GOLD — 1992

Stumbling gold price sets back hopes of rate cut

STAR 3/1/92

By Magnus Heystek
Finance Editor

77

The current downward trend in the gold price is making any early drop in interest rates very unlikely.

But even worse, if gold drops below $350 an ounce interest rates could well be raised.

This could lead to further economic misery for most South African consumers and businessmen as the long-awaited recovery in the economy is postponed yet again.

Most analysts and economists have been predicting a drop in interest rates in the current quarter, but these forecasts were made before the sudden weakness in precious metal prices.

The sharp correction in the price of platinum to six year-lows has dragged the gold price down to levels just above $350 an ounce. At one stage yesterday the price threatened to dip below this level but finally held at $350,90 an ounce in London.

Early in December last year gold was trading around $370 an ounce and most commentators were optimistic that gold was heading highere.

However, signs of a "double dip" recession in the United States created uncertainty about world car sales which depressed the price of gold's sister metal on commodity markets.

Gold reacted in sympathy, despite substantial fundamental evidence in favour of a stronger and rising price.

Although gold's relative performance has diminished in recent years, it is still a primary earner of foreign exhange. The loss of $20 an ounce over the 12 months reduces export earnings by more than R1 billion.

This sudden pressure on the balance of payments would make it very dificult for the Reserve Bank to reduce the Bank rate on pure economic grounds.

And acccording to economists the Reserve Bank has no intention of relenting in its efforts to protect the external value of the rand, which means that interest rates will be kept high to maintain a large surplus on the balance of payments.

Little incentive

Writing in the latest issue of The South African Banker Dr Cees Bruggemans, chief economist at First National Bank says: "The Reserve Bank of course claims, and correctly so, that it is no longer in the business of proactively creating money to buy economic growth. There is very little incentive for the the Bank to cut interest rates if it takes its mission statement seriously (and it continues to take its responsibilities very seriously indeed).

"An economic turning point has already occurred, the fiscal stance is loose and getting more loose by the minute and next year there will be the benefit of internationally-led export growth. Under the circumstances, interest rates should perhaps be increased in lieu of higher government borrowings," he said.

Other economists canvassed on this issue agreed that hopes of an early cut in interest rates were somewhat premature and that the Reserve Bank is likely to wait even more for definite signs of a downturn in inflation.

While calls for a drop in interest rates have emotional appeal, on financial grounds they do not stand up. Even at current levels the "real interest rate" of just over four percent compares badly with other major industrial nations.

The prevailing real interest rate in the United Kingdom is close on 7 percent, in Germany 7,5 percent and 4 percent in Japan.

A drop in the prime overdraft rate would pose a problem for the capital account of the balance of payments, and thus the stability of the rand exchange rate.

The Reserve Bank is likely, unless it has changed its stance on this issue, to consider a cut in interest rates when real interest rates have risen to between 5 and 5,5 percent.

This means an inflation rate of around 14 percent, which may be achieved later in the year.

THE WEEK AHEAD by Simon Willson

Progress in reserves put to the test this week

(79)

B Day 6/1/92

GOVERNMENT and Reserve Bank confidence that SA's gold and foreign exchange reserves would hit the R10bn mark by the year-end will be put to the test this week — probably on Wednesday — when the reserves level for December is published.

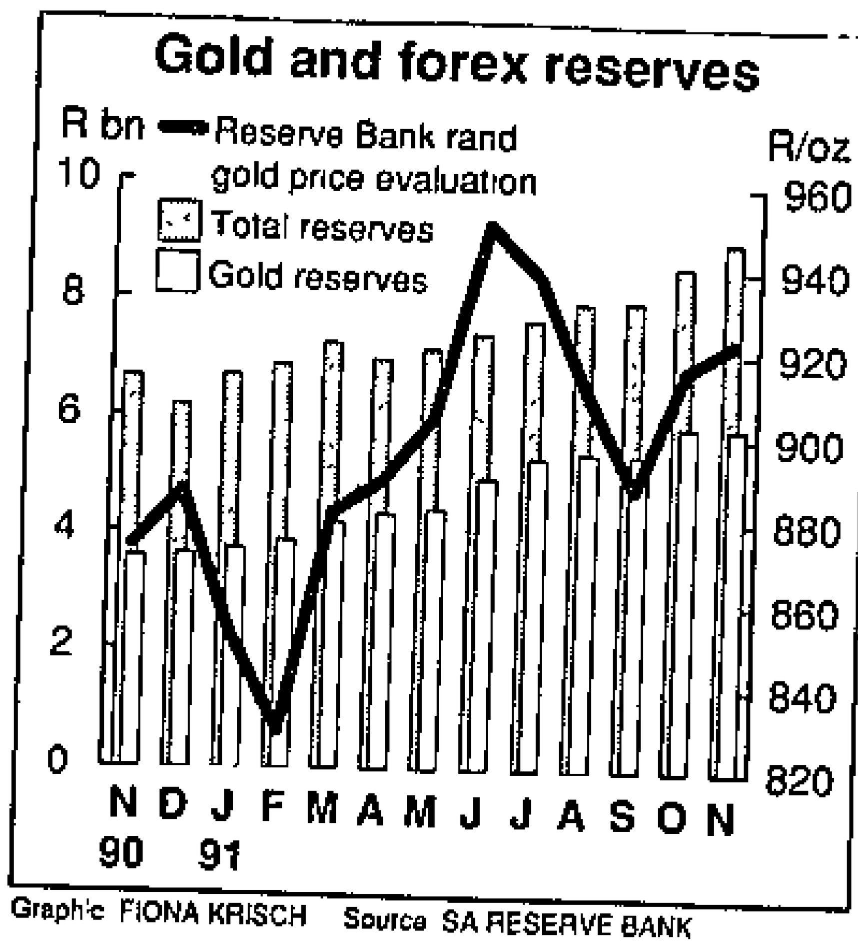
The gap from the R9,1bn posted in November seems, however, to be too big a span to be vaulted in one month's figures alone.

The biggest increase in reserves during 1991 was the R612m added during October, and several other monthly increases during the year of R500m-R600m would seem to indicate that an increase of R900m for December is too much to expect. Extrapolating the precedents of last year, when the reserves total began 1991 at barely R6bn and will have ended it at least 50% higher, it may be January before the magical R10bn level is hit for the first time.

But the Reserve Bank has been unusually cocky about the reserves for the past few months, and presumably briefed F W de Klerk when the President went on the record in a speech during November in envisaging R10bn in the reserves by the end of the year. There are other economic factors hinting that a R900m jump in December is not out of the question.

The uninterrupted reform process has kept foreign perceptions of SA's prospects rosy enough to continue — even accelerate — refinancing of maturing foreign debt outside the standstill net. Irrespective of rollovers, non-standstill debt repayments are easing anyway as the long-feared 1990-91 "hump" of maturities has largely passed.

The last inside-the-net debt repayment was made in August 1991, and the next is not due until next month. The foreign debt issue is not, therefore, a threat to continued improvement in the reserves.



Graphic FIONA KRISCH Source SA RESERVE BANK

The other factor boosting reserves is the spectacular series of trade surpluses recorded in the second half of the year, and the substantially better than expected current account performance for 1991 as a whole. A year ago the Reserve Bank was thinking in terms of a R3bn current account surplus for 1991, but the current account was running at an annual rate of R9,7bn in the third quarter and, net of debt repayments, will have been feeding the reserves.

Even if the December reserves outturn hits R10bn it is still short of the Reserve Bank's informal target of three months' import cover, which implies a level around R15bn. In the third quarter of 1980 the reserves totalled only about R6,5bn but covered more than five months' imports. The R10bn will, if and when attained, be a record nominal total for the reserves but only a staging post on the road to a more prudential total for this variable.

Internationally, the week's most important data are probably the December US employment figures, due on Friday. The potential impact on short-term US monetary policy has been dulled by the aggressive, one-point cut in US discount rate by the Federal Reserve just before Christmas. The authorities have, for the time being, made their move.

Additional changes in the economic policy mix are also effectively on hold until after the White House has had a chance to ease fiscal policy in the president's end-January state of the union address to Congress. President George Bush was forthright about its likely content during his visit to Australia last week, when he said it would contain fiscal concessions designed to help consumers and corporations start spending again.

The picture of conditions in the US real economy transmitted by the employment figures is being distorted by unusually slow growth in the overall national labour force over the past year. A stalling in the expansion of the labour force means there are fewer than expected workers eligible to be jobless.

US unemployment in December is expected to remain at the 6,8% of the workforce posted in November, even though recruitment outside the agricultural sector is likely to have fallen again last month after November's steep decline of 241 000.

Gold dips below $350

STAR 7/1/92 (79)

By Neil Behrmann

LONDON — Gold dipped below $350 in London and New York yesterday, mainly as a result of sales by US commodity funds and speculators.

It closed $1,10 down in New York at $349,30, its lowest level since late-September.

Dealers say some Western producer selling and sales by Russia in the past 10 day contributed to its weakness.

In the short run gold is under pressure, but taking a longer-term view dealers believe the price is not far from the bottom.

An informal survey of London, Zurich and Frankfurt traders indicates that the price will be trapped in a $340 to $380 band this year.

The most bullish trader, from a bank in Switzerland, says that gold will surprise the market and break through the $400 barrier.

The most bearish, a London trader, says that gold could fall to the $320 to $330 range.

Most however, believe that gold will not fall much further and that the bottom for the metal will be $340 to $350.

The most important impetus for the market will come from the supply side of the equation, says Stewart Murray, head of Gold Fields Mineral Services, the leading consultants on gold.

He expects fabrication demand, notably for jewellery, to be slightly down in 1991 and flat for at least the first half of 1992.

Yet a sharp reduction in Soviet sales and higher demand from China should lower Socialist bloc supplies substantially.

This decline will offset any deterioration in fabrication demand.

Another analyst from a leading mining company contends that there will be a deficit between supply and demand this year.

Lower prices are already an incentive for buyers, while Western producers are refraining from selling at these levels.

Gold has fallen with the weak dollar.

Very attractive

Priced in Deutschemarks, yen and Italian lira, the price is very cheap, says a Swiss bullion dealer.

It now very attractive for Italian fabricators, the main jewellery manufacturers, he says.

He believes that low interest rates and pump priming in the US will lead to a sharp revival in fabrication demand in the second half.

Lower interest rates would also reduce the opportunity cost of holding bullion.

Another Swiss bullion manager says physical demand from the Middle and Far East has increased markedly in the past few weeks.

They are undoubtedly attracted to low prices, he says, noting that bank stocks of kilo and taler bars have been cleared. Buyers are jewellers and hoarders, he says.

On the other hand, when gold eventually rallies, producers will take advantage of higher prices and sell, says the bullion manager.

