-million ounces.

In rand terms, gold assets increased by more than R248m between June and July to R4,2bn. The rand gold price was higher, at R956,54 a fine ounce compared with R919,29 in June.

Trust Bank economist Nick Barnardt says the higher rand gold price in June brings in a valuation factor which "disguises" the true level of the reserves. If this factor is taken into account, he calculates that the Bank's total reserves dropped by an effective R200m.

Standard Bank's Nico Czypionka said: "The reserves are still under pressure, with the problem a combination of dollar demand from importers and capital outflows. But the Bank is clearly managing the situation well."

METALS

AMG 4 S 12/9/88

Gold plunges to $417,75

79

Business Staff

GOLD plunged to an 18-month low of $417,75 in London today after opening at $422 an ounce.

Earlier, bullion recovered to $423 in Hong Kong from its $8 fall to $421, but the gains fell soon after the London market opened..

The fall put more downward pressure on the rand, which eased today in Johannesburg to $2,4250 (equal to 41,23 US cents) from Friday's $2,4142 (41,49 cents. The financial rand retreated sharply to R3,825 to the dollar (or 26 US cents) from Friday's R3,70 (26 cents).

Neil Behrmann reports from London that the metal is hovering on a crucial support level and Credit Suisse First Boston says that if the price falls below $418, there could be a wave of selling.

Bullion dealers said that when gold failed to respond to a weakening dollar in the past week, holders became nervous. A slight dollar rally was sufficient to precipitate a fall.

Normally gold begins to rise at this time of the year as jewellers stock up for the Christmas season. Yet a falling oil price and high world interest rates have curbed investor enthusiasm.

Japanese imports of gold also declined to 11 tons in August, well below this year's monthly average of more than 20 tons. Analysts expect their purchases to increase in the next few months now that prices are cheaper.

Albert Loveless, mining analyst at Smith New Court says that technical patterns on the gold charts indicate that there will be further weakness.

Analysts contend however that any further decline in the gold price will at the worst be limited to around five to 10 percent.

The behavour of the market during the past 18 months indicates that there will be a sharp increase in physical purchases at lower prices, they say.

Yet dealers in oil and gold markets are bearish because there are more than sufficient supplies to satisfy demand. Brent oil prices closed at $13,50 a barrel slightly higher than the week's low , but well down on the $16 seen only a few weeks ago.

Weak oil prices do not auger well for gold, says Edwin Arnold precious metals analyst at Merrill Lynch Pierce Fenner & Smith in London. First, they will counter inflation, second, the Soviet Union a big oil producer will sell more gold and other commodities to counter a decline in its oil revenue, thirdly the Middle Eastern sheikhs will shy away from gold.

The most negative influence on gold, however has been rising interest rates.

Central banks have been raising interest rates to counter inflation and bolster currencies. For the moment commodities are subdued. Investors are receiving high real interest rates on all currencies without the insecurity of holding volatile metals. Moreover rising interest rates have helped stabilise currencies.

Share losses as gold falls

CAPE TIMES 13/9/88 (79)

By AUDREY D'ANGELO
Financial Editor

THE gold price plummeted to its lowest level for 17 months yesterday. The rand fell with it and huge sums were lost on the Johannesburg Stock Exchange as gold shares dropped.

As gold fell briefly to $416,50 an ounce in London — the lowest level since March 1987 — a Reserve Bank spokesman warned that if it dropped below the $400 mark there would be a further tightening of the economy.

Gold recovered partially to close in London at $419,75 an ounce, $7,50 lower than on Friday, and in New York at $421,25.

Meanwhile, the rand closed in Johannesburg at R2,4257 to the dollar compared with R2,4097 on Friday. The financial rand fell sharply to R3,88 to the dollar from R3,70 on Friday.

On the Johannesburg Stock Exchange the all-gold index dropped 30 points to 1219 from Friday's close of 1249.

The fall in the gold price follows last week's announcement that the US inflation rate was lower than expected. Falling oil and grain prices also quietened fears of rising world inflation.

Investors who had turned to gold as a hedge against inflation sold it to take advantage of rising interest rates in the US and Britain.

But the steep fall in the financial rand, caused by the sale of SA gold shares by foreign investors, is likely to cushion the Johannesburg Stock Exchange against further falls. At these levels it is unattractive for investors to sell.

The Reserve Bank spokesman said that at present levels the gold price is no threat to the balance of payments. It reinforces the measures taken by the authorities to cool the economy.

The fall of gold below the technical support level of $420 an ounce has not surprised economists and analysts, who point out that the US, Britain and Europe are taking measures to cool inflation, the oil price is dropping and world gold production is increasing.

● Weak oil prices undermine gold — Page 9

Gold price dips to low of $415

79

B/day 16/9/88

Business Day Reporters

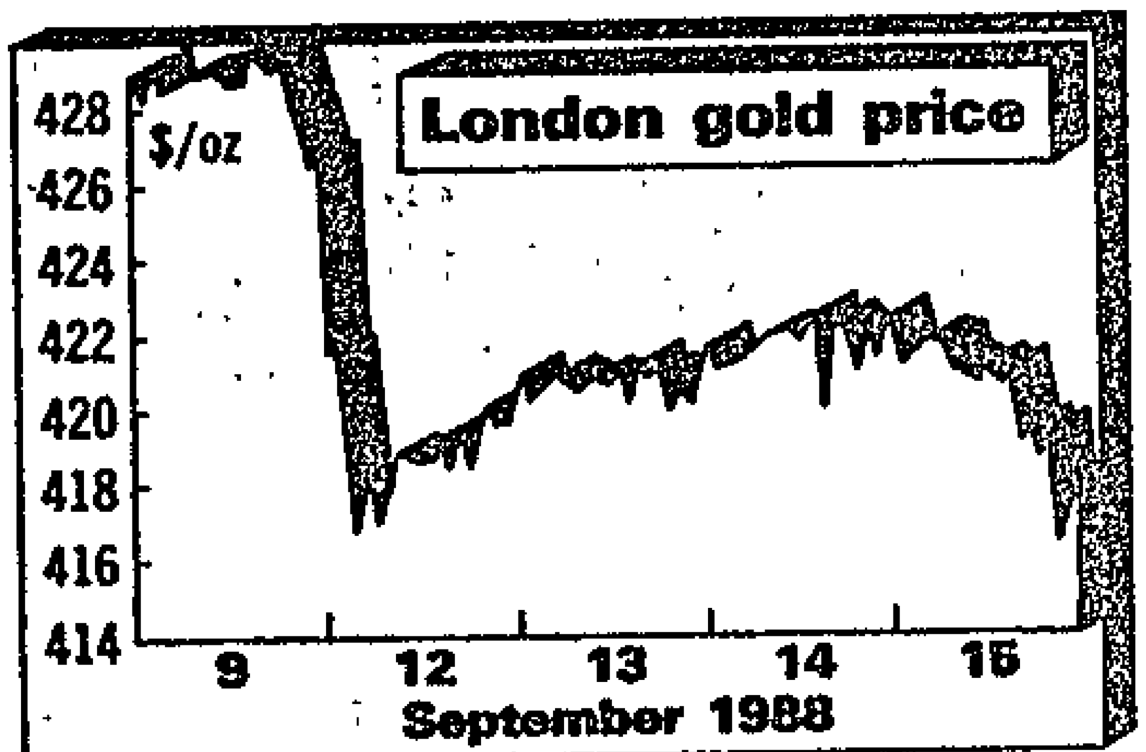
GOLD fell below the $420 barrier in New York yesterday, reaching a low of $415,30/80 as the dollar firmed and oil prices eased.

The metal was fixed at $418,85 an ounce in London's afternoon fix, down from a morning fix of $421,50 and Wednesday's close of $421,50/$422.

Oil prices plunged 60c a barrel on spot markets, losing Wednesday's similar steep gains, Sapa Reuter reported. Towards the close of business in Europe, North Sea Brent Blend, the most widely traded crude, was pegged at about $13,40 a barrel.

The easier tone of oil prices prompted buyers to move out of the market as did the initially lower trend on US gold futures, and the continued strength of the dollar followed Wednesday's smaller-than-expected US July trade deficit, Reuters reported.

On the JSE the all-gold index firmed eight points to 1 220 while the industrial



Graphic: FIONA KRISCH Source: REUTERS

index rose 22 points to 1 672 on heavy last-minute buying of blue-chip industrials. A dealer linked this to players with long open positions on the September industrial-index futures contracts — which expired yesterday.

The commercial rand held steady around its recent lows, despite continued pressure from the stronger dollar and vulnerable gold price. The rand closed

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Gold price dips briefly to a low of $415

79 B/day 16/9/88

From Page 1

at R2,4575/90 to the dollar against Wednesday's sharply weaker R2,4560/75 finish after it found strong support from the Reserve Bank at the R2,46 level. The local unit also continued steady against other major currencies.

The financial rand closed weaker at R3,84,/91 against Wednesday's R3,82/89 finish.

Meanwhile sentiment on international markets remained generally bearish for gold.

A dealer at a major Swiss bank said: "I see gold a touch lower overnight, then coming back as oil prices rise because of the hurricane in the Caribbean." Support seemed strong around $415/$416, she said.

Platinum yesterday followed the trend of other precious metals to fix at $517,75 an ounce, down from $523,25 at the morning settlement. The white metal closed at $524/$525,50 on Wednesday.

Kantor sees gold reaching $500 in 1990

CAPE Times 17/9/88 (19)

By AUDREY D'ANGELO
Financial Editor

THE gold price should reach at least $500 an ounce by the end of 1990, Brian Kantor, professor of economics at the University of Cape Town, believes.

And he disagrees with the view that economic sanctions are making real growth, and the development of the black population, impossible.

"They are making it harder," he conceded in an interview yesterday, "but not impossible".

Kantor has calculated that if the informal sector, for which no official figures are available, is taken into account SA achieved economic growth of 7% in the past year.

"We have been through a real boom."

The party is over now ... but he believes that the US economy will run into trouble and the gold price, which closed at $412 an ounce in London last night, will rise.

Meanwhile, he urges that the gold mines should be taxed less, particularly in the good times, to encourage them to produce and export more.

At a seminar organized by the corporate division of the Trust Bank for its clients in the Western Cape, Kantor outlined alternative scenarios for the gold price and its effect on the economy.

"The first is for a gold price that remains pretty much at its current depressed levels until the second quarter of 1989, whereafter it increases to $500 by the end of 1990," he said.

"The alternative more favourable scenario is for the gold price to increase fairly steadily towards $550 by the end of 1990."

Pointing out that this will depend on how the US economy is managed, or seen to be managed, he said: "Two factors are necessary for a favourable gold price.

"Firstly that the US economy slows down and secondly that the US authorities respond in their usual way with a more accommodating monetary policy. Such accommodation is likely to overshoot and in due course encourage more inflation.

"It is the fear of inflation resulting from this response by the authorities that will be most helpful for an improving gold price. It is how the Americans respond to slow growth and recession that is going to be critical."

Even with a favourable gold price Kantor expects the rand to depreciate by about $0,50 over the next two years. He expects the inflation rate to rise to a peak of between 16% and 16,5% in 1990 if the gold price does not help and to be lower if it does.

"All in all the outlook could be described as satisfactory being a period of extended adjustment to the recent excesses. However, the adjustment process will be accompanied by real growth in expenditure provided the gold price helps.

"Without an increase in the gold price the movement in the real formal economy will be sideways until the balance of payments provides the necessary room for manoeuvre. Such room will depend as always on the gold and other commodity prices."

leaders to visit the three.

$20 price drop knocks reserves

79 B/day 19/9/88

Gold slump signals new rates hike

KAY TURVEY and
GRETA STEYN

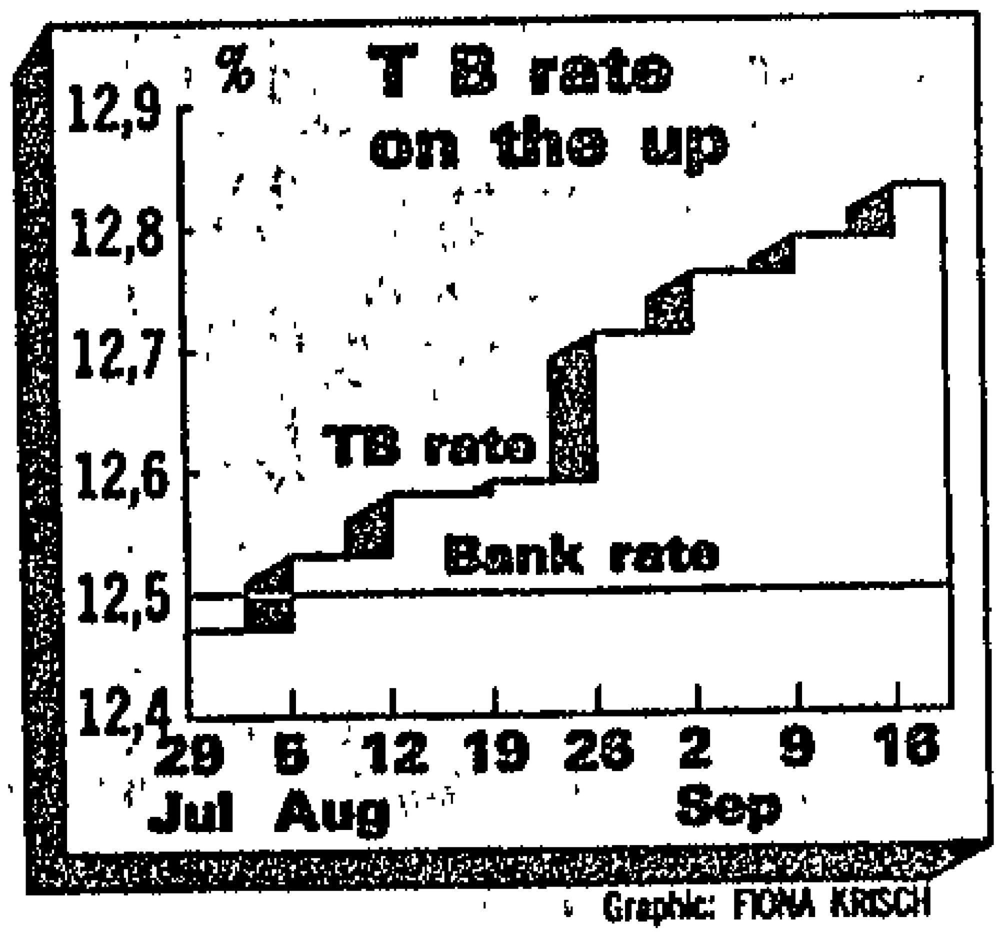
THE dramatic decline in the gold price to a low of $409 in New York has sharply intensified pressure on foreign reserves and underscored the need for austerity measures, particularly higher interest rates, economists and bankers said yesterday.

Responding to last week's $20 decline in the gold price, which wiped as much as $86m off gold and foreign reserves, the economists said a long-overdue rise in Bank rate could no longer be ignored.

Further, rise in the Treasury Bill rate for the past seven weeks indicates upward pressure on the Bank rate.

At Friday's tender for the R50m of bills on offer, the average rate on three-month Treasury Bills rose slightly to 12,83% from the previous week's 12,79%. At the beginning of August the rate was 12,53%.

The rate is to a large extent manipulated by the Reserve Bank and analysts



Graphic: FIONA KRISCH

said its slow but steady rise over the past few weeks could indicate the Bank was preparing to raise Bank rate.

However, certain senior bankers believe a rise in Bank rate, which means banks are able to lift their prime overdraft rates, is long overdue.

Gold plunged to $409 in some centres

● To Page 2

Gold slump signals new hike in rates

79 B/day 19/9/88

● From Page 1

last week before closing at $412,25 in Hong Kong on Saturday.

The Reserve Bank calculates that every $10 fall in the bullion price could cost SA about R500m a year.

Already it is estimated the balance of payments (BoP) on the current account is unlikely to exceed R1,2bn this year, leaving government at least R800m short of the R2bn necessary to meet capital commitments.

The Reserve Bank's gold and foreign exchange reserves have slipped for three successive months and slid R256m to R5,31bn in August.

Anglo American economist Aubrey Dickman said the metal's fall made a rise in interest rates unavoidable.

It was important this hike was not delayed for political considerations and was not too little, too late again, he said.

Bearish sentiments about a recovery in the gold price, fuelled by the decline in the oil price and international disillusionment with the metal's performance, leaves the Reserve Bank less room to manoeuvre.

Some bullion dealers and chartists say a decline below $400 is possible as the metal has fallen through support levels.

Sapa reports a Reserve Bank spokesman saying while gold's fall would harm the BoP, it was not yet serious and would not become a real problem unless gold fell below $400/oz.

One of the new factors contributing to the drop was that the Taiwanese Central Bank had stopped buying due to a dispute with the US. The Taiwananese government had indicated it would resume buying soon, he said.

Standard Bank economist Nico Czypionka said the lower gold price necessitated cutback domestically and government could now no longer ignore a rise in interest rates.

Trust Bank's Kobus Roetz said all the market signals were saying that Bank rate, and banks' prime overdraft rates, should already have risen.

Briefing 79 20/9/88 79 Star 20/9/88

Gold dazzles hard economic facts

By MICHAEL CHESTER

In 1980 gold was $875 an ounce. And $875 represented R678. Today's price of around $400 is worth R1 000. The contrast shows how little progress South Africa is making.

The slide of the gold price on world markets down towards $400 an ounce has not only caused jitters about the crucial dependence of South Africa on export income from bullion. It has also stirred new concern over the state of the rand.

Even the most seasoned economists have been shocked by reminding themselves that gold at $400 an ounce nowadays brings in more rands than in 1980 when gold streaked as high as $875 in an unprecedented gold rush.

At the start of the decade, $875 was worth only R678 — but enough to inspire an economic boom.

Today, thanks to the collapse of the rand exchange rate, $400 is worth nearly R1 000 — but causes dismay.

The concern, of course, is about the shrinkage of the rand to mini-rand status in world trade and in the pocket.

The fretfulness about a decline in the gold price to $400 is a reflection of South Africa's dilemma in relying on a depreciation of its currency to paper over growing cracks in its economic scenario.

In the counting house

Perspectives differ.

The gold mines have by no means been alone in counting their exports in ever growing piles of rands. Most exporters have taken advantage of the price edge that the weak exchange rate has given them against competitors in overseas markets.

Reserve Bank bulletins show that while gold export earnings climbed from little above R10 billion in 1980 to almost R18 billion last year, income from merchandise exports grew even faster — from under R10 billion to over R25 billion.

The snag, of course, has been the counter-balance of the inevitable impact on the cost of imports, which simultaneously jumped from R14 billion to over R28 billion.

Going overseas on holiday shows the harsh facts. In 1980 you could buy a British pound note for R1,81 (and for as little as R1,76 in 1981). It now costs more than R4.

The cost of a West German D-mark, a Swiss franc, the Japanese yen have soared.

When the SA Reserve Bank lumps all of the main overseas currencies into a single basket, each weighted to take into account its relevance in overall trade, it finds that the effective exchange rate of the rand is far less than half what it was in 1980.

The collapse of the rand, in combination with chronic high inflation, has in turn distorted most if not all of the main indicators of economic performance in recent years.

For instance, official figures show that gross domestic product, the common measure of total economic activity, expanded from R62 billion in 1980 to above R164 billion by last year when counted at current prices.

But when the figures are transformed into 1985 rand values, smoothing out all the distortions, it turns out that GDP moved at only a snail's pace, from R114 billion to R119 billion.

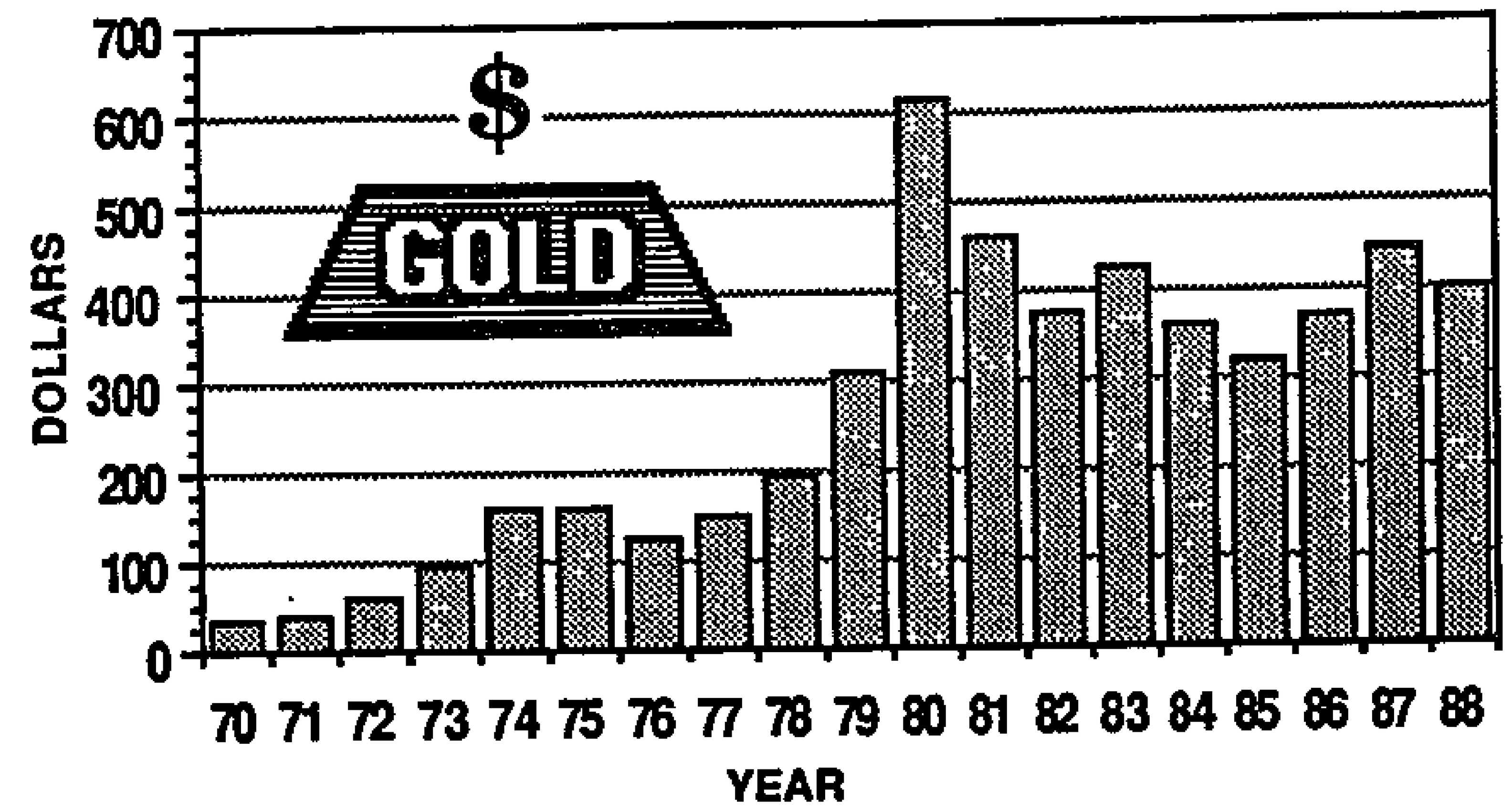
The economic lethargy of recent years also shows in the pace of new fixed investment in the creation of more economic muscle.

Measured at current prices, the annual total gives an impression of expanding, growing from R16,4 billion at the start of the decade to R32 billion.

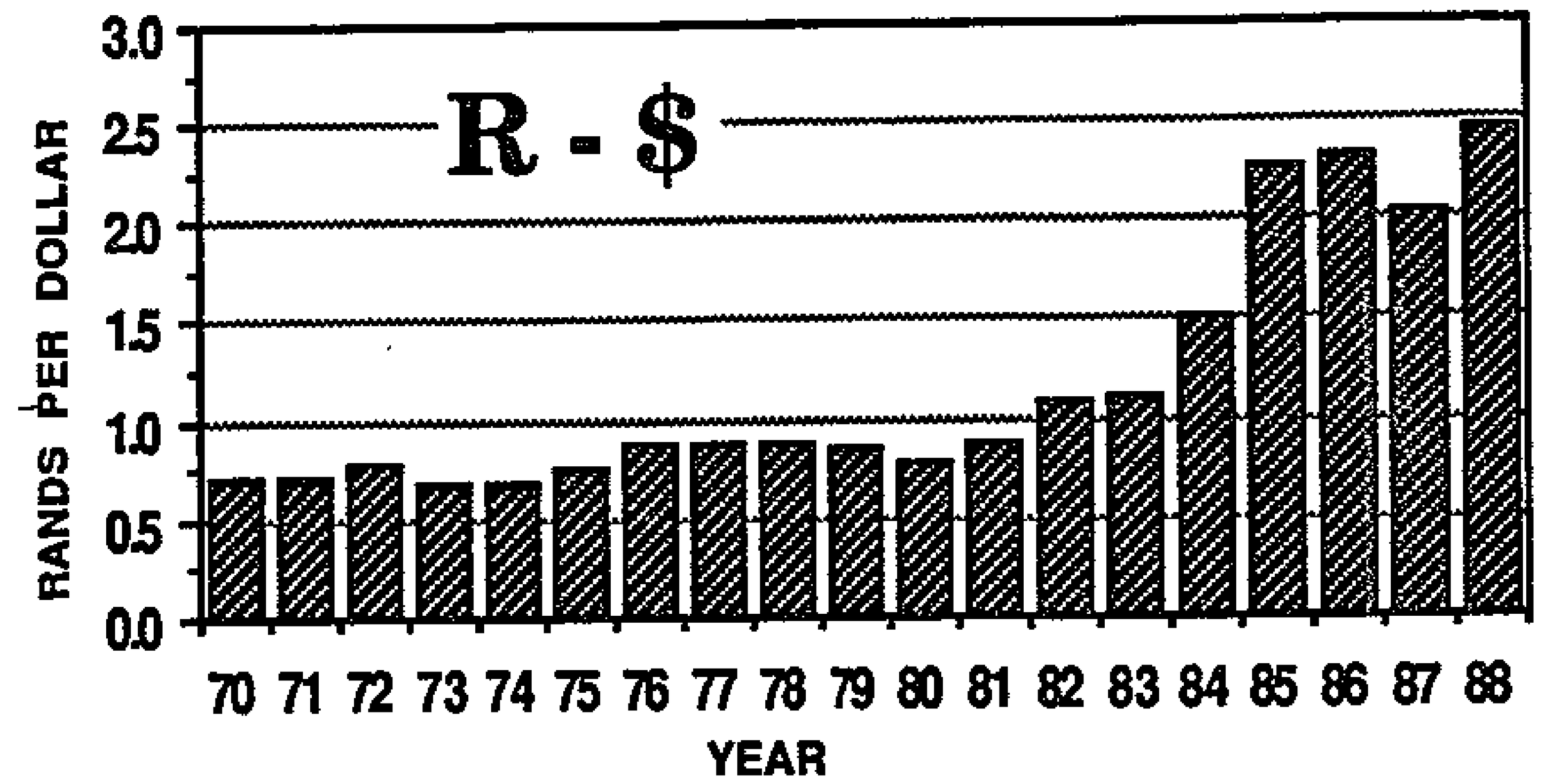
Put into real terms, however, again using constant 1985 price levels to find a more accurate picture of investment by volume, the annual total shows actual shrinkage, much to the alarm of economists fretful about the longer term implications — down from R31 billion to R23 billion.