London dealers are cautious. While Middle and Far East demand is reasonable, they say, the recession is deep in the US and economies are slowing down rapidly in Europe and Japan.

"The jewellery business has not been doing well on both sides of the Atlantic," says a London bullion manager.

Although he does not believe the price will fall much further, he expects gold to remain relatively depressed in the first half of the year. Any second-half revival will depend on economic strength.

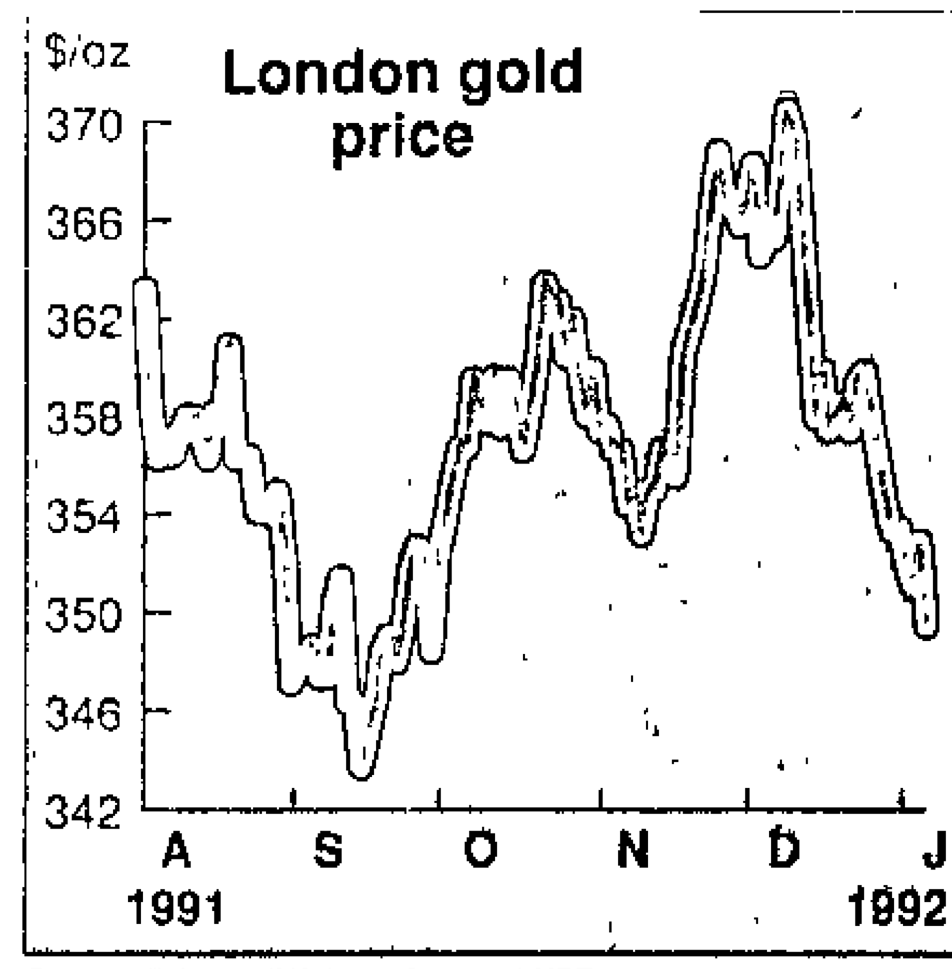
"Economic recovery rather than inflation will be the motor behind gold," he says.

Another London bullion trader says the gold market will eventually bottom when more producers are forced to cut output. The price could fall further than expected.

Gold and other commodity markets are notoriously volatile when industrial demand wanes in the weeks preceding and just after the New Year.

When gold slipped below $360 before Christmas, disenchanted US commodity funds, followed by other investors, were the main sellers.

Ironically, they bought because they had become more confident about gold. Instead, they made their investment perform poorly.



Graphic FIONA KRISCH Source I-NET

Precious metals drop worldwide

MERVYN HARRIS (79)

PRECIOUS metals were under renewed pressure on bullion markets yesterday with gold dipping below key support at $350 and platinum testing six-year lows of $330. B/Day 9/1/92

Gold was pulled down to a London afternoon fix of $349,40, its lowest level since late September, on expectations of fresh selling on the Tokyo futures market. Platinum fell $5,25 from Friday and was at new lows on the April contract on Nymex.

News that Russia would end its state gold mining monopoly had little effect on the metal and it closed $3,25 down in London at $349,75.

Platinum lost $7,50 to close at $330,50.

Dealers on the JSE said the slide in the gold price as institutional fund managers returned from their holidays could have contributed to another session of generally low turnover on the market.

An analyst said: "Gold is the benchmark for the market and the metal is not looking good technically at present. A lower gold price will affect sentiment."

But the record-breaking rally on Wall Street and firmness on other major equity markets finally rubbed off on the JSE as selected demand for index-weighted shares lifted the industrial index almost 2% or 81 points to 4 256.

☐ To Page 2

Metals B/Day 9/1/92

(79) ☐ From Page 1

The dip in gold to below $350 came as the JSE was closing and after shares had recovered from early lows.

The all-gold index rose five points to 1 148 for the overall index to finish 45 points up at 3 479.

Dealers ascribed the subdued market — with the exception of trade in De Beers ahead of the release of CSO figures for 1991 — to portfolio managers taking stock of what happened last year and assessing trends for the current year.

"People want to get their house in order before they start buying the furniture," a trader said.

Gold Fields man says metal's super status will force price rise

B Day 7/1/92

NINA SHAND

GOLD's "super-commodity" status would drive the market forward, forcing the price to rise, Gold Fields of SA mineral services CE Stewart Murray said at a recent international gold conference.

He said the metal would reaffirm its role as a "store of value", adding that the jewellery industry's demand for the commodity was likely to boost its long-term growth potential on world markets.

The largest investment in gold since 1970 took place during the past five years, although accumulated holdings did not keep pace with population increases, a recent Gold Fields study found.

The world's steady creation of wealth and would favourably affect the investor component of gold demand in the future.

Prospects for gold demand were also a result of rising world prosperity and the rising number of consumers, Murray said.

Should gold remain a basic element of the high value-added jewellery industry and a basic element of consumer purchases, the metal's salvation was guaranteed, said Murray.

This was the case for the Organisation for Economic Co-operation and Development (OECD) countries and the lesser developed countries where gold fabrication had been about 1% lower than the growth in GDP wealth.

Cumulative jewellery holdings in lesser developed countries were catching up with the growth rate in the OECD of about 2% a year.

Meanwhile, the latest International Gold Mining Newsletter said despite the promising prospects of gold, the supply and demand for the metal in China might put a spanner in the works.

Quoting JCI gold division head Ken Maxwell, the newsletter said attention in the gold markets was turning to mainland China as a growing force — with gold being the most popular purchase of Chinese and other Asians after the basic commodities of food and clothing.

This, however, was countered by a fear that China might sell some of its gold reserves to pay foreign debts expected to reach a peak in 1992, it said.

"The Chinese government is reported to be building up its gold reserves as mining gold is regarded as a relatively cheap means of generating foreign exchange."

By increasing exports China had managed to boost its foreign currency reserves, so it was unlikely that significant quantities of gold would reach the market in the short term.

Gold production expected to stabilise

STAR 9/1/92 (79)

By David Giese
analyst, Davis Borkum Hare

Since 1988 the dollar gold price has remained in a downward trend.

During the extended periods of a weakening gold price, gold producers have been taking advantage of gold loans and hedging arrangements to guarantee future revenue on a part or all of their production.

For the past two years the gold price has moved into a narrowing trading band with a base around $370 an ounce. Simultaneously we have seen a decline in gold loan activity which could have been brought about by the stabilising gold price.

Technically, the gold price has recently moved into positive territory as the 200-day moving average has been breached which could signal a return to the $370 level in the near-term.

Recent events in the Soviet Union have lead to several disclosures of their gold holdings, which, although often contradictory, revealed reserves well below expectations.

The removal of a supply threat overhanging the bullion market lent support to the gold price around $350.

The economic crisis in the Soviet Union has led to a breakdown in infrastructure. The mining industry has been disrupted to the extent that we believe they will be hard-pressed to maintain their estimated production of 200-300 tons per annum.

Visits to South African gold mines by Russian officials during the latter half of this year highlight the concern for their gold mining industry and the antiquated techniques and machinery that are employed.

Australian production

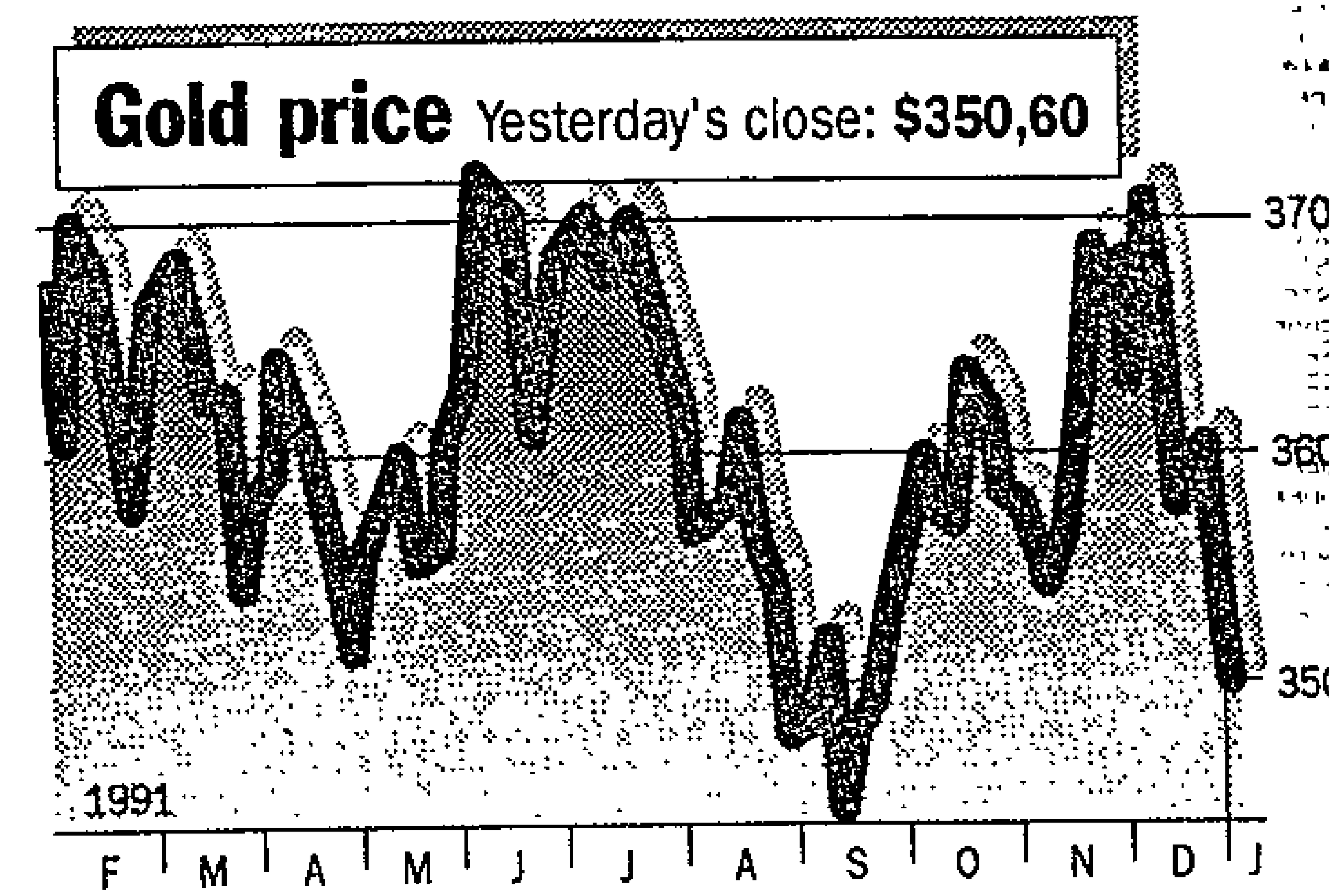
Forecasts on Australian production indicate no further growth potential with production declining from the mid-1990's. North American production has the potential to increase, albeit below the previous rates of growth.