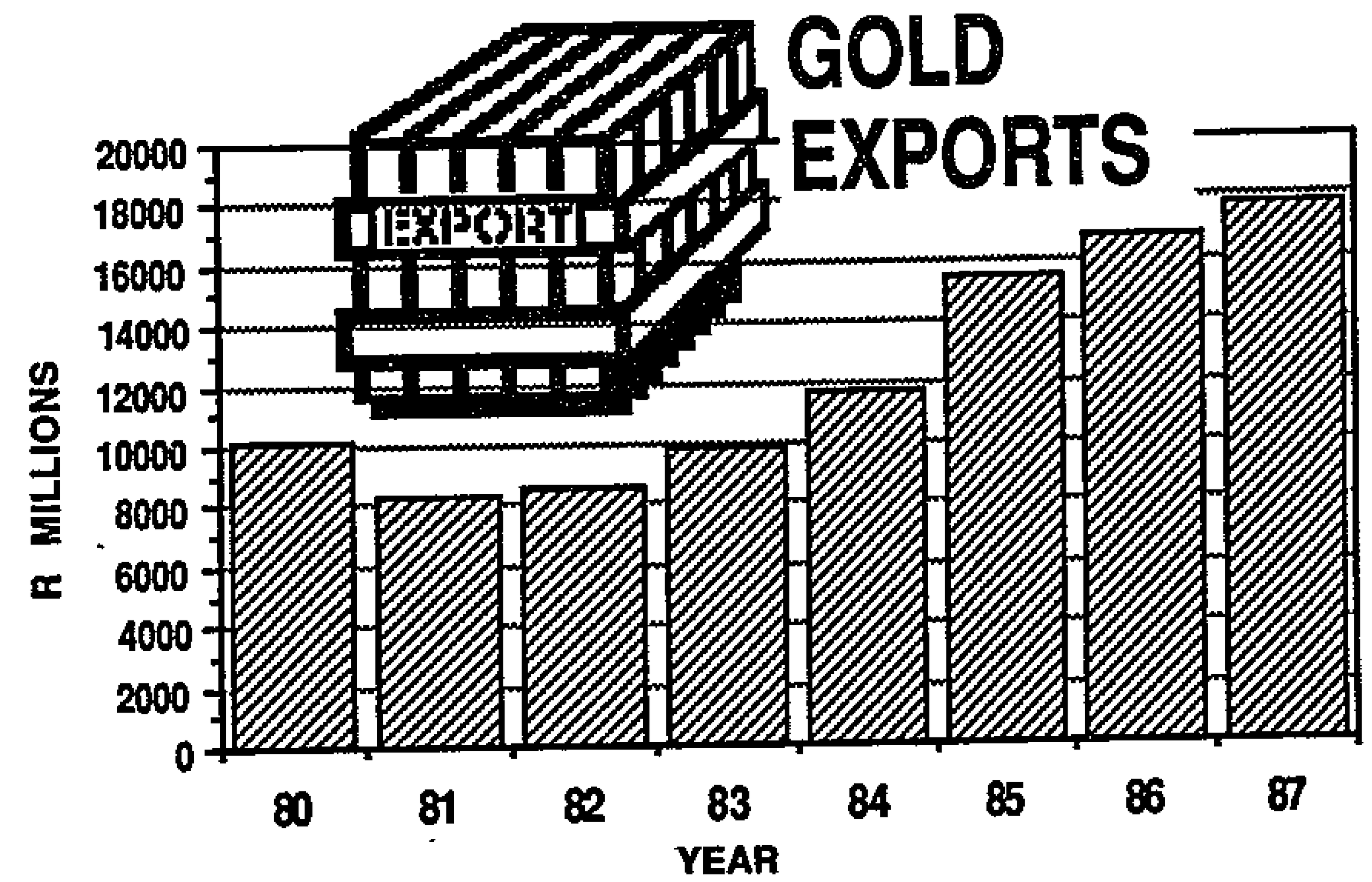
The cynicism of economists such as Dr Azar Jammine, head of the Econometrix research unit, increases when they look at Reserve Bank figures on how the falling rand and inflation have between them boosted annual state revenue from income tax from R9,6 billion only five years ago to nearly R21 billion — all adding to the fuel needed by rampant Government spending.

GOLD PRICE IN DOLLARS

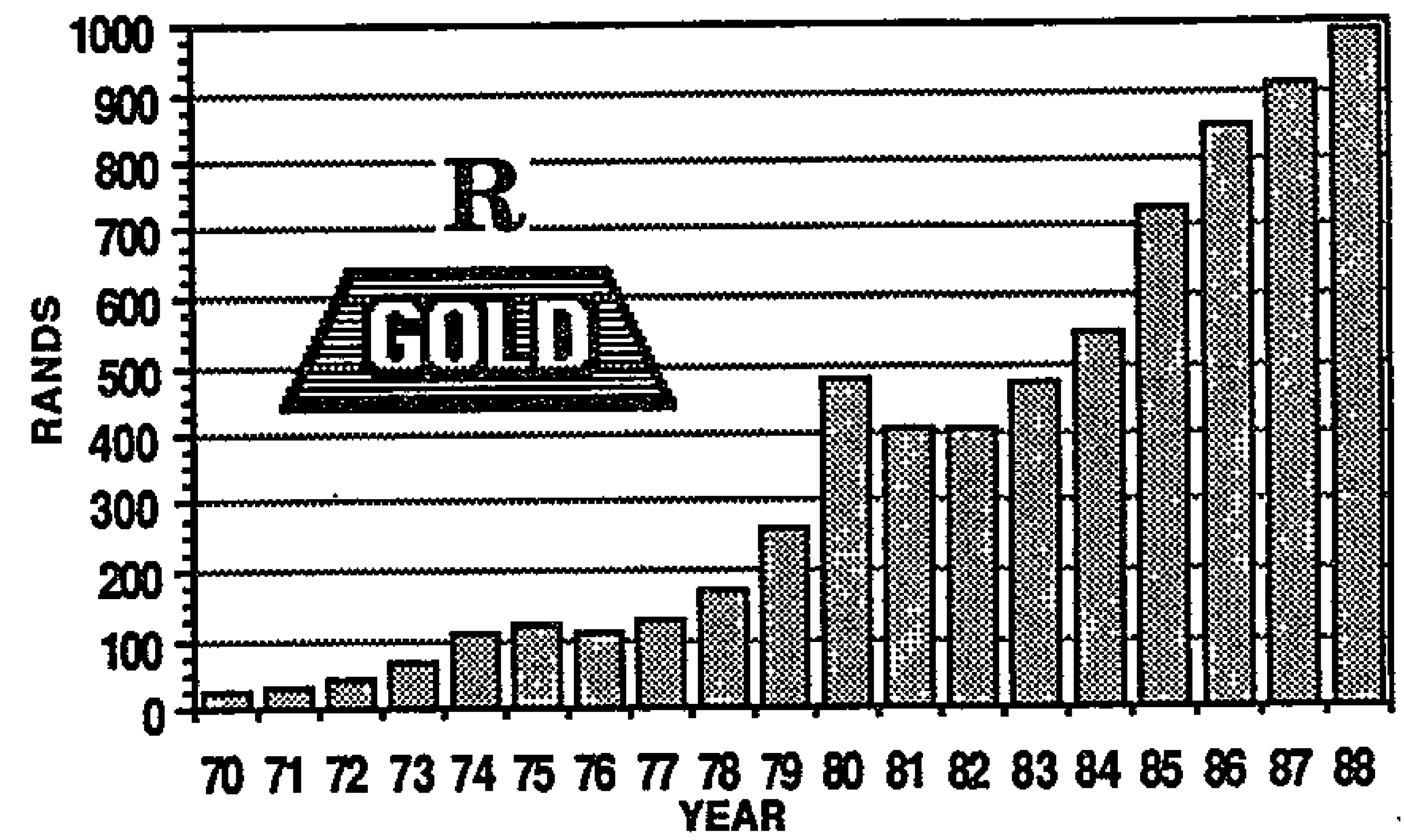


RAND COST OF DOLLAR





GOLD PRICE IN RANDS



● Graphic sources: Econometrix and the South African reserve bank.

Finrand hits 18-month low as . . .

Gold price continues its plunge

79

B/day 20/9/88

GRETA STEYN and CHERILYN IRETON

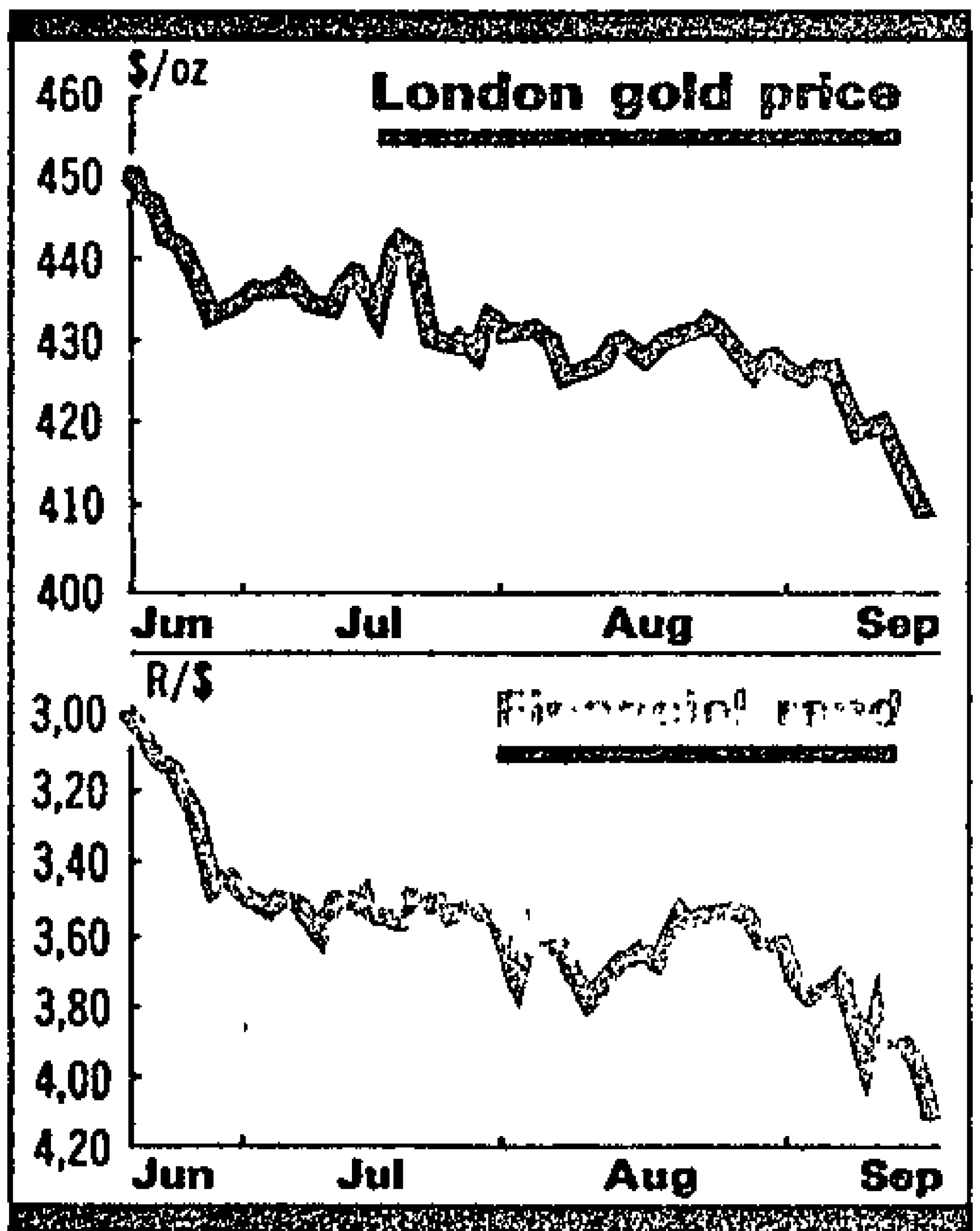
GOLD continued its plunge on world markets yesterday, causing the finrand to hit an 18-month low and fuelling bearish sentiment on interest rates.

The metal dropped a further $2,70 in London to end at $409,45, up on the $405 an ounce recorded earlier in the day in Zurich. In New York, it traded in a range of between $409,50 and $410,00.

Heavy foreign selling of gold shares drove the financial rand down a further 4% to R4,12 — its lowest level since February 1987. The commercial rand ended at R2,4707 to the dollar, 0,34% lower than Friday's close of R2,4623.

Fears that the Reserve Bank would raise Bank rate to protect gold and foreign exchange reserves intensified upward pressure on short-term interest rates. The 90-day liquid Bankers' Acceptance rate rose 30 points to 13,80% from Friday's 13,50% — signifying investors' reluctance to commit themselves to a three-month investment now while expecting an increase in rates.

Trading in the capital market was thin, but the lower gold price sent the



Graphic: FIONA KRISCH Source: REUTERS

bellwether Eskom 11% 2007/9 to 16,01% from Friday's 15,96%.

On the JSE the weaker finrand cushioned the impact of the lower gold price and the index closed only one point lower at 1213.

● To Page 2

Gold continues plunge around world

B/day 79 20/9/88

● From Page 1

Weaker oil prices — and the damping effect on inflation — sparked the slide in the gold price on Friday.

This turned investors away from precious metals, as was evident in the platinum price which edged closer to the $500 an ounce level, fixing at $503.75, down 50c from the morning.

Demand for blue chip stocks such as De Beers saw the overall index close two points higher at 1749.

A relatively stable oil price moved towards calming international markets. Sapa-Reuter reports that Britain's key Brent oil price eased slightly to $13,35 a barrel for November contracts in afternoon trade, about 10c lower than its opening price.

Only biggest producers will survive

Drop in gold price will alter industry

79

B'day 21/9/88

LONDON — A sustained fall in the gold price was likely to accelerate the reorganisation of the gold industry which is already on the cards, says a report from Metals & Minerals Research Services, a consultancy based in London.

Own Correspondent

The study looked at the eight largest gold producers in Australia, Canada and the US, based on output last year. It said that on the basis of their likely 1990 resuls, only the biggest five or six could be confident of thwarting predators.

Newmont Gold Western Mining, Placer Dome, Echo Bay, Placer Pacific and possibly Corona Corporation would be big enough to deter all but the most ambitious from launching a bid, the report suggested.

All these companies were likely to produce operating profits of more than $170m each in 1990, with a gold price of$450 an oz, or more than$110 with gold at $350 an oz.

American Barrick Resources and Homestake Mining also looked unlikely takeover targets.

But, the study said, if the price fell below $400, or even to $350, "the ambitions and financial muscle of the independents may wane, leaving a store of gold reserves to be added to by those already established as major mining companies".

LAC Mineral, Pagasus Gold, Battle Mountain Gold, Cambior and Australian Consolidated Minerals "may be vulnerable to this scenario".

It said the gold industry's destiny was being shaped by factors which only recently emerged at the end of the so-called gold rush in the first half of the '80s.

Authors Tim Petterson and Huw Roberts said: "Concern is mounting about the ability of investors to absorb an ever-increasing surplus of gold. Equity finances for projects is more difficult to raise. Gold properties with easily-exploitable ore reserves are now harder to find." — Financial Times.

Gold under $400

Own Correspondent

Cape Times 22/9/88 79

JOHANNESBURG. — The steep rise in the money supply for the seventh straight month coupled with the plunge in the gold price, which closed below $400 in New York, has renewed calls from bankers and economists for a Reserve Bank-led increase in interest rates.

Gold dropped to $397 an ounce on European markets yesterday, recovering slightly to close in New York at $398,25. Bargain-hunting in London helped lift it back above the $400 support level to close at $402 an ounce — the lowest since February 1987.

Preliminary figures yesterday indicated that money supply at the end of August was 27,56% higher than in the preceding year.

Economists said this disturbing trend made a mockery of the Reserve Bank's targets of between 12% and 16% growth for the year and supported the need for a higher bank rate to cool the economy.

'Gamble'

The senior deputy governor of the Reserve Bank, Mr Japie Jacobs, said that at this stage no further restrictive measures were justified, but that authorities were watching developments in the economy closely.

The Reserve Bank and economists attribute part of the sharp increase to the spending boom precipitated by expectations of price increases occasioned by import surcharges.