However, the cost of mining and extraction is expected to rise due to the depth of mining and type of ore that will be exploited.

The South African gold mining industry is undergoing a major rationalisation exercise in order to combat rising costs and declining profitability. The success to date indicates that gold production over the next few years is unlikely to show any significant reduction from the current 600 tons per year.

Western world gold production appears to have peaked and could remain at the current level of approximately 1 700 tons for the next few years.

OUTLOOK '92



Additional supply to the market to satisfy an annual demand of 2 800 tons is derived from scrap, offical sales, disinvestment, gold loans and forward sales. The increased activity in gold loans and especially forward sales over the past few years, is generally accepted to have had a capping effect on the gold price.

Jewellery demand has increased by all accounts and is expected to continue especially if world economies start to improve.

Hedging and gold loan activities are expected to continue but the quantity of gold involved should be lower.

The South African producer is the unknown factor in future hedging operations. However, we believe that in volume terms, the amount of gold to be hedged will be limited and restricted mainly to the marginal mines.

The negative influence gold loans and hedging activities have had on the bullion market is expected to decline and a sustainable improvement in the gold price is anticipated from 1992 as the short fall between supply and demand increases.

Gold and foreign exchange reserves (R-billion).

Reserves dip for first time in eight months

STAR 10/1/92

(79)

By Sven Lünsche

Gold and foreign exchange reserves fell by almost R1 billion in December, reversing an eight-month rising trend, which saw them soar from just under R7 billion to R9,07 billion in November.

However, economists say it was mainly seasonal factors that reduced the level to R8,15 billion last month and that the rising trend would resume in January.

The Reserve Bank's statement of assets and liabilities shows that the gold portion of the reserves slipped from R5,9 billion in November to R5,8 billion last month, while the forex reserves fell from R3,17 billion to R2,47 billion.

The decline in gold reserves was mainly caused by a R284 million revaluation resulting from a R44 slump in the gold price from R923,27 an ounce to R879,36.

The volume of gold holdings, however, showed a slight increase from 6,39 million ounces to 6,47 million ounces.

The Bank says the relatively large fall in forex reserves was due to two factors:

- The practice of many foreign banks of reducing to a minimum their outstanding claims on other countries at year-end.
- Large seasonal transfers of interest, dividends and profits in December before the close of the financial year.

Nedbank economist Edward Osborn estimates that the equivalent of up to R300 million in foreign debt outside the standstill net left the country during the period.

He says the firmer rand in December (R2,74 to the dollar, compared with R2,84 in November) added to the lower valuation of reserves.

The Reserve Bank statement shows that "other" liabilities fell by almost R3 billion to R7,14 billion as a result of a decline in dollar deposits held by the Bank for SA banking institutions.

This, in turn, was due to a sharp reduction in the Bank's rand-dollar swop transactions for money market purposes as liquidity remained tight on the money market in December.

Gold Fields cuts costs to counter prices

MATTHEW CURTIN

GOLD mines in the Gold Fields fold responded to lacklustre gold prices by cutting overall costs an average of 4% in the December quarter. The cuts, at seven of the group's eight mines, were achieved by curtailing working expenditure which was not absolutely necessary.

Total costs fell from R644m to R631m in the quarter. This translated into a drop in average working costs from R22 282/kg in the September quarter to R21 432/kg. That more than offset a 3% fall in the gold price the mines suffered.

Gold Fields' mines, which alone among SA producers do not sell gold forward, won an average gold price of R32 381/kg, down from R33 365/kg.

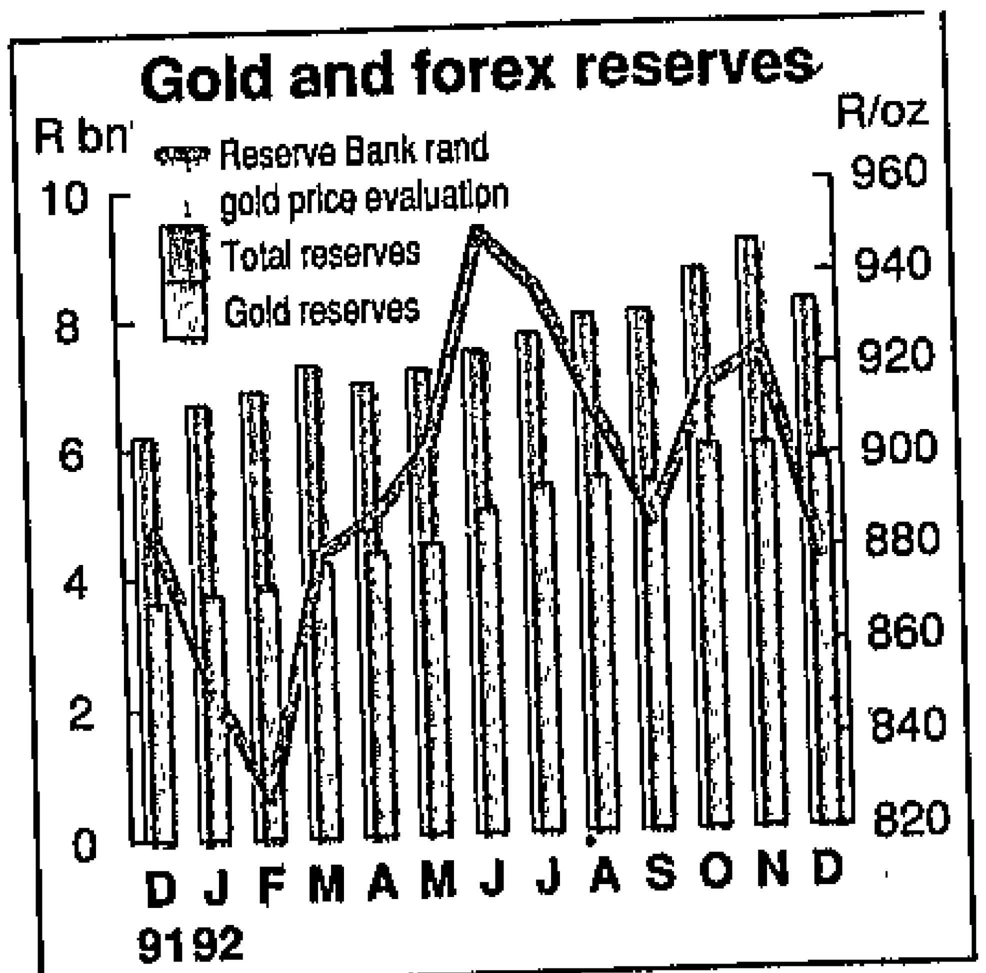
Executive director Alan Munro said: "The most notable feature in the quarter was the 4% cut in unit production costs, a long-standing objective achieved only by West Driefontein in the 1990/1991 financial year."

The mines reduced costs by concentrating only on essential production and development. The group has yet to follow the drastic measures undertaken by Gengold, Rand Mines and Anglo American.

● Picture Page 3
● See Page 7

Bday 20/1/92

(79)



Graphic: FIONA KRISCH Source SA RESERVE BANK

Gold and forex reserves down

BDay 10/1/92

SHERIDAN CONNOLLY

THE Reserve Bank's gold and foreign exchange reserves fell by R918m in December to R8,2bn despite official hopes they would reach R10bn by end-1991.

The value of gold holdings fell R284m on the decline in the gold price, although gold holdings rose to 6,5-million ounces from 6,4-million in November.

The Bank attributed the rest of the decline to seasonal transfers of interest, dividends and profits and to year-end book-squaring by foreign banks. The Bank was confident last year's rising trend in foreign reserves would resume in the January figures to be released early next month.

Absa chief economist Adam Jacobs agreed that the fall would only be temporary, with the upward trend continuing from January onwards. Gold reserves should eventually reflect expectations of a stronger gold price in 1992, he said.

Nedbank chief economist Edward Osborn said that in light of year-end interest payments, a dip in reserves was to be expected. He attributed the rise in gold holdings to the Reserve Bank withholding gold from the market due to a lower price.

The reserves data also showed a R3bn decline in Reserve Bank "other liabilities", a sign of a fall in dollar deposits held by SA banks with the Reserve Bank. A statement accompanying the reserves figures confirmed that the Bank had sharply reduced rand/dollar swap transactions in the money market during December.

Taiwan frees gold trading

STAR 14/1/92

79

TAIPEI — Taiwan is to lift its 43-year ban on gold exports and officials and bullion dealers say the relaxation will turn the island into a major gold trading centre.

The Monetary Affairs Bureau said the Cabinet had in principle agreed to remove the ban, paving the way for free trading in gold for the first since the Nationalist government moved to Taiwan in 1949.

"The move is the first step toward a free gold market," said Leon Shen, director of the bureau's international banking division.

Bureau director-general Chen Mu-tsai said: "The lifting of the gold export ban is in line with government efforts to liberalise our market."

Local banks would be allowed to trade gold and bullion certificates.

Gold exports could start within the next two months after the cabinet finalised the abolition of regulations on gold imports and trading, he said.

Taiwan permits jewellery shops, precious metal firms and some government agencies to import gold. Individuals are allowed to bring in only a limited amount of gold.

The island was the world's largest gold importer in 1988, buying 354,7 tons of gold bars and coins. Imports fell to 160 tons in 1989 and further to 103 tons in 1990 before rising again to 111 tons in 1991.

Dealers said the export liberalisation could boost Taiwan's gold imports this year to between 160 and 200 tons in calendar 1992. — Sapa-Reuter.

STAR 15/1/92

Gold production reaches a peak

Gold production in the Western World reached a peak last year, but production of new unrefined gold is expected to begin decreasing.

The authoritative mining publication, Gold Service, published in London, says in its latest edition gold production rose by about 1,4 percent to 1 758 tons last year, against 1 734 tons in 1990.

Although production reached a record level last year, the increase of 24 tons was less than the increase of 51 tons achieved in 1990.

(79)(84)

Gold production in South Africa — the world's largest producer — dropped from 605 tons in 1990 to 602 tons last year. — Sapa

Weak gold price hits New Wits

STAR 17/1/92

A depressed gold price has taken its toll on New Wits with earnings for the half year ended December 31 declining to 32c a share compared with the 65c a share recorded in the corresponding period in 1990.

After tax profit was down by just over R10 million at R9,718 million.

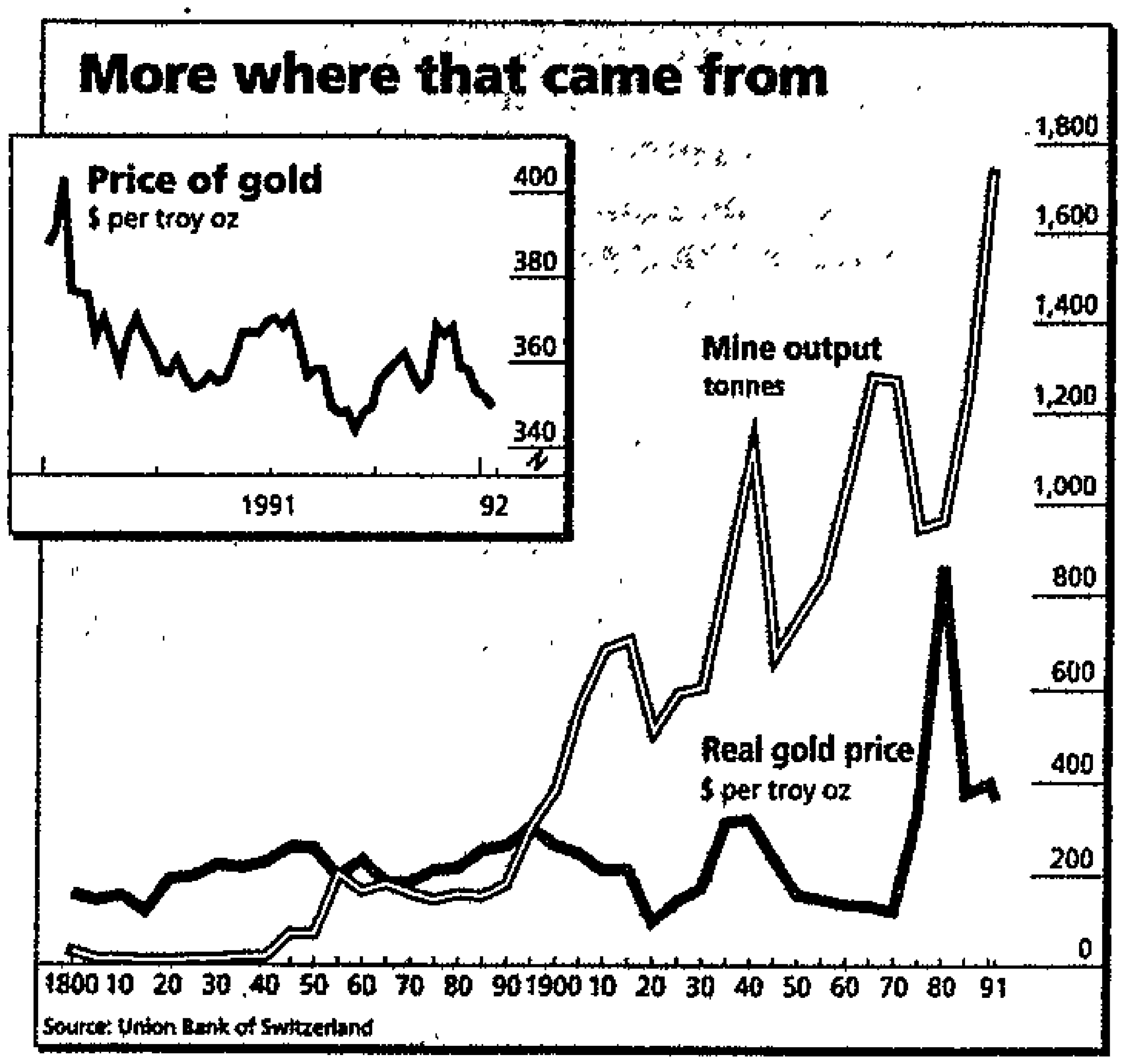
The company maintained the interim dividend of 17c a share and reduced cover to 1,9 times. — Sapa.

(79)

Gambler's hunch sees gold rallying to $450 by year-end

STAR 28/1/92 (79)

Gold bugs say that the metal cannot remain the sick man of the markets for much longer. It can, says the Economist magazine.



LONDON — Around a year ago the gold market defied the textbooks.

On January 17, when George Bush launched an air attack against Iraq, the gold price fell by $27 an ounce. The safe-haven theory was shattered and the market has been in a stupor ever since.

The case for a revival is simply put:

Over the current year mine production will fall, because with the gold price at its current level of around $355 an ounce, a tenth of world mine capacity is operating at a loss.

On the other hand, demand for jewellery and coins will continue to grow, as it has done since the beginning of the 1980s.

Meanwhile, sales from the former Soviet Union will dry up and difficulties in western economies will scare investors eager to shelter their money.

Conclusion: 1992 will see gold rally to $450 an ounce.

That view finds support in the gambler's hunch that a loser cannot lose for ever. Gold funds won a wooden spoon in 1991 as one of America's worst-performing investments.

If, following the perverse reasoning that yesterday's failure is tomorrow's success, that is not cause enough for optimism, think of the decade that preceded it.

Gold has done poorly since January 1980, when it climbed to $850 an ounce. Since the middle of 1987, the price has fallen steadily. Sooner or later, the argument goes, gold's luck is bound to change.

The accompanying chart, mapping the real price of gold against production, shows one reason to doubt such logic.

Anomalous price

Far from being a sensible standard against which to measure gold's performance, the price in 1980 was completely anomalous. Never before in modern financial history had it approached such a level.

Indeed, the chart indicates that gold prices still have some way to fall before they improve.

Nevertheless, today's combination of falling prices and record output does suggest that optimists might be on stronger ground when it comes to predicting a decline in mining production.

However, that is to reckon without the arsenal of tricks that miners now use to get the best price for their metal — tricks that were unknown during the last peak in mine production in the 1960s.

Details are hard to come by, but one study last year by Jessica Jacks, an economist with RTZ, a British mining giant, is thought-provoking.

She found, from a sample covering two-thirds of western production outside South Africa in 1990, that more than 1 100 tons of various years' production had been hedged, through devices such as forward sales and low-interest borrowings of central-bank gold.

(Total western output in 1990 was 1 700 tons).

Australians, who are by far the biggest hedgers, had sold forward 80 percent of 1990s production at an average of $447 an ounce. The spot price only once reached even $423 during the entire year.

Such manoeuvring caps the price of gold by allowing miners to sell gold that they do not have, hence expanding tradable supply substantially. It also helps to keep mines open long after depressed spot prices suggest that they should have cut output or shut down altogether.

A price spike can take many years to work its way through the system. Ms Jacks found that a little of Australia's production as far forward as 1996 had already been sold.

Moreover, she believes that the hedging habit is growing in both North America and South Africa.

All this tends to make gold markets less volatile — a good thing for any normal commodity, but a handicap for a metal whose main attraction as an investment is its sensitivity to the state of the world.

No wonder that investors have ended up preferring other shelters for their money to gold. From 1973 to 1980 the gold price trailed America's rate of inflation closely. After 1986 the correlation broke down.

Gold has similarly, though less completely, become unhooked from the dollar.

According to William O'Neill, an analyst in New York with Merrill Lynch, a large securities firm, there is no sign of big German and Swiss buyers returning to the market now. Only financial meltdown could make a sudden difference.

There is little real reason to think that the demand for jewellery and coins can act as anything more than a brake to gold's falling price.

True, jewellers' purchases of gold quadrupled to almost 2 000 tons in 1980-91, according to Gold 1991, an industry handbook. Yet the main reason for this enormous increase was that the price of gold fell.

Even though buyers in the traditional markets of India and East Asia now continue to provide some support to prices, they could well lose their taste for the metal.

Not only are Asia's financial markets fast being liberated — providing more convenient vehicles for investment — but real interest rates there have at last become positive, making non-interest-bearing metal less attractive.

Under-investement

One prospect stands out in the gold bugs' gloom: the former Soviet Union. It has reserves of only 240 tons, a tenth of what most western analysts had long reckoned it had.

Moreover, years of under-investment are taking their toll. The boss of the Magadan region in Siberia said recently that output there had fallen by 10 percent in three years.

Ukrainian miners, who make up 30 percent of the workfoce in some area, are returning home, partly because they doubt that they will receive their bonuses.

All this matters, because what was once the Soviet Union has traditionally met about 15 percent of western gold demand.

Andrew Smith, a gold analyst in London at UBS, a Swiss bank, thinks that sales from that source could fall by as much as half. He expects that Russia and the other republics will try to use gold to shore up their rickety financial systems, rather as Brazil did in the mid-1980s.

The Soviet Union entered into a number of swop agreements, under which it was to exchange temporarily its gold for hard currency, but repeatedly failed to buy back its collateral.

If the republics were to succeed, they could find swops a handy way of building up their gold reserves while using them to get hold of foreign exchange.

Eventually gold might even find a role in backing a fistful of new currencies.

It would not be enough to reverse the metal's decade of ill fortune quickly, but it could jut be the start of a long convalescence. — The Economist.

Greater optimism increases weightings of gold shares (79)

B/Day 30/1/92

A GREATER optimism about gold's prospects is apparent in the planning of investment managers in the unit trust industry and significant price rises are forecast.

Weightings of gold shares have been increased in some portfolios.

Syfrets portfolio manager Matt Brenzel says the cycle has turned and the fundamental position of the metal is much improved.

The Syfrets Growth Fund has begun cautiously to acquire gold shares, which presently represent about 5% of the portfolio and this will probably be increased.

"World gold production has probably peaked and will come down in future.