Standard Bank economist Mr Nico Czypionka said the high growth in money supply and the faltering gold price made demands for a higher bank rate.

Old Mutual's Mr Rob Lee also urged the authorities not to "gamble" on a slowdown in spending, when foreign reserves were deteriorating.

Trust Bank economist Mr Ulrich Joubert described the growth in money supply as unhealthy given the balance of payments constraint.

● Money supply up — Page 11

79 B/Day 23/9/88.

Anglo's 'Young Turks' pushed for raid on ConsGold

MIKE ROBERTSON in London

AT 7.57am on Wednesday, Rudolph Agnew, the 54-year-old chairman of Consolidated Goldfields (ConsGold) received a phone call. On the line was Julian Ogilvie Thompson, chairman of Minorco. The call might have been unexpected, but what the caller had to say was not. In fact, it was probably the City of London's worst kept secret ever. Minorco was bidding for ConsGold.

In some ways it is surprising Agnew did not receive the call much earlier.

It is eight years since Anglo American interests launched their infamous dawn raid on ConsGold. The 29% stake acquired then is now held by Minorco, and although the companies have swopped directors, the relationship has been far from easy.

The list of conflicts is long, with ConsGold claiming that Minorco in 1984 nefariously tried to increase its stake to between 35% and 40%. ConsGold objected, saying this would give Minorco near control and that shareholders needed some compensation.

In 1986, after Minorco threatened to sell its stake to another predator, talks were held on a possible merger. While superficially attractive, a merger — which would combine ConsGold's ideas and assets and Minorco's cash — was rejected by Agnew and his board.

Talking about the possible merger for the first time this week, Agnew said line management had argued that the increased South African interest would damage their business aspirations. ConsGold, he said, had also baulked at being taken over by a company located in a tax haven.

He called the talks off. But Minorco re-emerged with an offer valuing the company at £8,75 a share in a mixture of cash and paper. This was conditional on ConsGold recommending the offer to its shareholders. Although the offer was £2 above the share price at the time, ConsGold rejected it, one of the reasons being worries about the impact on business of increased South African involvement.

This "fear of SA" is a recurrent theme in the Minorco-ConsGold saga. Both companies are clearly intent on disengaging from SA. For ConsGold, cutting all links with SA would achieve a re-rating of its shares. By allowing Minorco to expand overseas, Anglo American and De Beers — which today hold 60% of the company equity — are protecting themselves against domestic political instability.

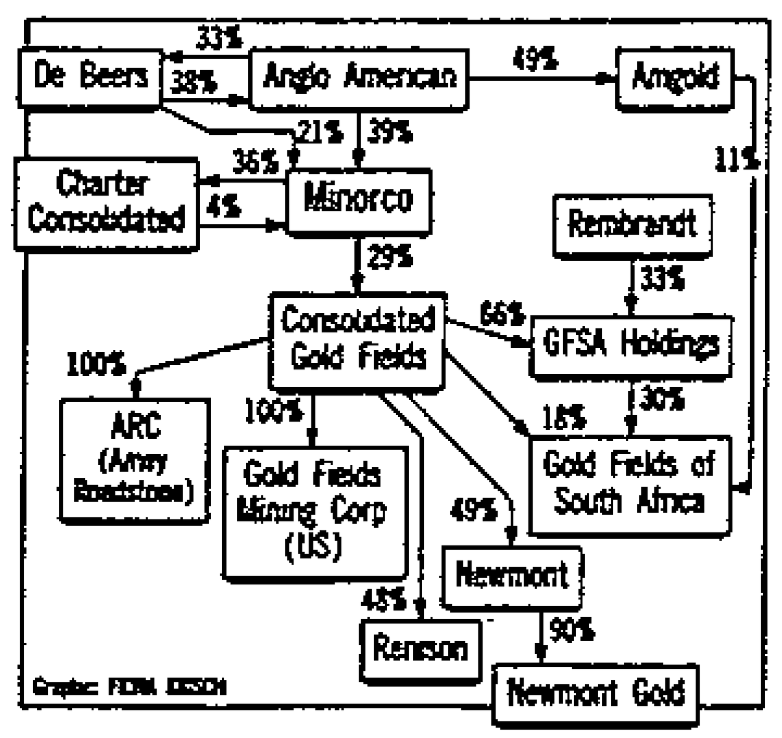
But as Agnew said last week: "SA is the greatest mineral province in the world and a serious producer does not lightly depart from such a province."

The bid, said Agnew — instantly transformed into a jingoistic small Englander — was a "front for South Africans to indulge in asset stripping for their own purposes".

There was an essential difference between owning assets in SA and having South African owners. "You can deny your bastard sons. You can't deny your parents." Minorco, he said, were the "pariahs of the Western world".

Ludicrous as this might sound, it was made doubly so when the Anti-Apartheid Movement, which has been campaigning for decades to get ConsGold out of SA, appealed to the British government to step in and protect the company against the nasty South African predators.

Minorco spokesmen were equally farcical in their attempts to distance



themselves from SA, despite the facts that their Press conference to announce the bid was opened by Ogilvie Thompson and three of the four members of the new executive have spent most of their working lives in the Anglo American stable.

New chief executive Sir Michael Edwardes (South African-born himself) listed as one of Minorco's pluses the fact that it had no investments in SA. Not only that, but should the bid succeed, he said, the enlarged group would have no investments there, either.

Selling the GFSA stake and ConsGold's present direct holdings in South African mines would result in a disinvestment from SA of some R2,6bn at current financial rand prices. Ironical, then, that Anglo American chairman Gavin Relly, who is backing the bid, should the very same day — in an address to the German Institute of International Affairs in Bonn — strongly argue against disinvestment by multinationals.

According to Edwardes, the genesis of the ConsGold bid came when a group of "Young Turks" at Johannesburg's 44 Main Street decided to make more of the assets held by Minorco. It took them some time to persuade the board to agree to the switch from being a passive investment organisation into becoming a hands-on manager.

The aim now is to build Minorco into one of the world's leading natural resource companies. The proposed acquisition is the first step.

By reducing the Anglo/De Beers stake it increases the independence of the company and widens the share ownership base. Edwardes has adamantly insisted he would not have taken the job if independence was not guaranteed. Whether the bid fails or succeeds, he says, the new strategy will remain.

Assisting him are three "Young Turks", all 38, who joined Anglo in the early Seventies. Roger Phillimore will be responsible for strategy and commercial affairs, Tony Lea for finance and Hank Slack for North American affairs.

They all have a clear idea of where they want to go, insisting that in future Minorco will hold minority shares in companies only for strategic reasons or where they are able to directly influence decisions.

For this reason, both the GFSA stake and part of ConsGold's 49% stake in Newmont Mining will be up for sale if the bid succeeds.

ConsGold is prevented by an agreement from acquiring a majority stake in Newmont, and Edwardes says the yield of under 2% persuaded them it would be best to run down this stake.

But even with these disposals Minorco would own, through Goldfields Mining Corporation (GFMC), some of the most profitable low-cost mines in the US as well as important mines in Australia and Papua New Guinea.

Initial City reaction to the bid was harsh. One broker called it "derisory," while others regarded the offer of £19 and a new Minorco share for every two in ConsGold as a "sighting shot". This values each ConsGold share at £13,32, but analysts say Minorco will have to pay more than £16 if the bid is to be successful.

The declining gold price could work in Minorco's favour. With some analysts predicting an average price of US$350 next year, shareholders might be tempted to part with ConsGold shares which were already overvalued by £1 on fundamental grounds before the bid.

But the bid might have stood more chance of success had it been an all cash offer. Minorco has an undistinguished record to date and its shares are trading at a 35% discount to net asset value, yielding just 2%.

In terms of mining investment it cannot match the record of ConsGold. With Edwardes at the helm all this might change, but his experience has been in industry, not mining.

A final factor that cannot be ignored stems from the speculative activity that preceded this bid.

David Brewerton, financial columnist of the London Times, estimates that insider dealing has placed as much as 30% of ConsGold shares in the hands of speculators.

If this is true, speculators could well determine the outcome. More cash from Minorco could persuade them to sell, but Agnew is going to fight this one tooth and claw.

Russians to step up gold sales this year

79 SMC

By Neil Behrmann

LONDON — Soviet officials have indicated that gold sales will increase this year, bullion dealers say.

At a Savoy Hotel meeting with the London Bullion Association, eleven delegates from the Bank for Foreign Affairs in the Soviet Union said that it was "probable" that there would be higher sales this year.

Delegates did not disclose quantities, but dealers believe that recent sales helped depress the gold market. "They have been consistently offering gold," said a Zurich based dealer and were agressive sellers when the price was in the $428 to $431 range.

Russian sales are generally estimated at 250 tons a year. Total Eastern Bloc sales were 300 tons in 1987, said the Bank For International Settlements in its latest annual report. But sales could be higher this year because of a poor grain crop, low oil prics and the need to industrialise the economy.

"They have been selling more platinum, palladium and other raw materials to supplement their foreign exchange reserves," says a Swiss dealer.

The Soviet Union is also tapping Western markets for more capital. It issued a 500 million D-mark ($330 million) loan on the Euromarkets in July and has set up export finance and short term loans from Western banks this year.

Moscow Narodny Bank, a London-based Soviet foreign bank has joined the London Bullion Association, a trade body of the major bullion houses and precious metals firms that trade gold in the City.

With "Perestroika" reaching the gold market the general aim is to improve communication and direct access to the bullion market, a Soviet official told delegates at the closed meeting.

"Normally visits to banks were on a one-to-one basis, being part of a group will help," the official said.

Besides London, the Soviet Union actively trades gold through houses in Switzerland, New York and Hong Kong. Direct sales instructions are from Moscow.

Reuters trading screens allow the Bank for Foreign Affairs direct access to the markets from the Soviet Union.

As a member of the London Bullion Market Association, however, the Russians might trade more actively in a variety of gold instruments, including futures and options.

Besides gold discussions, the top level Soviet banking delegation has called on London clearing and merchant banks, accountants and lawyers.

It is also visiting London's Financial Futures Exchange, the Bank of England and Lloyds Insurance market.

Bankers say that the Russians want to train and develop exectives to restructure their own antiquated banking system.

Fears of new curbs grow as gold falls

25/9/88

(79) S Times

GOLD's slide below $400 an ounce has brought closer the spectre of direct controls on SA's economy.

A lower gold price reduces export reciepts and the surplus on the current account of the balance of payments. It tightens liquidity, drives up interest rates and reduces the tempo of business. But, say economists, direct controls are by no means inevitable.

Calls for another increase in interest rates are becoming more strident.

"Whatever happens, we have to cut spending," says Anglo American economist Aubrey Dickman.

Fred's threat

Business has been heartened by the improvement in the trade surplus for the second successive month in August — it edged up to R1,09-billion from July's R974-million.

There is, however, still real fear that the authorities, studying a 15-point plan by Sanlam chairman Fred du Plessis calling for import control, among other measures, will be panicked into a tight clamp because the import bill is still rising. Last month it resumed its climb, moving from R3,26-billion in July to R3,65-billion.

Much of the surge was apparently due to importers stocking up ahead of expected measures to curb imports. It was a disappointing performance, coming after signs that imports had begun to level off after the second quarter.

Economists say the effects of the credit restrictions and the import surcharges announced last month will soon begin to filter through. A boost for exports caused by a low rand will be quickly reflected in the monthly trade figures.

Mr Dickman says the im-

Business Times Reporter

position of controls will not slow domestic demand to the point where it affects importsFl

That leaves interest rates.

"I am not suggesting that we return to the bad days of 20% rates," says Mr Dickman. "But 16% or 17% would not be unreasonable in South Africa's current position."

Another economist believes SA's imports must be reduced by at least 10%.

"I do not advocate direct controls, but it might be wise to expect some move in this direction."

Dr Du Plessis' plan, presented to the Economic Advisory Council this month, has been referred to the economic strategy committee for closer study.

No details have been divulged, but the plan is believed to include suggestions for quantitative import controls and foreign currency rationing.

Last month Dr du Plessis criticised import surcharges, saying they would force up inflation.

He said that instead of "dampening the economy to a no-grow situation", the Government should have introduced quotas to limit expenditure of scarce foreign currency to essentials.

The most logical step would be to imporove foreign currency earnings by promoting exports. He said the gold-mining industry should receive a better tax deal.

Elections

Econometrix director Azar Jammine says that although there in a strong likelihood that more controls will be imposed, the main problem could be solved by raising interest rates.

But the Government might want to delay an increase until after the October municipal elections.

"This will only aggravate the pressure on the balance of payments. If the medicine were administered now, direct controls might not be necessary."

Gold $389,05 — lowest in 21 months

79

Business Staff AF645 26/9/88

GOLD's recovery ran out of steam today as the price plunged to $389,05 an ounce at the London fixing — a drop of almost $12 since Friday and the lowest price since December 1986.

Bullion opened at $393,25 in London, where it was fixed at $400,35 on Friday afternoon.

Gold recovered to $395,85 in Hong Kong on Saturday from its New York close of $394.

A stronger American dollar and lower oil prices combined to undermine gold today.

The dollar edged up against the Japanese currency in Tokyo to around 134,72 yen.

But the rand slid lower in Johannesburg, quoted early at R2,4892 to the dollar (40,17 US cents to the rand), against Friday's close of R2,4817 (40,29 cents).

The lower gold price also hit gold shares in early trading on the Johannesburg Stock Exchange. Heavyweight Randfontein lost R6 at R228.

Russians to enter gold coin market

20/9/88 79

MOSCOW — A new Soviet firm plans to launch gold and other precious metal coins on international markets next month to commemorate events such as the invention of the Cyrillic alphabet and the millenium of Christianity in Russia.

Vladlen Antipov, general manager of the firm Mezhnumizmatika, said in an interview that the gold, silver, platinum and palladium coins would go on sale on October 17 through various distributors abroad and in 24 Soviet cities.

Six different types of coin are to be sold — two in gold with face values of 100 roubles ($159) and 50 roubles ($79), one in platinum with a 150 rouble ($238) face value, a 25 rouble ($40) palladium coin and two three rouble ($5) silver coins.

Antipov said the purity of the gold and silver coins would be 90 percent and the platinum and palladium ones 99 percent.

He said about 90 percent of the new coins would be offered abroad for hard currency and the rest domestically for roubles.

Hard currency sales were expected to raise the relatively small sum of about $10 million, he said, but added: "This is a programme not from our pockets but for prestige."

He said the coins, which mark 1 000 years of Christianity in Russia, the invention of the Cyrillic alphabet and old Russian literature and architecture, result from "perestroika", the economic reform plans of Kremlin leader Mikhail Gorbachev.

Mezhnumizmatika, which has a share capital of five million roubles ($7,9 million), was formed last June.

BACKERS

Vneshekonombank, the Soviet bank for Foreign Economic Affairs, has a 50 percent stake in the new company and Gosbank, the Soviet state bank 45 percent. Soviet-owned Ost-West Handelsbank AG, based in Frankfurt, holds the rest.

Antipov said that besides operating on numismatic markets, Mezhnumizmatika would take over gold leaf and nugget sales previously handled by Vneshekonombank, which would now concentrate on its bullion market activities.

Until his new appointment, Antipov was deputy general manager of Vneshekonombank's precious metals department.

He said Vneshekonombank minted a coin to mark the 1980 Moscow Olympic games but otherwise had not operated on new coin numismatic markets.

Mezhnumizmatika would operate on a self-financing, self-accounting basis, he said, but added that it was too early to estimate the firm's annual turnover.

Antipov said the distributors of the coin — banks and firms in West Germany, the US, Switzerland, Italy, Austria and Japan — were chosen because of thair long-standing contacts with the Soviet Union, were in countries with major markets for gold and precious metal coins.

He added that foreign distributors would set hard currency prices, but added that the 100 rouble half ounce gold coin would probably sell for about $350.

This coin would have a mintage of 14 000 while the 50 rouble quarter-ounce gold coin would have a 25 000 mintage.

Antipov said this was the first time the Soviet Union, a major palladium producer, was issing a coin in the metal.

The one ounce palladium coin would have a mintage of 7 000 and sell for about 60 to 75 percent more than the market price for the metal of around $120 an ounce, he said.

NUMISMATICS

Antipov said the new firm's activity in gold leaf and nugget markets would not be significant at first as it would concentrate on numismatic markets abroad and in the Soviet Union, where coin collecting was growing more popular.

But he added that the market was very promising for nugget sales

Signs point to return of JSE investor confidence

Star 6/10/88 79

By Derek Tommey

These days there is an air of quiet confidence, even of suppressed excitement, in the Crystal Palace — the small glass-and-steel confection in Diagonal Street that houses the JSE.

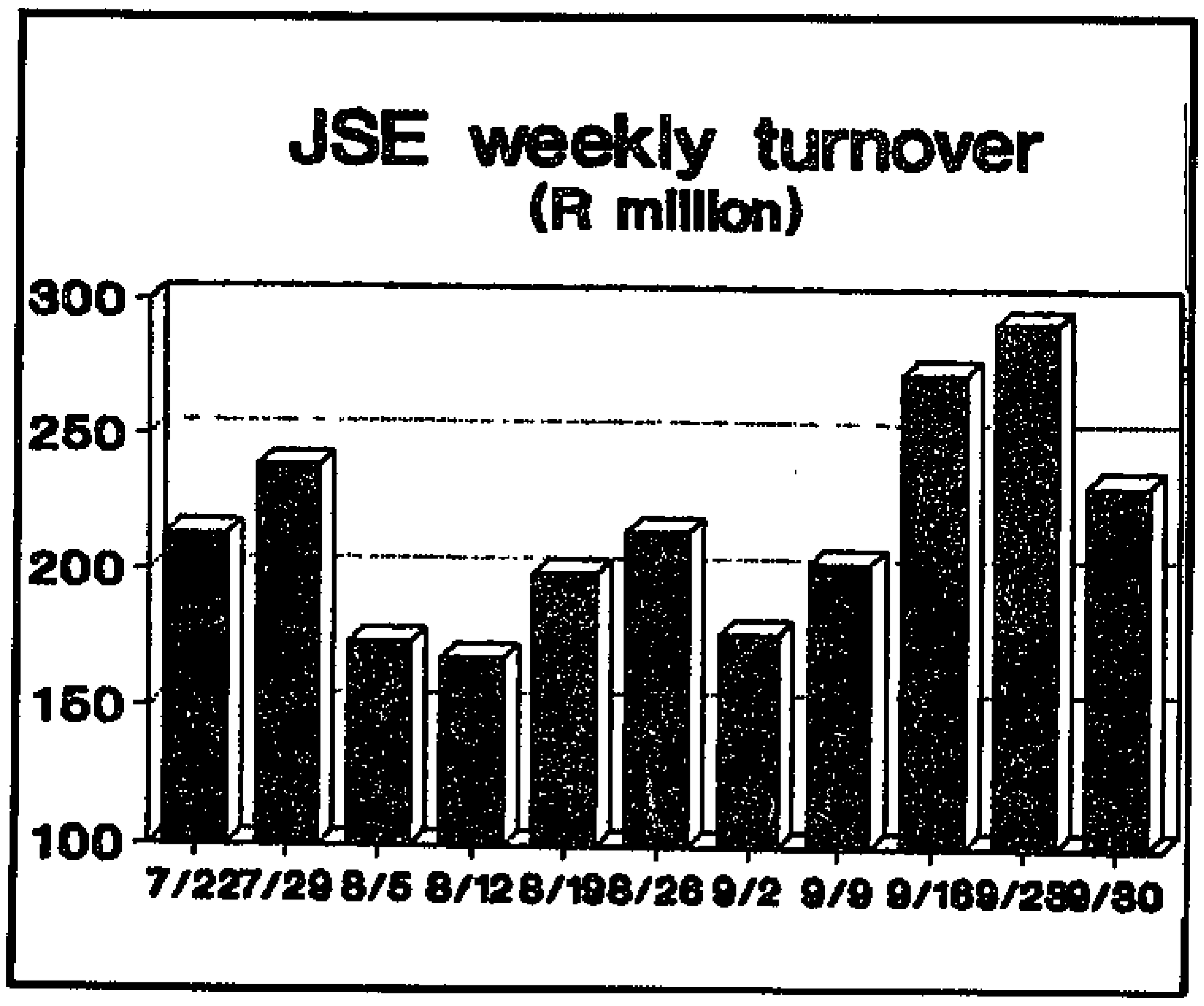
After almost a year-long bear market, characterised by falling prices and dull trading, buyers are re-appearing, turnover has surged and share prices have started to move up — a strong indication that the bull market may have returned.

In the first three weeks of August, turnover averaged R190 million a week. In the past three weeks, it has been averaging R260 million — a 36 percent rise. And while trading in Consgolds has been heavy, this has not been the dominant reason for the rise.

In the past four weeks, the JSE overall index has risen 7,7 percent and the value of listed shares has risen by R20 billion to over R292 billion, indicating that the market as a whole is back to where it was in June last year.

Metal and mineral shares have risen 13 percent in the four-week period, copper shares 8,5 percent, financial and industrial shares 7,7 percent, industrials 7,3 percent, diamonds 5,7 percent, platinums 5,2 percent and golds 4,3 percent.

However, it is the gold market that is attracting the attention of brokers, despite a comparatively small increase in prices last month.



In recent weeks much of the heavy buying has been in the gold section and, as a broker said yesterday: "The charts look fantastic."

They showed almost perfect bottom formations, he said. If the charts mean anything, a strong rally could be in the offing.

Several factors have helped boost confidence. Among them:

● A slight improvement in the political situation, with a possible retreat from Namibia signalling reduced defence spending.

● The temporary shelving of the sanctions-tightening Dellums Bill in the US.

● Better export earnings as a result of the 20 percent drop in the rand against the dollar, with the gold price remaining fairly high in rand terms.

● The strong economic growth overseas has lifted the price of many SA base minerals. Since mid-August, for example, the price of standard copper has risen from £1 250 to £1 510.

● Some of the money not spent on imports as a result of surcharges should flow into local products and investments.

● Increased inflationary fears in the West, which could eventually lead to an increased demand for gold. Stockbrokers say gold's ability to remain above $390, despite Taiwan's withdrawal from the gold market in mid-August and a major increase in bear sales, indicate it has probably bottomed and that a price of $390 is probably the start of a recovery.

This has led to heavy buying of golds on the JSE in the past few days and to a firmer trend in SA golds on Wall Street where the American South African Investment Company (ASA) has risen above $38 for the first time since August.

● Finally, one must take into account the build-up of money in financial institutions. Unit trusts have had a net inflow every month this year and the insurance companies have been receiving record premiums. There comes a time when they have to start investing this money. It looks as if that time has arrived.

Summing up, it seems the economic outlook, and the prospects for the share market, could be rather brighter than many have been forecasting.

Gold and forex reserves continue downward trend

Star 8/10/88

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ANN CROTTY

A LOWER rand gold price appears to be the main reason for the decline in South Africa's gold and foreign exchange reserves during September.

It is therefore unlikely that, at this stage, the authorities will feel under sufficient pressure to take further steps to ease the balance of payments situation.

Latest figures from the Reserve Bank show total gold and foreign assets of R5,1 billion at end-September compared with R5,3 billion at end-August and R5,6 billion at end-July.

Most of September's fall reflects the sharp drop in gold holdings to R3,6 billion from just over R4 billion. This drop in turn reflects the fall in the rand value of gold as well as a fall in the volume of the Bank's gold holdings.

At end-September the Bank held some 4,05 million ounces of gold which were valued at R890,17 per ounce. This was a significant change from the 4,28 million ounces held at end-August which were valued at R948,43 an ounce.

The figures suggest that the rand was supported and not allowed to fall sufficiently to compensate for the impact of the weaker gold price that prevailed during September. Support for the rand may have been considered necessary in order to ease the burden of funding the government's massive foreign debt.

Gold was sold in order to purchase foreign currencies.

The reserves peaked at R8,7 billion in August 1987, but from then on the deterioration in the balance of payments resulted in a steady reduction in the level of reserves.

Economists do not expect the September figures to spark off additional measures to improve the balance of payments position. The belief is that at present the surplus on the current account is showing a slight improvement but that this is being countered by an increase in the outflow of capital so that the overall impact on the balance of payments is neutral.

Indications at this stage are that the economy is in the process of slowing down so the authorities are likely to delay the next step in an austerity drive which would be the introduction of import quotas. This would only become necessary if there was a sustained deterioration in the balance of payments.

79

Gold to continue its decline say analysts

NEW YORK — The world is all but awash in gold. Why, then, should gold prices have been showing some renewed signs of life?

Analysts consulted by Barron's Financial Weekly suggested that Minorco's hotly contested bid for Consolidated Gold Fields (ConsGold) might have something to do with it.

If Minorco is willing to pay US$5bn for ConsGold, the reasoning goes, it must be worth considerably more. And if ConsGold is vulnerable to a takeover, what about many of the much smaller outfits, especially the ones with very low-cost deposits?

Karl Elers, who runs Battle Mountain Gold — which happens to have some of the lowest mining costs in the business — has no doubt that the industry is ripe for consolidation and notes that the companies' generally depressed share stock prices only make them more so.

Record levels

Far Eastern demand has been strong all year, and picked up significantly when the price dipped below US$400 an ounce. One analyst says, in fact, that although world gold output will be at record levels this year, so will demand for the metal on the part of gold bugs in the Far East.

A very conservative estimate, he says, is that Middle Eastern and Far Eastern gold markets — alone — will absorb around 1 100t of gold this year, or some 75% of all non-communist production.

Says John Shier, president of Johnson Matthey in Toronto: "There is certainly a definite squeeze in physical gold at the present time because so much of it is being funnelled to the Far East. Taiwan is the most glaring example, but Hong Kong and Japan are also taking quite a bit."

The Taiwanese Central Bank earlier this year was a big buyer of gold, applying the purchases as a cosmetic fix to the nation's enormous trade surplus. But more recently, the trade reports, much of the buying has come from private investors.

Smith Barney's Willam Siedenburg is the dean of Wall Street's metals analysts. He sees gold prices headed lower because the fundamental influences on the metal are just plain bearish.

KATHRYN M WELLING

Barron's asked him if gold was regaining some of its old glitter around the street?

Siedenburg replied: "Not from where I sit. I'm not very bullish on the gold market. Longer-term, I don't think that the gold price will go up very far unless we have a substantial rise in the rate of inflation, simply because of the very large amounts of new gold production that I see."

Barron's: "Then prices are headed lower, despite gold's recent rally?"

Siedenburg: "Generally, the number I have been using for the price of gold in 1989 is an average somewhere around US$400 and, in the next year, I can see the price of gold getting down to something as low as the US$380-US$385 range. This implies that I'm not looking for any great expansion in the rate of inflation."

Barron's: "Then you're not recommending any of the gold mining stocks?"

Siedenburg: "On the basic numbers, probably not.

Quality stocks

"What I've said to people is: 'If the price of gold comes down to, say, US$380, US$385 and you feel that you can't live without owning gold in some form, buy quality gold stocks'. And, as far as I'm concerned, the two quality gold stocks around — at least in the US — are Battle Mountain Gold and Newmont Gold."

Barron's: "Why those two?"

Siedenburg: "They have 45% returns on equity. They have no debt. Newmont is going to grow gold production very fast. And, therefore, in the stock market, you have to pay twice the multiple for it that you pay for Battle Mountain Gold.

"Battle Mountain's gold production costs are among the lowest in the US, US$200 an ounce, everything taken into account. That compares to a current cost on Newmont Gold of around US$270." — AP-DJ.

Gold price shoots up five dollars

(29)

The JSE enjoyed another good run yesterday as the gold price shot up $5 from $417,50 to $422,50. Star 4/11/86

The All / Gold index rose 38 points to 1 407, overall index 28 points to 2 028 and the platinum index a massive 182 points to 3 334. Dealers said a weaker dollar and a stronger platinum price supported the bullion price.

Mr Michael Carlsson, investment manager at the stockbroking firm Irish & Co, said a more positive investment was evident in the last few days.

Savings deposit rates rise and . .