"If the gold price shows a steady increase, we will see a positive gearing in profitability as margins begin to improve and as the mines begin to benefit from their cost cutting programmes.

"We don't expect a runaway gold price but think the price could reach about $395 in the medium term."

Southern Life investment manager Carel De Ridder says he does not expect any dramatic changes in the gold market, which will continue on a steady path as a secondary player as a world hedging instrument with no fundamental shifts in supply and demand taking place.

But Sanlam unit trust investment manager Stafford Thomas is optimistic about gold's prospects.

"For the first time, the demand-supply situation is moving in favour of the supply side.

"Technically, we anticipate a pretty fast move upwards after gold has broken the $370 barrier, possibly reaching as high as $410 in 1992."

Thomas says Sanlam unit trusts have increased their exposure to direct holdings in gold shares from 5% at end-September to about 7-8%

MATT BRENZEL

Consolidated Fund Managers MD Clive Fox says he is also positive towards the gold market.

"Given the depressed state of the gold and gold share market, we believe it is opportune to accumulate some gold funds for the eventual recovery in this market," he says.

COMMODITIES

Gold forward sales debate still not over

BDay 30/1/92 ·79

MATTHEW CURTIN

THE advent of forward gold sales has changed the formula for making money out of mining gold. But the jury is still out as to whether the change is doing more or less damage to the fortunes of the industry.

Traditionally, there are two variables over which SA gold mines have no control, the dollar gold price and the rand dollar exchange rate.

Mines have little control over the gold content of the ore they mine. Grades have fallen steadily in the past 20 years, but a flexible mine has the ability to pick and choose the ore it mines.

The only part of the equation mines have direct control over is their costs. Cost containment took new meaning when the mines discovered in the late '80s that they could no longer rely on a strong gold price and a weakening rand for their profits. Rand gold prices have been static in the past four years, with the result that cost increases have all but swallowed profits.

By concentrating on cost control, management has turned around the fortunes of Anglo American's giant gold producer Freegold, as well as Gengold's, JCI's and Rand Mines' marginal mines.

The mines to have adopted this attitude most recently are Anglovaal's Loraine and Gold Fields' Libanon. Both mines' survival is in doubt.

Following the lead of others, they are lowering the amount of ore they mine. This puts pressure on unit production costs. But it enables them to reduce overall working costs as they target higher grade areas, producing more gold from less ore, and use a sharply reduced workforce.

However, the crucial difference between Loraine and Libanon's approaches is that Loraine is dependent on being able to sell half of its gold production forward at prices higher than ruling gold prices.

The decision by SA's mining houses, except Gold Fields, to sell increasing amounts of their production forward since the mid-80s, has led to gold producers winning a measure of control over revenue.

All mines have to sell their gold to the Reserve Bank in terms of the Finance Act. As gold prices weakened in the 80s, the Reserve Bank gave authority for mines to sell forward a portion of production.

An Anglo American gold and uranium division marketing spokesman says at first the forward sales facility was used on an experimental and ad hoc basis, but by the late '80s certain mining companies moved more in line with their Australian and North American counterparts who consistently hedge large proportions of their gold production.

Mines can also sell forward on a spot deferred basis, in which the producer can roll over the forward sales contract. They can also use options, in which they have the right, but not the obligation to fulfil the sales contract.

Anglovaal marketing manager mines Rocky van den Berg says gold mines worldwide commonly finance the purchase of put options to protect them against a fall in prices by selling call options. The world's leading bullion banks in Frankfurt, London, New York and Zurich are the market makers.

In mid-1990, SA's mines acquired another hedging device, the Reserve Bank's stabilised contango scheme, in which the bank effectively took the place of an overseas counterparty. Mines using this scheme sell gold directly to the bank. It pays them for regular metal deliveries over fixed periods of their choice, usually one to two years, at a price which is the average of the escalating forward prices.

All SA's mining houses, including Gold Fields, have the facility to sell gold forward. The bank permits mines to sell forward only a portion, usually starting at 25%, of their production, but there are natural limits.

Van den Berg says there is no simple strategy for selling gold forward successfully. It is a question of weighing up the huge volume of financial and economic information.

The Anglo spokesman says: "When the price is down, you've never hedged enough. When the price is up, you've always hedged too much."

The real debate concerns the effect forward sales have on gold prices. One camp believes that forward selling has significantly capped rises in the gold price.

Producers have added metal to the market and have been quick to capitalise on any spurt in the gold price. This has restricted upward movement of the price.

From SA's hedging establishment comes the retort: "Piffle." Firstly, because SA gold producers sell relatively small quantities of gold on the forward markets.

Secondly, all mined gold production sold forward amounts to a small fraction of the volumes of futures contracts in gold traded on metal exchanges like Comex. Thirdly, as one industry source notes: "The real danger to the gold market is not forward sales, but the absence of buyers."

He says that hedging may well soften the peaks and troughs of gold price movements, but there is no evidence that it depresses the price itself.

The response of local investors is more intriguing.

The marginal gold mines in the Gold Fields fold — Doornfontein, Libanon, Venterspost — have consistently underperformed on the all gold index and other marginal producers which do sell gold forward. That bears out the forward sellers' argument that it cannot be in the best interests of shareholders for a marginal mine not to sell forward to guarantee the prices it needs to stay in business.

In contrast, the gold mines whose shares have performed best are Gold Field's Driefontein and Kloof, outclassing rival heavyweights like Vaal Reefs and Hartebeestfontein. Investors recognised that these mines are better placed to profit from a surge in the gold price than those who have committed some of their production in forward sales contracts.

Bully for gold this year, say the financial fundis

STimes (Buss) (79)

2/2/92

MAJORITY opinion among international analysts is that the gold price could improve significantly this year.

Views of the forecasters are carried in the Mining Journal's International Gold Mining Newsletter.

London financial house James Capel believes that if the world economy improves in 1992, a mere 2,5% growth in fabrication demand (the average annual growth from 1987 to 1990 was 13%) will require an extra 60 tons of gold.

Until now, the development of a shortage between mine supply and jewellery demand has been ignored by the market because the Soviets filled the gap at the same time jewellery demand growth paused.

Capel believes this situation has changed — reports are that Soviet gold holdings are even lower than the reduced amounts recently reported. Capel says strong demand at the end of this year will bring a gold price of \$440/oz to \$480/oz.

Carr Kitcat & Aiken reports that as bullion appears strongly underpinned by supply-demand fundamentals at current levels, there is growing evidence that producers are increasingly reluctant to sell into rallies except in a few desperate cases, for fear of undermining a potential recovery.

This view is endorsed by several leading SA gold producers, notably Gencor.

Carr says that because it is an American election year, investor interest is likely to be more closely linked to economic events than in the past few years.

With the American economy looking as if it might have stalled, increasing the risk of a double-dip recession, short-term political stimulus is likely. As a result, investor interest in gold could well return as priorities are reassessed.

Carr forecasts an average 1992 price of \$400.

The more bearish Warburg Securities believes that jewellery growth levelled off in 1991 after the 1989 surge. It says that with economic recovery faltering in America and muted growth in Japan, jewellery offtake is unlikely to grow much before 1993.

Warburg says investment demand was flat in 1991. Weaker gold prices did not promote a resurgence in bar hoarding in the Far East, but Japanese buying was steady. European and American investment buying was depressed and the market for gold coins poor.

Warburg believes that the expected decline in mine supply will be accentuated by the fall in the size and role of Russian gold production. This and the impact of rising repayments of gold loans will remove 300 tons from total supply by 1993.

Warburg expects gold to trade between \$350 and \$400. But it hedges by commenting that if gold does break above \$400, it would have little difficulty in advancing rapidly to much higher levels.

Credit Lyonnais Laing calculates that in an international basket of currencies, taking account of inflation, gold is at a 15-year low.

It believes that all the signs indicate the gold price has bottomed. It forecasts a 1992 average gold price of \$400, with a spike up to \$450 during the year. Laing expects the 1993 average gold price to be \$425.

From \$353 at the start of the year, gold dipped below \$350 before rallying to the present \$354. Gold shares seem to be moving up in expectation of a rise in the metal's price.

Capel recommends that investors go seriously overweight into golds. Its preferred portfolio is 19,3% gold — the highest ever.

Both Capel and Carr believe SA golds offer outstanding value in a global market often lacking fundamental value.

Booming Botswana

STimes (Buss) 2/2/92 (72)

SHARE prices of all companies listed on the Botswana Stock Exchange showed marked improvements last year.

There are fewer than a dozen, but the healthy state of the Botswana economy helped the all-share index to grow by 23% in the year to October 1991.

This year the Botswana Government expects the economy to grow by 5% in what it calls a period of consolidation but what other nations would regard as a boom.

Prime lending rates from commercial banks have risen from 8% to 12,5%, which has led to a fall in disposable income. Company margins are coming under pressure.

The business climate is becoming more competitive, not only from new entrants in the market but from the expansion of existing companies. Food processor Sefalana's turnover grew by 29% to Pula 360-million in the year to October 1991 and taxed profit by 24% to P14-million. It is increasing production facilities.

2, 1992

Patience and courage for gold exploration

SITimes [BUSS] 2/2/92

(79)

GOLD exploration companies must be the most unfashionable and unpopular of all sectors of the JSE.

The gold price has been disappointing for two years and the rand's relative firmness to the dollar has made matters worse for mines.

These circumstances have led to unfavourable publicity. Projects which attracted interest in the past have moved down to a lower gear.

Drilling

Exploration companies are volatile in price. They are the last to take off when there is a boom in gold. But if a boom is sustained, they can rise to extravagant heights.

This is not the proper investment for everyone. One needs patience and courage. If you buy shares in gold exploration companies, it must be with money you can afford to lose.

You should be ready to hold shares for a long time.

By ROBIN PEGLER

A better share price will depend on an improvement in the gold price and good drilling results. These would lead to the flotation of a mine, involving a rights issue which could ultimately be profitable.

I stress the high risk. But I can also say that exploration companies look cheap at current prices. A patient investor who has spare risk capital can pick up bargains.

John Handley, consulting geologist to stockbroker Kaplan and Stewart, has studied this sector.

Mr Handley takes a favourable view of the gold price in the long term and I agree with him.

He says:

- Jewellery demand should increase, particularly in the Far East, when world economies recover.
- Gold production is close to topping out. Russian sales should be lower
- The low gold price has discouraged exploration and development in all countries. Accordingly, ore available to be mined is not being replaced. Some mines outside SA have closed without having recouped their capital costs. Others may not do so unless the gold price rises. The pay-back period is much longer at a price of $350 an ounce than at, say, $450.
- Gold loans and forward sales have held the gold price back. But there are prospects for a recovery and they should give support as they unwind.

Delays

In the past, analysts have had difficulty in valuing exploration shares. Mr Handley makes his valuations relative to gold producers. This is in contrast to absolute monetary figures which others have tried in the past.