Gold gives the rand a needed boost

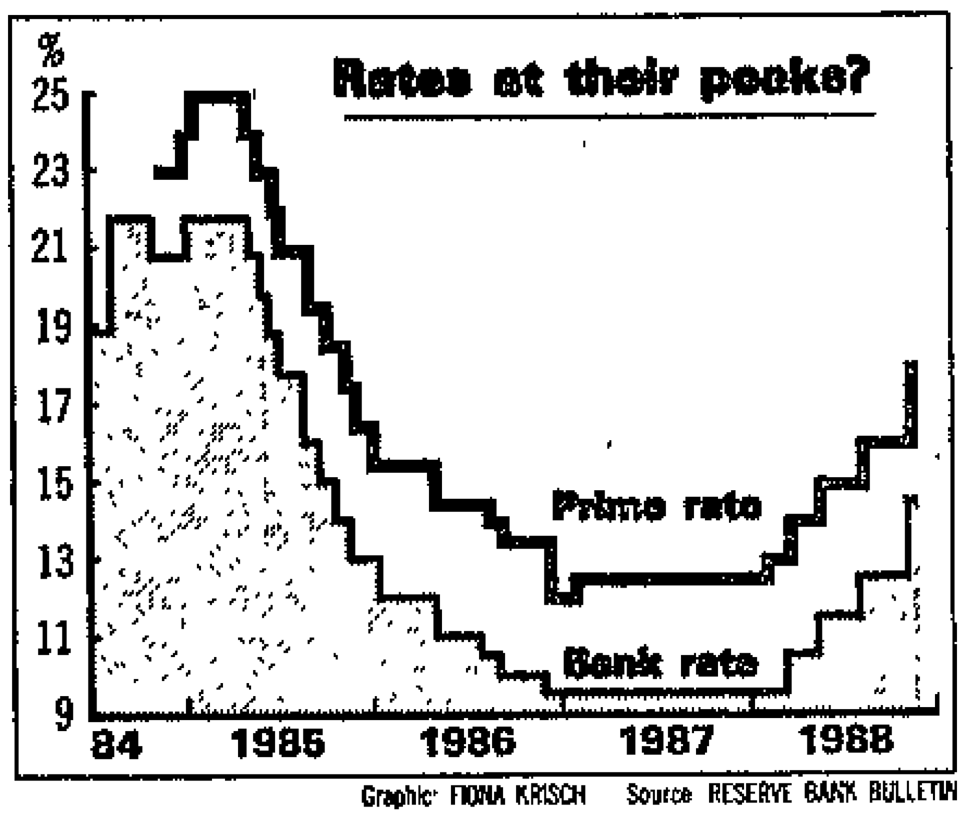
GRETA STEYN

SAVINGS deposit rates rose and the rand strengthened yesterday as financial markets digested the two percentage point increase in Bank rate.

The Standard Bank rushed to move on retail deposit rates, raising rates by as much as two percentage points in some cases from today. Competition will force the other banks and building societies to follow suit.

The increase in savings deposit rates is in line with Reserve Bank Governor Gerhard de Kock's wish for a return to positive real rates of interest to generate much-needed savings.

The Standard's increases apply to call and notice deposits and certain other special savings plans which the bank offers. The rate for 32-day notice deposits moves from 10% to 12% and call deposits from 8% to 10%. For six-month fixed deposits, the rate moves from 11% to 13% and for one-year from 13% to 14,5%.



Graphic: FIONA KRISCH Source: RESERVE BANK BULLETIN

On foreign exchange markets, the rand closed sharply higher against the dollar, ending the day at R2,4583 to the dollar from R2,5078 on Wednesday. Earlier yesterday, it improved to R2,4390 to the dollar.

To Page 2

Du Plessis responds to criticism

GRETA STEYN

FINANCE Minister Barend du Plessis yesterday responded to criticism of monetary policy in 1988, saying interest rates were not administered prices.

He said: "In a free enterprise economy which aims to promote the proper working of markets, fluctuating interest rates must be as acceptable as any other variable in the economy."

He recognised that the arguments of critics calling for an earlier increase in Bank rate had been well founded. However, he said: "The obvious result of large increases in interest rates is cost increases for large numbers of businessmen, farmers and home owners, many of whom just cannot afford it."

B/day 4/11/88

Call for gold may outstrip supplies

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There is a strong possibility that the supply of gold will be insufficient to meet demand, states Jeffrey Nichols, managing director of American Precious Metals Advisors.

He told the conference yesterday that there had been a shift in investor interest from soft assets to hard, from stocks, bonds and US dollars into gold.

As more and more people started looking for hedges against the risks involved in the various investment sectors, it was likely that there would be insufficient gold to meet this demand.

He said: "As a consequence a substantial and lasting rise in the metal's price is to be expected before the decade closes".

Mr Nichols told delegates that he expected a weaker US dollar to help the gold price firm. He believed the recent strength in the American currency was just an episode and the dollar still remained in a declining trend.

"Recent market action indicates that traders and investors who were slow to back the dollar on the way up, may be quick to sell the greenback on the way down."

He said that America had become complacent about its five percent inflation rate. He points out, however, that this will lead to an insidious rise in the rate. This, combined with the falling dollar would help a gold rally.

Mr Nichols also said that factors influencing the Soviet Union, such as the pull-out from Afghanistan, weaker oil price and instability in the gold market itself all pointed to a lower gold-sales profile of the Soviets.

Pessimistic picture apparent, says Gouws

79 B/day 8/11/88

'Dangerous' to bank on sharp rise in gold price

CHRIS CAIRNCROSS

CAPE TOWN — It would be dangerous for SA to bank on a sharp gold price rise in the next five years — it might even be lower than now.

This warning was issued yesterday by Rand Merchant Bank group economist Rudolf Gouws at a Stellenbosch University Bureau for Economic Research conference here, reviewing prospects for the next five years.

Likely trends in the international economy presented a pessimistic picture for gold, and it would be dangerous to bank on any material rise in reviewing economic prospects for SA, Gouws said.

His reasons were:

☐ Inflationary expectations worldwide were likely to remain low;
☐ Real investment rates were expected to continue as high levels;
☐ The oil price was destined to remain on a comparatively low plateau;
☐ Gold production worldwide was increasing;
☐ The Soviets were likely to be sellers; and
☐ The possibility of more loans being negotiated, using gold stocks as collateral, was growing.

Gouws also forecast soft commodity prices generally, because of a cyclical slowdown in the world economies, a structural weakness in demand and higher interest rates.

At the same conference, Privatisation Minister Dawie de Villiers said privatisation and deregulation were the most suitable instruments to redress the negative trends in the SA economy and place it back on a sound footing.

Market forces

These were among the most important steps being taken by government to ensure more efficient use of the country's scarce resources, notably capital.

"By exposing the provision of as many goods and services as possible to market forces, greater efficiencies in the allocation of capital and human resources, as well as operational efficiencies, will result."

De Villiers said the problem with inefficiencies in state enterprises was that they did not necessarily stem from bad management.

The problem lay rather in the fact that managing an enterprise in the public sector required adherence to different criteria than those of the private sector. Socio-political and commercial objectives became confused to the detriment of both.

"Bureaucratic and political interference complicate the management of state enterprises."

He said privatisation could change the situation and compel management to adhere to criteria that dictated success or failure in the private sector. Management would be freed from government interference and the burden of non-commercial reporting lines.

Privatisation and deregulation and strict adherence to important business guidelines, leading to better capital utilisation, could dramatically improvee economic performance.

De Villiers stressed government's commitment to this path, promising further important developments in 1989.

(79)
Star 8/11/88

Gold and forex reserves still showing rapid decline

By Sven Lünsche

Economists are calling for more measures to protect rapidly declining gold and foreign exchange reserves.

In October, total gold and foreign assets fell by R477 million to R4,615 billion, figures released by the Reserve Bank yesterday show.

The situation looks worse for gold reserves, which fell by R640 million to R2,966 billion.

The gold reserves are valued at R910,08 per ounce (R890,17 in September).

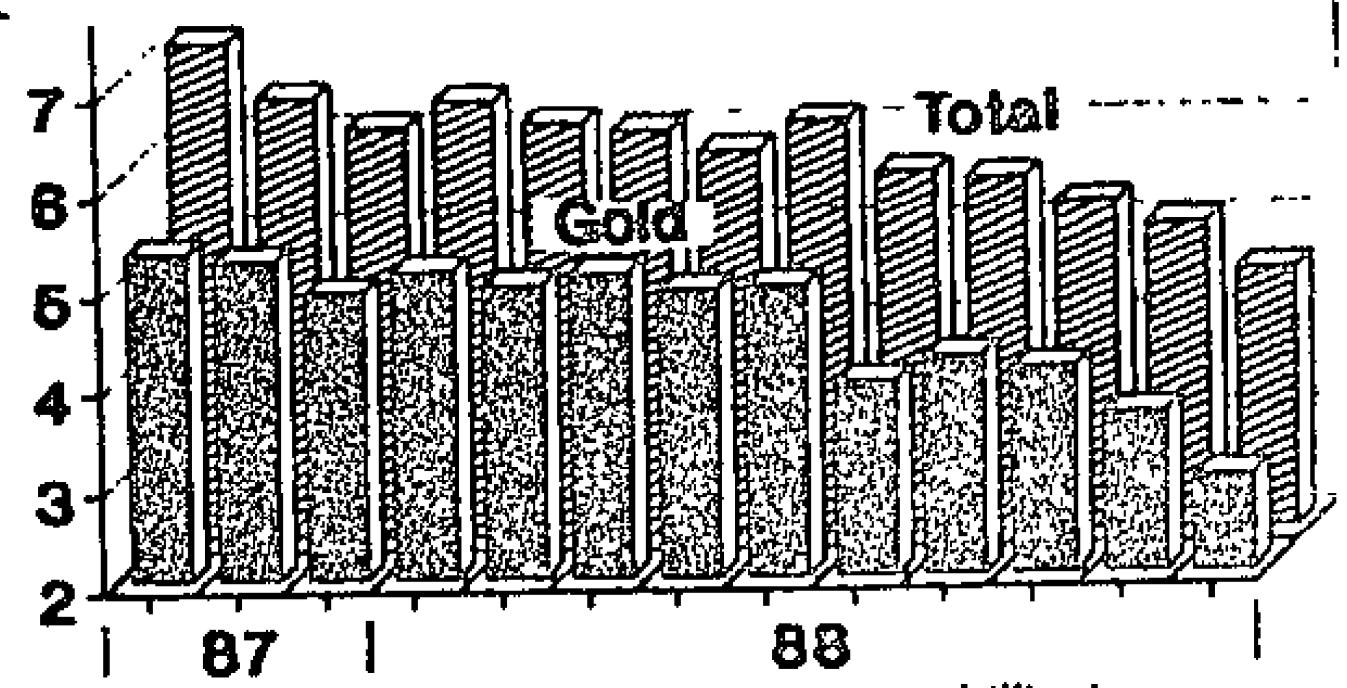
It is the first time total gold and foreign exchange reserves have fallen below R5 billion since August 1986. In dollar terms, the situation has been aggravated by the declining rand exchange rate and reserves are now $1,87 billion

The reserves cover imports for the next one and a half months, a situation the authorities hope will be alleviated by import surcharges and higher interest rates.

The impact of surcharges and the recent encouraging rise in export revenue is likely to be reflected in a more favourable current account surplus in the fourth quarter after a R4,5 billion surplus in the third quarter.

The Bureau for Economic Research (BER) at Stellenbosch University says in its latest report: "Despite the fact that a current account surplus of R1,3 billion can still be generated this year, it is not sufficient to meet expected foreign exchange debt obligations of close on R4 billion. This means net reserves will decline by R2,6 billion this year."

The current account, however, could again produce a substantial surplus next year. The BER estimates a figure of R4,9 billion. It is responding fairly well to monetary and other policy measures introduced earlier this year and, as such, does not constitute a grave problem.



Gold and forex reserves (R billion)

The weakness in the overall balance of payments remains the capital account. The net outflow of foreign capital amounted to R700 million in the first quarter of 1988, but rose to R2,1 billion in the second and third quarter.

The BER projects that capital outflows will hit R4 billion next year, which, given a current account surplus of R4,9 billion, might be too high to replenish some of the foreign exchange reserves lost this year.

Economists say urgent action is needed and for it should be taken on the interest-rate front.

Charting the vagaries of gold

79

Star 1/12/88

By Dr Issy Bacher

At the end of the day, there can be no doubting that the economy and the JSE dance to the tune of the gold price.

On September 12, the gold price broke below $425 — an event which proved that the bears had assumed control over the yellow metal.

Two months later, gold is trying to cross back through the $425 mark.

Should it succeed, the bull trend will have been reinstated.

But the fundamentals for gold do not appear encouraging.

The falling oil price has kept world inflationary expectations in check, while the recent slight rise in the inflation statistics in the US and the UK has not been a spur to gold.

Gold's advance to the $424 level can be traced to the dollar's post-election collapse.

Considerable support

AtDm1,71, there should be considerable support from the world's leading central banks, so that further impetus to the gold price from a dollar much below current levels is an unlikely scenario.

If gold's fundamentals are not, for the time being, encouraging, is it possible for its price to rise?

Yes, it could indeed move higher, as the current price only reflects the obvious and the present.

If and when it moves suddenly higher, the reasons only become apparent at a later date.

This is where technical analysis can reflect future movements.

What, then, are the charts telling us?

Chart 1 is a conventional weekly graph of the gold price, showing the breakthrough at the support level of $425 on September 12 (point A).

Resistance line

At the November 25 price of $424,10, it is apparent from the graph that gold has run past the resistance line at the point (B), which is encouraging.

The metal would have to cross the second resistance line (2) at $430 before one could say for sure that gold was back on the bull track.

Is there a technique to reveal whether or not this marginal break will be transformed into a move of greater proportions?

Experience has shown that a comparison of gold price movements and the New York Stock Exchange's Dow Jones Industrial Index can very often pre-indicate the near-term trend of gold itself.

The second chart compares the price strength of bullion against the Dow.