For example, assume that an exploration company has a 10% stake in a mine which has the potential of reaching the size and quality of Driefontein or Kloof. Mr Handley would use the market capitalisation (share price multiplied by the number of shares) of the mine in question and apply various discounts.

These would relate to the probability of success and the time that it would take to establish a mine. The capital cost is taken into account in this equation.

A deep-level mine would incur large discounts on all three points.

Inflation is increasing capital costs. A deep-level mine could now cost between R2-billion and R3,5-billion.

Because of delays caused by the low gold price, a new mine could cost double those amounts. This is another risk that must be borne in mind. A static gold price increases the grade of ore needed to make a mine profitable because inflation raises both working and capital costs.

If you think the risks involved are too great, you can invest in mining financial companies, which give a good spread of interests. Here the exploration stakes are for the most part thrown in at a low cost

Mr Handley singles out four companies: Barnex, Freddev, Lydex and Randex. All have a large portfolio of participations.

Barnex's main interest is a 36% participation in the Doornrivier project, which would probably have been floated if the gold price had been better.

The present value of Doornrivier alone could be worth more than four times the current price of 80c. Barnex has enough cash to keep it going for some time.

Freddev also has a stake in Doornrivier together with three others which are next to Freegold and will come to fruition when Freegold exhausts its ore and has to expand its lease area.

It has R5-million cash, which it is hoped will be sufficient. Estimated present value is more than double the current price of 160c.

Lydex has many participations and has invested in a dump retreatment project which will give it a cash income for some years. It shares in a project to treat old ERPM dumps.

Its main interest is a 25% share in a potential major mine to the south of Unisel. Present value of all projects could be three times the current price of 55c.

Randex is also priced at 55c. But the present value of all its various interests could be up to eight times this price.

Generation

Potentially, its most valuable interest could be a 50% interest in the mining project south of Unisel referred to under Lydex.

Randex has declined its option to buy 60% of South Plats because is would take too much cash.

The potential values given can be regarded only as approximate. However, they do give an indication of what could happen in the long term if the gold price rises.

Better prospects for gold should afford excellent jobbing profits, even though in some cases it will be the next generation that will collect the dividends.

Gold and forex reserves surge higher

STAR 10/2/92

By Sven Lünsche 79

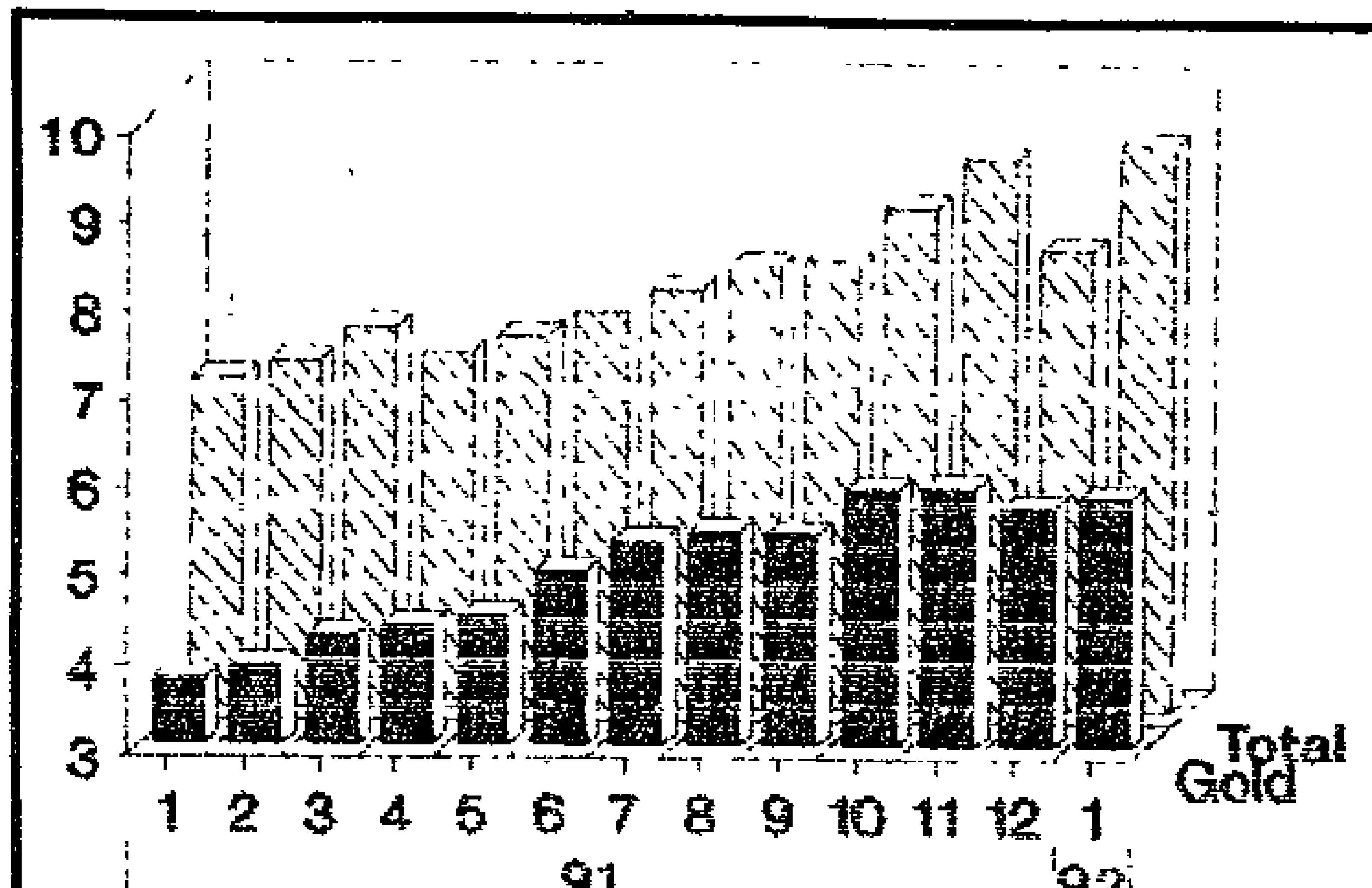
After dropping sharply in December as a result of seasonal dividend, debt and interest payments, SA's gold and foreign exchange reserves resumed their strong upward trend in January, surging to a record level.

The Reserve Bank said on Friday that the reserves had risen by 14 percent in January to R9,36 billion from R8,15 billion in December.

The largest jump was in the foreign exchange component of the reserves, which increased by a hefty 44 percent, or R1,09 billion, from R2,46 billion to R3,55 billion.

The change in gold holdings was minimal, with a rise of two percent to R5,81 billion from R5,69 billion in January.

This follows on a improvement in the rand value of gold, which rose by R18,79 per ounce from R879,36 to R898,15 per ounce, largely on the back of



Gold and foreign exchange reserves (R billion)

the weaker rand/US dollar exchange rate in January — the average rand exchange rate was R2,80 to the US currency last month, compared with R2,74 in December.

The physical volume of gold holdings was largely unchanged at 6,47 million ounces.

In December last year the reserves took a sharp R920 million drop, the first monthly decline since April 1991, in what was described as one-off seasonal payments abroad.

However, the drop has delayed the rise in the reserves to the magical R10 billion level, which Reserve Bank officials had expected to be achieved by December.

It is doubtful whether this mark will now be achieved by March becasue a large foreign debt repayment, inside the debt standstill net, is due in February.

Nevertheless, the strong rise in the level of the reserves proved to be one of the few economic highlights last year.

They are now equivalent to just over two months of imports.

A rise to R10 billion over the next few months would bring the reserves closer to the desirable level of covering the cost of three months of imports.

Coupled with the renewed access to overseas capital markets, this could certainly facilitate an easier monetary policy if it were coupled with a concurrent fall in the inflation rate.

Central banks to hold on to gold

STAR 10/2/92

By Neil Behrmann

LONDON — Discussions with European, and American bullion dealers and bankers suggest most central banks are unlikely to sell their gold at any price.

The price would collapse if there were large volume sales.

However, some dealers expect selling by central banks if the price rallies above $400 again.

Speculation about central bank gold sales has been revived by a report that the European central bank, when it is formed by the year 2000, will control 40 percent of the world's official gold reserves.

Andy Smith, London-based gold analyst of the Union Bank of Switzerland, estimates that EC central banks hold 11 600 tons of gold in their vaults.

Another 3 000 tons is held by the European Monetary Co-operation Fund to back the present European Monetary System.

Big question

The big question is what it will do with this gold.

The 14 600 tons represents 39 percent of gold reserves held by central banks and other institutions such as the International Monetary Fund.

Beyond gold loans to the market and the writing of call options, there is no indication that a European central bank will sell sizeable amounts of gold.

Yet Mr Smith believes that European and other central bank sales will be the "swing factor" in the market, when producer supplies fall short of demand.

He recalls that the Belgian central bank sold 127 tons or 10 percent of its gold reserves between 1989 and 1990.

Central banks want to maximise returns on their portfolio, such as earning interest on foreign exchange reserves, says Mr Smith.

The Belgium, Italian and UK central banks, for example, have hinted that there would be sales in the future.

In the meantime, dealers say, they are providing gold loans and swops for foreign exchange and are writing call options against their bullion.

Competition is so intense that the three months' lending rate on gold is only 0,75 percent, compared with a peak of 3 percent in 1990 and averages of 1,25 percent in previous years.