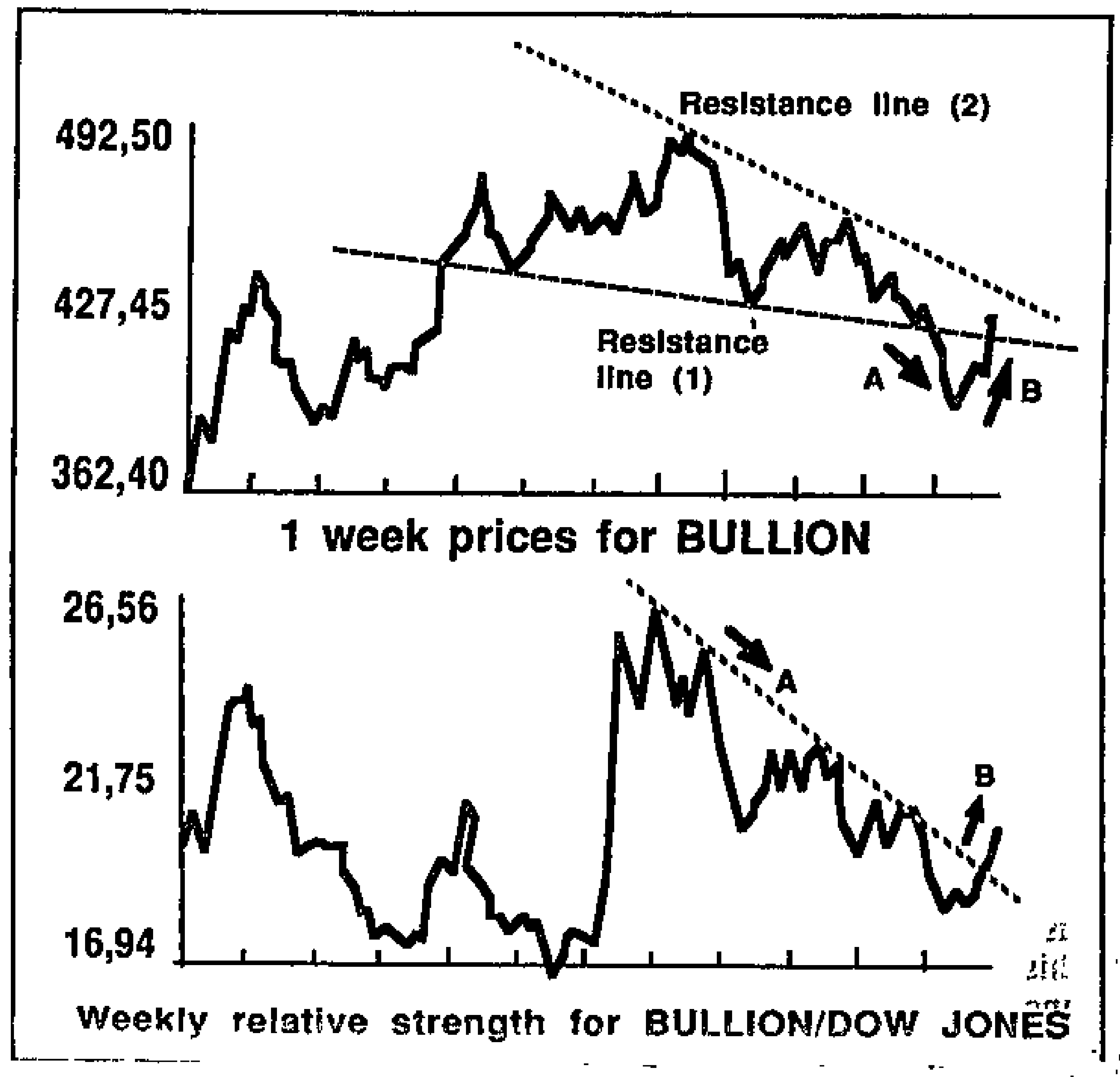
A falling graph indicates the Dow is the superior performer and that this is where investor funds have been channeled (as indicated by the arrow at A) in the past few months.

Note that when the Dow ended the week at 2 074 and the gold price at $424,10, a marginal break in favour of the gold price was achieved for the first time this year (see arrow at B), indicating that investor funds were beginning to move back into bullion.

Conclusion: Gold's superiority over the Dow is only marginal at the moment.

Readers should watch the movements of the two closely this week. Should gold gain further in relative strength, this will signal the start of a bull trend in bullion. Conversely, a loss in relative strength will indicate that the current positive trend has aborted.

As far as the gold price itself is concerned, the two key points for bullion to pass are $425 and then $430.



Institutions in action as JSE hits post-Crash high

Star
6/12/88
79

By Magnus Heystek
Finance Editor

The JSE rose to a post-Crash high yesterday as institutional buying pushed the Overall index to 2001, a rise of 31 points on the day.

Heavyweight gold shares made most of the running but selected industrial blue chips also attracted solid support from local institutions. The All Gold index rose by 34 points to 1386 while the Industrial index firmed by nine points to 1873 in a day described by dealers as "one of the busiest in weeks".

The sudden spurt in the Hong Kong gold price over the weekend, which was sustained in other international markets yesterday, provided the spark for widespread buying of heavyweight gold min ing and mining financial equities.

The platinum price in London also reached its highest level for six months Monday. Recent renewed interest in platinum has been sparked by the launch of two legal tender coins from Australia and Canada and reports suggesting supplies of the metal will be tight.

On Monday platinum touched \$614,25 in morning trading, before profit-taking pared its gains the price ended at US \$613, up \$14,25 from Friday.

Gold was fixed at \$429,40 an ounce during the afternoon fix in London, up more than \$6 an ounce from its Friday close. It fell back slightly to \$428,65 at the opening in Hong Kong today.

Reasons for this sudden move vary, but many international dealers ascribed it to higher oil prices and fears of a further weakening of the US dollar.

Most JSE stock brokers are positive about the short term outlook for gold.

According to Sapa a snap survey by the SABC showed that brokers believe gold will at least maintain current levels around \$430.

Some added that short term movement to around \$470 was possible within the first quarter of next year.

Reasons for the generally bullish perspective include oil price increases, Far Eastern gold purchases, continued uncertainty about the immediate future of the American dollar, underlying strength in other precious metals particularly platinum, and doubts as to whether President-elect Bush will begin to make meaningful attempts to address the budget deficit.

The JSE has now moved into a technically-important area, which many analysts consider to be a prelude to a meaningful rise.

Last month the index rose to 2000, but declined back to levels around 1900 as many investors took profits.

The level around the 2000-mark is considered by many analysts to be an important resistance level, which, if broken upwards, could herald a renewed upturn in local equity prices.

The JSE tested the 2000-barrier for many months, from about September 1986 to January 1987 before surging to an all-time high above 2600 at the time of the October crash last year.

December is normally a very quiet period for the JSE, but a continued rise in the price of gold and other precious metals, is bound to lead to higher prices.

Stockbrokers, however, are not all convinced that the rise in share prices can be sustained.

According to technical analyst Mr Johan Pretorius of Investment Decision Support System (IDSS) gold will have to penetrate an important long-term resistance barrier around \$435 before the recent upward move can be seen as a renewed bull-market in the gold price.

Cape Times 17/12/81

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Gold fall follows platinum

GOLD slid $4 to $411,95 in London yesterday in the wake of the sharp fall in platinum prices around the world.

The closing figure represented a recovery on the morning low of $409,25.

In New York the gold price recovered slightly to close at $413,50.

The fall in platinum prices yesterday followed the announcement by the Ford Motor Company on Thursday that it had developed a platinum-free catalytic converter for car exhausts.

In less than 24 hours the price of platinum fell by $60, over and above the fall of $21 on Thursday, dragging gold down with it.

● Sliding platinum dulls gold — Page 15

W/E Argus 10/10/87 (79)

Gold: The driving force of South Africa's economy

MONEY AND YOUR LIFE

Martin Spring

GOLD has been described as the flywheel of the South African economy — a driving force that spins on virtually unaffected by political change, consistently bringing in about half the country's foreign exchange earnings.

In the 1960s the business Press and policy documents assumed that gold mining would soon go into decline, and by the 21st century would no longer be a major force in the South African economy.

Now we know that this was yet another "historic inevitability" that turned out to be hopelessly wrong.

In fact, because of our international political difficulties and lost momentum in industrial development, gold and the other precious minerals are more important than ever.

Nevetheless, some of the long-term trends are distinctly worrying:

● About 80 percent of the world mining industry's exploration expenditure is now focused on gold, and the coming-into-production of new mines is increasing the supply of gold by 11,2-million ounces every year.

● The average recovery grade of our mines has now fallen to 5,3 grams/ton, while many much richer mines are opening up in other countries — the new Hishikari mine in Japan has an average grade of 75 grams/ton.

● The tax environment in other countries is favourable to stimulate production — in Australia, for example, gold mines pay no tax on their profits — while in South Africa a marginal tax rate of 76 percent on profits discourages expansion.

● Having allowed their working costs to become excessive, largely through too-generous pay increases for miners, the mining houses are now caught up in enthusiasm for mechanisation and job destruction — so much for "social responsibility".

If one tries to look at our gold mining industry with a long-term perspective, is the outlook right or dark ?

Our principal reference must be Timothy Green's excellent new book "The prospect for gold - the view to the year 2000."

His starting-point is "the greatest explosion in (world) gold production since the Californian and Australian gold rushes around 1850 and the South African discoveries of the 1880s".

One reason is that the big margin between selling price and costs of production makes gold the most profitable of the reasonably abundant minerals to mine.

Another is technological breakthroughs such as heap leaching and carbon-in-pulp which have made it economic to process low-grade ores.

Between 1980 and 1986 Australia's gold production grew from 17 to 115 tons a year, the USA's from 31 to 109 tons and Canada's from 52 to 108 tons.

Production is likely to continue to rise strongly, at least for the next few years. Who is going to buy all this gold ?

The central banks are not interested — over the past 21 years they were actually net sellers of more than 2 000 tons — though it's interesting to see how IMF chief Michel Camdessus strongly opposed the suggestion that the fund sell some its gold to finance assistance for poor African countries, saying: "Gold is the ultimate but decisive weapon of central banks and the IMF."

Jewellery, traditionally the biggest market for gold, Green describes as "the eroding cornerstone" — young people prefer to spend their money on electronic gadgetry or holidays abroad.

The most hopeful prospect for gold is that the Japanese will continue diverting some of their huge savings surplus into the metal.

Last year they spent more than $8-billion on gold, mopping up 40 percent of supplies reaching world markets.

Even though half that was accounted for by special Government purchases for commemorative coins, orivate investors are increasingly building up their private stocks.

Already the world's ultimate gold shop, Yamazaki, is in Tokyo.

The four-storey enterprise offers 20 000 different kinds of gold jewellery, 500 kinds of gold chain, coins and bars, with pop music, fashion shows and an electronic scoreboard showing prices in all the world's big gold trading centres, to raise the level of excitement.

Green concludes: "Japan's involvement with gold is still in the formative stages, and it can be perhaps the single most important force in investment gold for the rest of this century."

The longer-term outlook for gold, and for our most important industry, is therefore uncertain.

This makes it all the more important that the industry be encouraged to hold down its costs, improve its efficiency and expand — which means not only a lower tax burden, but a different tax regime.

● Martin Spring is editor-in-chief of Personal Finance Newsletter.

Gold heading for

C/T ARGUS 10/10/87

79

10.10.87

By DEREK TOMMEY
Finance Editor

PROSPECTS for gold, South Africa's biggest export and the main source of the country's wealth, are looking up again, believe Cape Town stock brokers.

The surprise reference to gold by the American delegate at the annual meeting of the International Monetary Fund last week has caused local brokers to take a hard look at America's financial situation to see if there is any connection between it and the renewed American interest in the metal.

The reference to gold came in a call by the American Treasury Secretary, Mr James Baker, for a gold-based commodity index.

The brokers could not see much reason for the commodity index. But they did see a lot of sense in the scheme if it led to the partial 'remonitisation' of gold. This would enable the United States to sell gold to ease its extremely seriously balance of payments problems.

Vested interest

It would also give the United States a vested interest in at least maintaining and possibly increasing the gold price.

Mr Baker's reference to gold drew attention to the mounting financial problems the Unites States is facing, and the fact that these problems could be eased if the US were able to sell gold at an "official" price to other central banks — something it cannot do easily at the moment.

The United States' problems arise mainly from the huge budget deficits it has run in recent years. This was $221-billion in the fiscal year just ended, will be $157-billion in 1987/88 and is forecast to be $190-billion in 1988-89.

These deficits have had some beneficial results. They have greatly stimulated the US economy and helped give Americans a higher standard of living.

But they have also led to the huge balance of payments deficits and have greatly increased America's foreign debts and increased distrust of the dollar, in spite of its huge devaluation in the past two years.

The United States has only been able to run these huge deficits because foreigners, and especially the Japanese, have invested large sums of money in that country.

These funds have been used to finance both the budget and balance of payments deficits. But there are indications that this could be coming to an end.

The Japanese Ministry of Finance has reported that the net outflow of long-term capital collapsed in August. It amounted to only $1,38-billion, compared with $18,5-billion in July and a monthly average of $13,6-billion or a total of $95-billion in the first seven months of the year. Of course, not all of this money was being invested in the US.

Economists in Tokyo, quoted by the *London Financial Times*, said the slump was due in part to the reluctance of Japanese institutional investors to invest in US securities following the poor trade figures.

In fact, Wednesday's unexpected half-a-percent rise in US bank lending rate, suggesting a shortage of ready cash is developing in the US, could reflect the absence of new Japanese money.

There is no doubt that a continuation of this trend would obviously cause problems for the US. The question the American government now has to ask is what will happen to the American economy and the dollar if the Japanese were no longer prepared to support them, and what should they do about it, the brokers said.

Last laugh

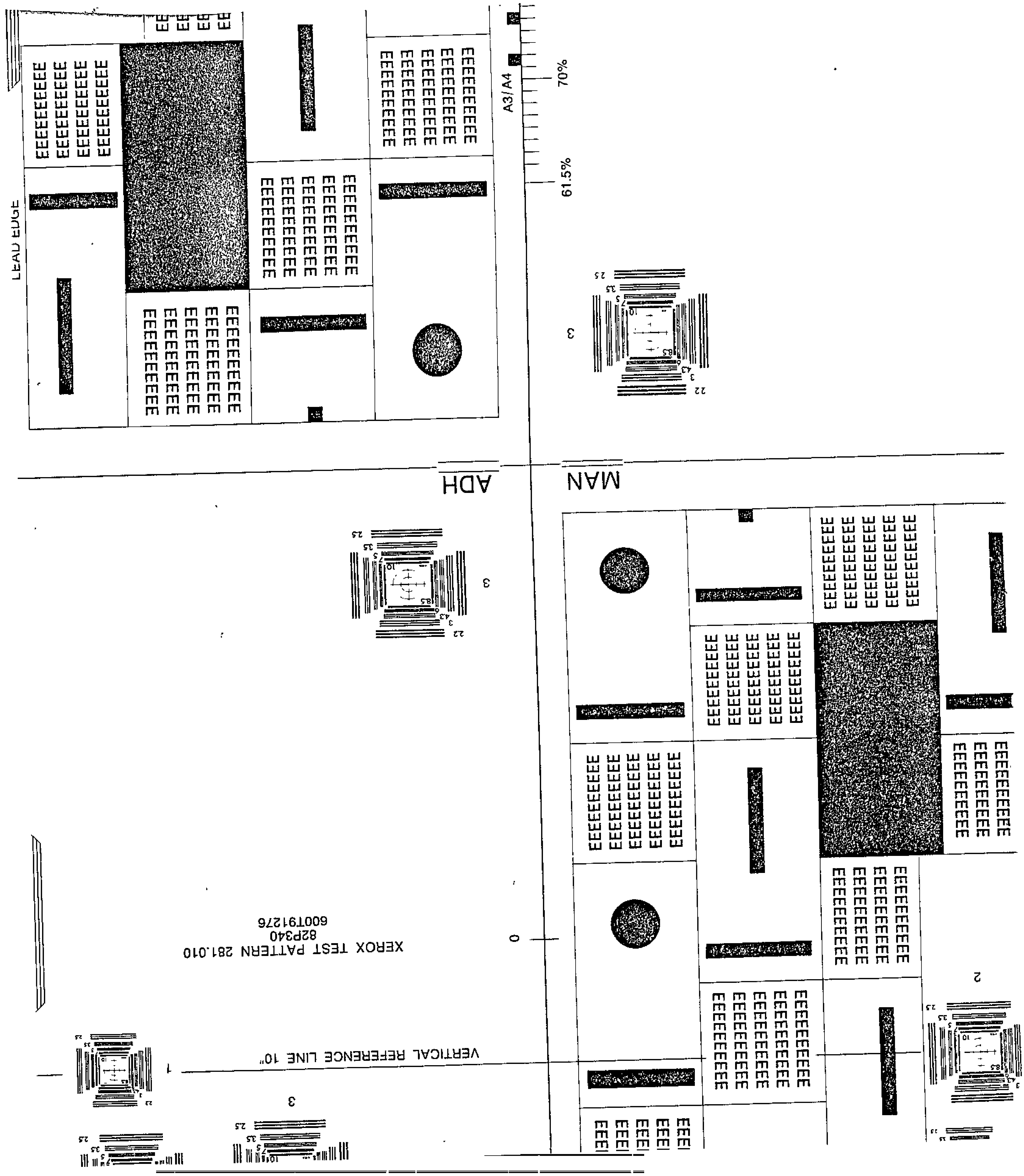
The Americans could ease the domestic money shortage by creating more money. But this would not help the current account deficit which was $78-billion in the first half of this year and was mainly financed by an inflow of foreign capital.