Gold, forex reserves rising

B/Day 10/2/92 (79)

SHERIDAN CONNOLLY

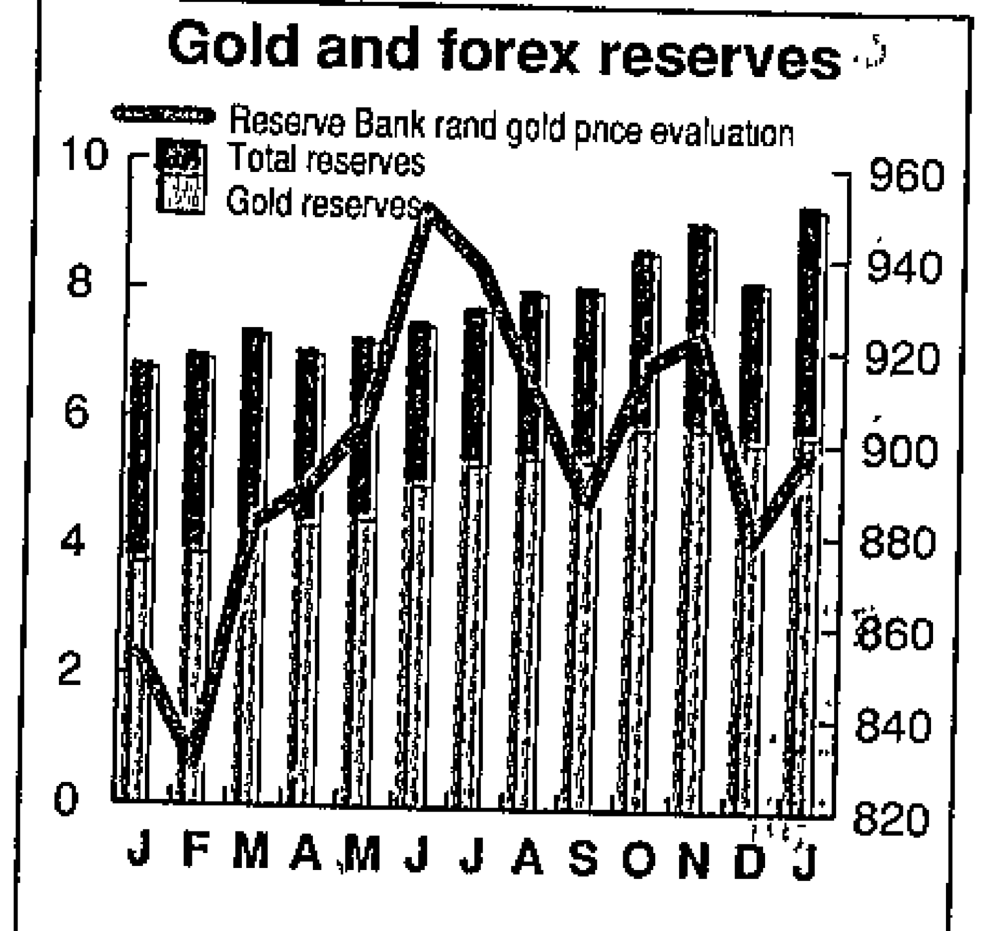
GOLD and foreign exchange reserves resumed their upward trend with a R1,2bn increase lifting total reserves to R9,364bn in January from R8,152bn in December, figures released by the Reserve Bank on Friday showed.

Foreign assets were R1,091bn higher in January at R3,553bn compared with R2,462bn in December.

The bank's gold holdings were little changed at 6,469-million ounces in January from 6,470-million in December, while the value of gold reserves rose by R121m to R5,810bn in January as against R5,689bn in December.

The average price of the metal was

□ To Page 2



Graphic LEE EMERTON Source: SA RESERVE BANK

Reserves

B/Day 10/2/92 (79)

□ From Page 1

only slightly higher at R898,15 in January from R879,36 in December.

Nedbank chief economist Edward Osborn said the sharp rise in foreign assets of R1,1bn was substantially high for the beginning of the year. Foreign assets rose only R500m in January 1991, he said. Osborn attributed this increase to short-term capital movements stemming from the lengthening of foreign indebtedness.

He said a R1,3bn increase in government deposits to R9,668bn in January was indicative of further net borrowing by the Reserve Bank from the banking system as part of efforts to maintain control over liquidity in the market.

It was unlikely that February's figure would see a similar jump because a substantial debt payment was due, he said. Osborn said he expected total reserves to top the R10bn mark around April.

Bankorp economist Jacques du Toit agreed that an inflow of short-term capital had contributed to a substantial increase in total reserves.

The increase in gold reserves was attributable to a higher physical volume of gold and not to the gold price which was largely unchanged, Du Toit said.

A satisfactory trade balance and a current account surplus of about R5,5bn in 1992 would lend support to a gradual upward trend in reserves, he added.

Reserves of R10bn were in sight and could be reached within the next three months, Du Toit said.

With SA's exports likely to come under pressure from the struggling world economy, and with the depressed domestic economy limiting imports, the Reserve Bank's target to have the level of reserves covering three months imports would be more easily attainable, Du Toit said.

Report says gold prices could fall even further

(79) (Gold)

B/Day 13/2/92

MATTHEW CURTIN

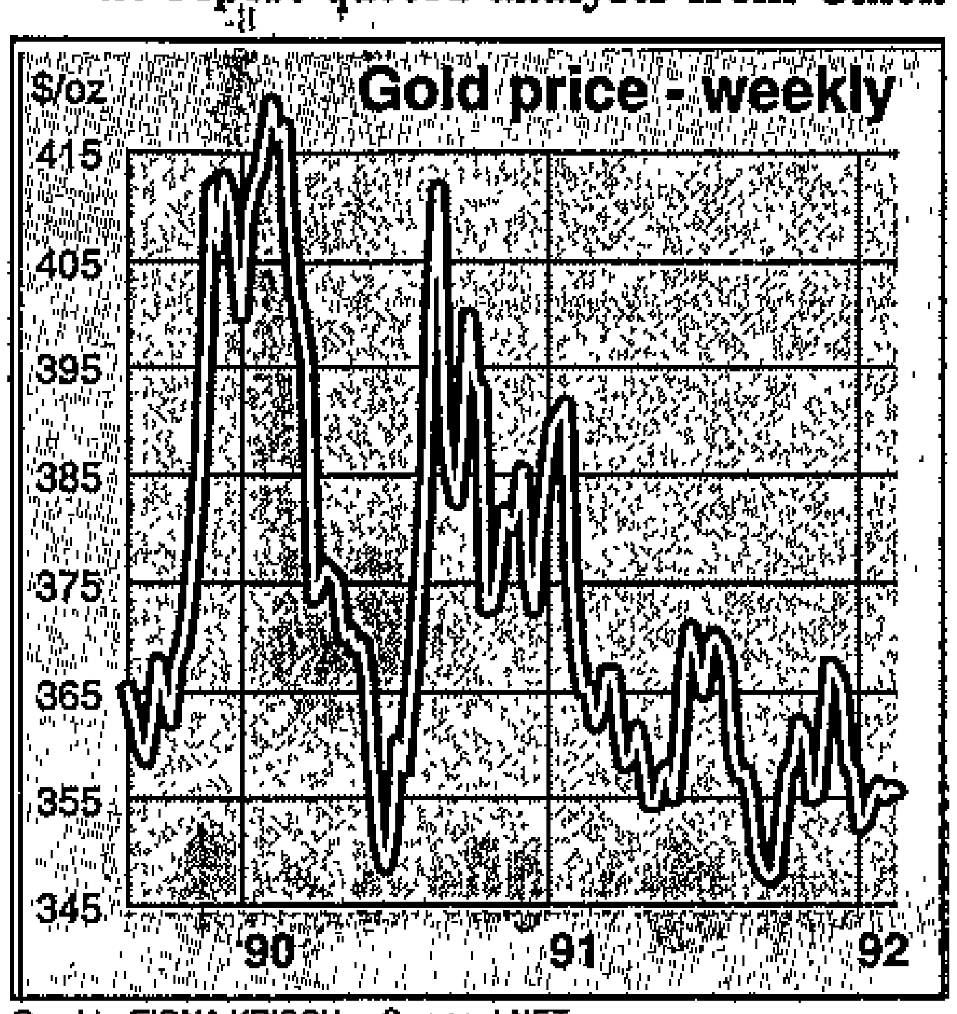
GOLD prices may be imprisoned in their current narrow trading range for years, and could perhaps fall even lower because of sales of central banks' gold reserves, says a report in a London-based journal.

However, SA mining sources dismissed the speculation, saying the banks could not afford to offload their gold reserves, as this would knock prices and amount to a significant write-down of their assets

The International Gold Mining Newsletter says in its latest edition that central bank sales may limit future price rises by replacing any decline in mine supply and supporting greater jewellery demand, "a somewhat depressing long-term scenario for gold".

In the short-term, disappointing jewellery sales and the deferred closure of gold mines, thanks to forward sales and belt-tightening, had put off a significant rise in prices.

The report quoted analysts from Union



Graphic FIONA KRISCH Source: I-NET

Bank of Switzerland and New York's CPM Group who said: "There are no longer particularly strong reasons for retaining vast amounts of gold in official reserves. The thought process towards possible large-scale gold sales is clearly under way". Central banks hold nearly 36 000 tons of gold between them, equivalent to about 20 years of current mine supply.

The report added the banks were under pressure to include gold sales in their "gold mobilisation policies". The US Commerce Department had recently revalued the US gold reserves at market prices rather than the official $42 an ounce, presenting it with an unrealised asset value of $80bn. It noted the opportunity cost of holding gold. Paper investments yielding 8% a year in the '90s would give the same return as a rise in the gold price to $530 in five years, and $800 in 10 years.

Central bank sales would become more likely if, in the short-term, gold prices increased.

Anglo American gold and uranium division chairman Clem Sunter said yesterday it was not possible to discount "the central bank selling scenario", but the arguments had not proved persuasive. "If you have an asset, to dump it and destroy its value is irrational".

Gengold MD Gary Maude said that despite some central banks' decision to sell gold in the past two years — Belgium, Brazil and Canada, among others — there was no sign of a general trend.

Inflation was putting pressure on the survival on Gengold's mines, which had "cut away the fat" already, and producers in Australia and Canada.