However, this problem would be overcome if the US were able to use its gold to pay its foreign debts.

Therefore any move by the Americans to free their gold reserves makes sense, the brokers say. It would also give the Americans the last laugh on the *London Daily Telegraph* which semi-seriously suggested recently that if the US did not start solving its financial problems it could be broke by 1989 and would have ask the International Monetary Fund for assistance.

The "remonetisation" of gold would give those countries with large stocks a vested interest in maintaining and even increasing the gold price — which would favour South Africa.

the sunny side



GOLD

ARGUS 19/10/87 79

ZOOMS

By TOM HOOD
Business Editor

GOLD jumped to $482,15 an ounce in Hong Kong today, up $16 since Friday to the highest price for almost five years, after a share-selling binge on world stock markets.

After topping $482 in Hong Kong, the price eased later to $476,25 in London.

At the latest price, equal to R978 an ounce, the country could rake in billions more in export earnings and give the gold mines a high price of about R31 500 a kilogram — 12,5 percent more than the average of R28 000 they received for the first nine months of this year.

In Johannesburg the rand rose to 49,40 US cents this morning from 48,72 cents on Friday.

Gold shares and Krugerrand prices moved ahead on the Johannesburg Stock Exchange and stockbrokers' telephone exchanges were inundated by investors trying to track the reaction of shares.

Record fall

Immediate reasons for the sudden surge in the gold price are fears about the American dollar, the Wall Street crash and escalating tension in the Gulf.

The dollar was hit by a huge fall in share prices on Wall Street on Friday.

The Dow Jones average of 30 industrial stocks, America's best-known indicator, plummeted a record 108,36 points to 2 246,73 on Friday in the busiest trading session so far on the New York Stock Exchange.

When the stock markets opened in Tokyo, Hong Kong and Sydney today investors lost their nerve and dumped shares, sending markets reeling.

The dollar slipped early today in Asian currency markets and stabilised at 141 yen and 1,77 German marks.

Analysts are uncertain if the tumble in stock prices marked only a temporary retreat or "correction" that could preface further gains and a continuation of the five-year-old bull market.

to R26,7m. ... ing programme, said Wiese.

Cape Times 22/10/87 79

Gold steady at $466,50

LONDON. — Bullion markets paused for breath after the volatile swings of the past two sessions to close steady at $466,25/$466,75 and some $5 above Tuesday's weak close, dealers said.

Gold soared to $490 during Monday's session as world-wide equity markets collapsed, only to collapse during Tuesday's afternoon dealings as market operators liquidated to cover margin calls on share holdings, dealers said.

Trading yesterday was considerably quieter as the market consolidated, they added.

Gold opened yesterday at $466/$467 compared to Tuesday's close of $461/$462.

The metal was later set at $466,75 at the morning fix and $467,00 in the afternoon.

Dealers said there was disappointment that gold failed to breach $500 when equities slumped and this is now making participants very wary of its future direction.

Early weakness in the New York Metal Exchange platinum futures pressured the white metal here and platinum ended at $567/$569, down from Tyesday's close of $572,00/$574,00. Platinum was fixed at $573,75 and $566 at the morning and afternoon sessions.

- In Zurich, gold ended almost unchanged from the previous close as calm resdescended on the market after the dramatic swings of Monday and Tuesday, dealers said.

"It has gone completely dead again with everyone waiting to see what happens next," said a dealer at a Swiss bank.

Gold ended here at $466,50/$467, $0,20 above the opening and against Tuesday's $465/$467 close.

However, other metals were weaker, with platinum ending at $568/$572, $6 below the previous close, while silver slipped $0,12 to $7,33/37 an ounce.

- In New York, gold closed at $467,50/$468,00. — Reuter

the ... officially ... launched ... yesterday

ARGUS 26/10/87

19

ECONOMY

$500 gold price seen for 1988

By MAGGIE ROWLEY

A STAGNATING world economy which will adversely affect South African export volume, a fall in the dollar and an average gold price of $500 an ounce are predicted for next year by leading Afrikaans economists.

At an economic conference organised by Boland Bank in Gordon's Bay today, Professor Attie de Vries of the University of Stellenbosch Business School, said he did not think last week's crash on the world 's stock markets was an indication of a impending world recession.

"I don't think it is a repeat of 1929. There is a basic difference and that is in 1929 the authorities reacted by putting up interest rates. This time they have lowered them.

"While what has happened has been more than a mere correction in the stock market it is too soon to say whether or not we are heading for a bear market.

"I believe the fiscal authorities will do their utmost to stop a total collapse.".

However, Professor de Vries said he believed world economic growth would virtually stagnate in the coming year with the US dollar dropping and US inflation increasing.

"All these things, together with lower interest rates, will possibly benefit the gold price which I believe will average at $500 rising as high as $530.

SERIOUS EVENT

He warned a high gold price would not act as a saviour for the South African economy.

"In line with the stagnating world economy, we can expect lower export volumes and lower commodity prices."

Mr Louis Geldenhuys, of George Huysamer and Partners, said that last week's stock market crash was "a serious event which cannot just be swept under the table".

The bull market was definitely over, he said.

However he warned investors not to over-react and sell in a panic.

Dr Ockie Stuart of the Stellenbosch Bureau for Economic Research said he had believed that for a long time there had been many investors on the stock market who should never have been there in the first place.

In addition an investment move by big investors from equities into the real economy had been expected for some time as the economy had been gathering momentum.

"This has just speeded thing up," he said.

Dr Stuart said the outlook for the economy was somewhat better than it had been for many years. "I expect lively growth in private consumption expenditure where spending on durables should perform especially well.

"Government's consumption expenditure will unfortunately remain high."

He said fixed investment would show vigorous growth — almost all of which would be generated by the private sector.

"In all, real growth domestic product could expand by 3,6 percent during 1988," he said.

JSE ...

Cape Times 5/11/87 79

JSE dives in panic selling

By AUDREY D'ANGELO
Financial Editor

MILLIONS of rands more were wiped off the value of South African shares yesterday in a renewed bout of panic selling which brought the Johannesburg Stock Exchange (JSE) overall index to its lowest level for more than a year.

The index fell 147 points to close at 1 812. The all gold index fell 156 points to 1 578 and the industrial index 78 points to 1 537.

As the dollar continued to fall and there was no compensating rise in the bullion price — which meant lower export earnings for South African gold mines, investors unloaded gold shares on the JSE and international markets. Quality gold shares fell by as much as R40 on the JSE.

But a hopeful sign that the market had bottomed out came at the end of the disastrous day, when bargain hunters found a shortage of quality shares on the JSE, indicating that their owners were not prepared to sell at current prices.

Brokers said there were signs that institutions considered shares were now good value.

However, two of the companies listed yesterday — the Cape Town-based Strebel group and Alex White — opened below their issue prices.

The JSE was following a worldwide trend as investors dumped shares on concern about the falling dollar, which will hit exporters to the US.

The possible loss of the US as an export market for industrial countries in Europe and the Far East revived the spectre of worldwide recession. But the dollar began to recover, bolstered by central bank intervention.

And share prices began to rise again on the London Stock Exchange after a half-percent cut in the British bank rate. After the cut the Financial Times 100-share index recovered about half its losses to end at 1 608,1.

There were signs of recovering confidence in the US on news that President Ronald Reagan had appointed four top business executives to a commission studying the current turmoil in the financial markets, and had met for the first time with the group.

Wall Street, which had seesawed throughout the session, closed 18 points down at 1 945.

JSE prices take 'terrible licking' — Page 6

Cape Times 6/11/87 (79)

Platinum plunges as gold moves off lows

LONDON. — Gold made a limited recovery to close at \$460/\$461, off morning lows of \$454/\$456 but still down from Wednesday's \$466,50/\$467.

Platinum closed at \$460/\$465, down from Wednesday's \$499/\$501 and just above the lows set after large scale morning liquidation. The afternoon platinum fix of \$464,50 was the lowest since August 1, 1986.

Dealers said platinum started the early fall, sliding to a low of \$451/\$456 as sell stops were triggered below \$500.

After going down the \$25 limit in New York on Wednesday night, platinum "dropped like a stone" in London yesterday morning from a high of \$481/\$486, one dealer said. It was fixed in the morning at \$472.

The metal traded for much of the day at near to parity with gold, after showing a premium of \$33 on Wednesday and \$84 at the start of last week.

Platinum again fell the \$25 limit in early Nymex trading.

Active selling of gold at the morning fix also played a part in pushing the markets lower. Gold slid to a low of \$454/\$456 shortly after the fix of \$459,70.

Bearish sentiment was seen as the most powerful factor driving bullion lower, with the market ignoring normally positive influences such as the continuing slide of the dollar.

● In Zurich, gold ended sharply lower after sentiment was hit by continuing falls on stock markets, dealers said.

The weaker dollar hindered rather than helped the dollar as the old inverse relationship between gold and foreign exchange simply ceased to apply, they said.

Gold ended here at \$456,50/\$457,50, just above the day's lows, and \$9 below the opening and the previous close.

Dealers said gold had been dragged down by platinum, which had plummetted to \$461/\$468 an ounce, \$21 below the opening and \$39 below the previous close.

Platinum has, anyway, always been a more speculative metal than gold and was being pressured by fears of recession which would hit demand for cars, particularly in the US, and with it demand for their pollution-cutting catalytic convertors which use platinum.

Silver was also sharply lower, ending at \$6,30/\$6,40 an ounce, \$0,38 below the previous close.

● In New York, gold closed at \$458,50, down from its previous close of \$466,35. — Reuter

stay open

ENGINEERING PROFESSION

Patching up the leaks

The shortage of professional engineers is reaching critical proportions. One answer would be to increase university funding for engineering students — possibly through a carefully thought-out levy. On the wider front, Taiwan could be looked at as a model economy which favoured engineering as a route to growth and prosperity.

A grave shortage of professional engineers is threatening SA's future industrial growth. There is no dispute that the shortage, in almost all branches of the profession, is already a problem — and any acceleration in the rate of industrial expansion will exacerbate matters.

The crisis is largely attributable to a bottleneck in university engineering departments, who are finding it increasingly difficult to recruit and hold staff within current salary parameters. This brings the problem into the arena of university subsidies, with all the contingent political issues between government and the English-speaking campuses. Any solution to the engineering shortage will have to tread its way through this political minefield.

A further contributory factor is the high current rate of emigration — an engineer who emigrates does not have to run the gauntlet of requalification procedures overseas.

Dr Philip Lloyd, president of the Associated Scientific and Technical Societies of SA, researched the problem in 1986 ("The Supply Of and Demand For Engineers") on behalf of the Federation of Societies of Professional Engineers. His findings are unequivocal and eloquent.

Despite the fall-off in demand for engineers caused by the economic depression, supply also fell (see chart), so that there still remained at least two jobs on average for each graduating engineer. A developmental model predicted that this measure of shortfall would continue until 1990. But if the economy picked up, demand for engineers could easily rise to the point where there would be *more than four jobs for every engineer in several disciplines.*

In the past decade, notes Lloyd, SA has been significantly dependent on imported engineers. In the light of increased rates of emigration, and adverse overseas sentiment towards SA, it would be naive in the extreme for us to rely on this source in the future — except perhaps in narrow areas (and, of course, at exorbitant expatriate salaries) like military aeronautics or electronics.

So we are thrown back upon our universities as the only plausible source of most professional engineering manpower for the foreseeable future. All universities approached, regardless of other divergences, are unanimous in ringing an alarm bell over current deficiencies in engineering education.

Salaries and conditions of service within professional departments generally, but engineering in particular, cannot compete with those offered by the private sector — and even, in the case of engineering, the public sector too.

University faculties have responded to the salary crisis in various ways. The Afrikaans ones have tended, according to Professor David Glasser, dean of engineering at Wits, to promote enough consulting work to make up earnings to levels comparable with the private sector.

Professor Christo Viljoen, dean of engineering at Stellenbosch, confirms that the universities of Pretoria and Stellenbosch have assertively followed the sponsored research route. And it has brought in enough money from industry to give them an edge

Latest

GOLD HITS $480

ARGUS 25/11/87

79

By TOM HOOD
Business Editor

SHARE prices surged ahead on world markets today, encouraged by the gold price touching $480 and strong rallies on the New York and London stock markets.

The JSE's gold-share index jumped by 66 points to 1 725 this morning. The overall index rose 33 points to 1 780, while the industrial index gained 10 points to 1 416.

Gold opened at $479,95 an ounce in London, its highest since the Black Monday crash of October 19.

Millions of rands were added to the market value of gold-mining shares on the Johannesburg Stock Exchange yesterday as the gold-share index soared by 8,5 percent.

These gains were extended in early trading today and included front-runner Vaal Reefs, gaining R20 to reach R345 a share after yesterday's R37,50 rise. Another market leader, Anglo American, firmed R1,25 to reach R62,50 after yesterday's R3 rise.

The worldwide surge was fuelled by a wave of interest-rate cuts by European central banks in response to a United States agreement to cut its budget deficit.

But the American dollar eased slightly today to 134,70 yen and 1,669 West German marks.

The shares rally was viewed as a delayed response to the United States budget-cutting effort, which led to the rate cuts as America's trading partners co-operated to hold the world economy together in the aftermath of the October market crash.

- The stock market crash may have been a blessing in disguise, said former Federal Reserve Board chairman Mr Paul A Volcker.

The October 19 crash might have benefited the economy by forcing policy-makers to address long-range economic problems such as the US budget and trade deficits.