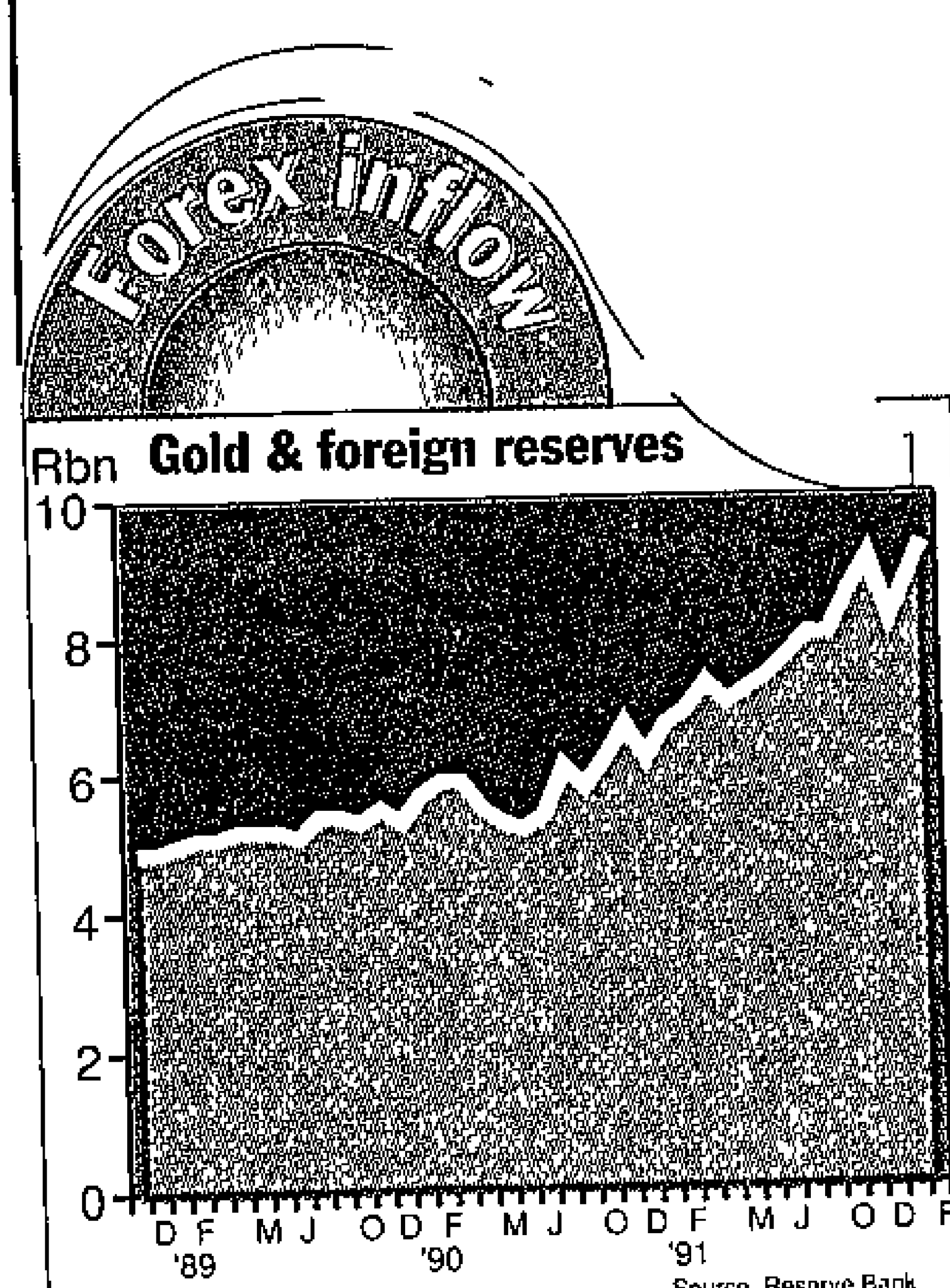
RESERVES BACK UP

FM 14/2/92 (79) (90)

Gold and foreign exchange reserves jumped 14,9% from R8,15bn (US$3bn) at the end of December to R9,36bn ($3,3bn) at the end of January. Growth in foreign assets accounted for the entire increase. They were up 44% on the December figure to R3,6bn ($1,3bn).

There was little change in the Reserve Bank's gold holdings last month. Total holdings decreased slightly from 6,470m oz in December to 6,469m. However, the value of gold holdings was little changed: R5,69bn ($2,076bn) in December and R5,81bn ($2,075bn). The value per ounce rose from R879,36 to R898,15.

A Reserve Bank spokesman says the sharp rise in foreign assets over January should be assessed in the light of December's decline. At that time, a number of foreign banks withdrew short-term finance in a bid to boost their year-end figures. It is likely that the January rise was merely a readjustment to reverse that, he adds. Taking the two months together, growth in reserves in the latter part of 1991 continues in 1992.



Gold's only for baubles

79

S I Times (Buss) 16/2/92

GOLD's monetary role is now history for private investors and central banks alike.

Because central banks hold more than 35 000 tons of gold — equivalent to 20 years' current mine production — the outlook is depressing.

These views are discussed in the Mining Journal's gold newsletter under the headline Sword of Damocles.

Two reports by analysts indicate the market may have to contend with increased sales from central banks, although this is qualified by the need for a higher gold price.

Much of the banks' metal was acquired in the gold standard era before 1971.

Significant changes in central bank management have led to a new breed of banker no longer holding any reverence for gold in spite of its long history as a monetary linchpin.

Central banks are active in the gold market. They provide cheap liquidity to the market for borrowed gold in the form of deposits and swops out of official reserves into commercial banks.

Up to 800 tons of official gold may be circulating in the inter-bank market on any given day.

Central banks are under pressure to include gold sales in their gold mobilisation policies.

The opportunity cost of holding gold in reserves can be illustrated. Paper investments can yield 8% a year.

To match this, gold would have to rise to \$530/oz in five years and to \$800/oz in a decade.

Otherwise central banks would have to be even more satisfied with gold's other portfolio qualities, principally as a risk hedge.

Gold sales would be carefully considered, not least by looking at the effect a potentially lower price would have on the unsold reserves.

As part of a recent revised treatment of American net international indebtedness, the US Commerce Department revalued the gold reserve at market prices instead of the book figure of \$42/oz.

An unrealised asset value of \$80-billion has clearly not escaped attention.

Much of the gold held in reserves is valued at \$42/oz, so is largely insensitive to price because good book profits could be made.

One analyst says gold could fall below \$200/oz for a time.

It can be expected that central banks will become the swing source of gold supply as mine production falls in the 1990s. They could become net sellers of perhaps 700 tons a year shortly.

The Mining Journal concludes that a depressing long-term scenario for gold would be central bank sales limiting future price rises by replacing any decline in mine supply and supporting increased jewellery demand.

This could result in a lower or lack-lustre gold price.

Gold's only for baubles

79

S1 Times Buss 16/2/92

GOLD's monetary role is now history for private investors and central banks alike.

Because central banks hold more than 35 000 tons of gold — equivalent to 20 years' current mine production — the outlook is depressing.

These views are discussed in the Mining Journal's gold newsletter under the headline Sword of Damocles.

Two reports by analysts indicate the market may have to contend with increased sales from central banks, although this is qualified by the need for a higher gold price.

Much of the banks' metal was acquired in the gold standard era before 1971.

Significant changes in central bank management have led to a new breed of banker no longer holding any reverence for gold in spite of its long history as a monetary linchpin.

Central banks are active in the gold market. They provide cheap liquidity to the market for borrowed gold in the form of deposits and swops out of official reserves into commercial banks.

Up to 800 tons of official gold may be circulating in the inter-bank market on any given day.

Central banks are under pressure to include gold sales in their gold mobilisation policies.

The opportunity cost of holding gold in reserves can be illustrated. Paper investments can yield 8% a year.

To match this, gold would have to rise to $530/oz in five years and to $800/oz in a decade.

Otherwise central banks would have to be even more satisfied with gold's other portfolio qualities, principally as a risk hedge.

Gold sales would be carefully considered, not least by looking at the effect a potentially lower price would have on the unsold reserves.

As part of a recent revised treatment of American net international indebtedness, the US Commerce Department revalued the gold reserve at market prices instead of the book figure of $42/oz.

An unrealised asset value of $80-billion has clearly not escaped attention.

Much of the gold held in reserves is valued at $42/oz, so is largely insensitive to price because good book profits could be made.

One analyst says gold could fall below $200/oz for a time.

It can be expected that central banks will become the swing source of gold supply as mine production falls in the 1990s. They could become net sellers of perhaps 700 tons a year shortly.

The Mining Journal concludes that a depressing long-term scenario for gold would be central bank sales limiting future price rises by replacing any decline in mine supply and supporting increased jewellery demand.

This could result in a lower or lack-lustre gold price.

Gold's tumble is a return to normal, says metals analyst

BDay 19/2/92 (77)

MATTHEW CURTIN

SOARING gold prices of the late 70s and early 80s were a historical aberration, and nothing would return them to those levels, Union Bank of Switzerland precious metals analyst Andrew Smith said yesterday.

Current gold prices, well above historical real prices, were frozen in a narrow trading band. The only chance of a thaw would come from the former Soviet Union, whose gold reserves were low and whose mines were in trouble.

Smith said the fall in gold prices was a return to normality rather than collapse.

Although observers blamed the fall on "a single assassin" or "grand conspiracy", gold "simply died from natural causes".

Gold came a poor third behind equities and bonds in the late 80s. The gold markets were now dominated by producers and professionals.

Smith said that those who identified miracle cures for gold tended to do so at the expense of recognising that no factor operated in isolation.

One cure observers mooted was some sort of financial apocalypse, but that was unlikely, bar the chance of sudden high inflation in the industrialised world.

Smith noted two years ago the Chamber of Mines predicted more than half its gold mines were at risk if gold prices did not rise or other factors come into play. Dollar prices had fallen, but thanks to hedging and the weaker rand, producers had won better rand-gold prices, while job cuts, cost control, high-grading and flexible wage settlements contributed to the improving insurance mines had against falling market prices.

In the short term, recession in North America and the EC, and slowing growth in Japan, undermined the role jewellery consumption would play. In the long term, likely growth in jewellery demand was concentrated in the developing world. Once these economies secured lower inflation and freer financial markets, they would lose their taste for gold jewellery.

Rather than continuing its rapid increase of the late 80s, jewellery demand could return to a core level of between 800 and 1 500 tons.

As for central banks' reserves of 35 000 tons, it was clear banks were mobilising their gold reserves — even if they had no plans to offload them wholesale — by market valuing their inventories, offering swaps, gold loans, and options. Smith likened these reserves to the "waste material" of obsolete financial technology.

79 AUG 22/2/92

Gold sales fears may be unfounded

JOHN SPIRA
Weekend Argus Reporter

THE fear of central bank gold sales is perhaps the main factor behind gold's inability to perform.

The world's central banks hold between them 34 600 tons — the equivalent of 17 years' production of the metal.

An analyst at the Union Bank of Switzerland, Andy Smith, argues in his latest Precious Metals Outlook quarterly that it is reasonable to expect central banks will become net sellers of about 700 tons a year from the mid-1990s.

By the year 2000, he expects the central banks to be supplying nearly 20 percent of a total world gold supply of about 3 400 tons.

This would represent a major change in the central banks' gold sale profile.

Smith's predictions are based on the grounds that:

- Gold's monetary role has diminished considerably;
- Pressure from taxpayers for central banks to earn income by selling gold for currency deposits will encourage liquidation; and
- The increasing tendency of central banks to revalue their gold reserves at market related prices will work in the same direction.

Any such development would be negative for gold and the international gold mining industry, of course, and the World Gold Council would oppose central bank gold sales.

The bottom line of the "to sell or not to sell" debate is that the wrong question is being asked. The two questions that should be asked are:

- Is Smith's prediction likely to be fulfilled? and
- Will the central banks in aggregate become significant sellers of gold, especially under the depressed conditions prevailing in the market?

At this juncture, it is difficult to conceive of any sustained selling, except possibly by countries facing serious financial distress, such as those in Eastern Europe.

Even sales by the new countries comprising the former Soviet Union are problematical in view of the serious depletion of gold reserves of the old Soviet Union which took place in 1991.

Further, Mr Smith's assertion that the monetary role of gold has declined substantially is open to question.

Although it is difficult to visualise gold again being used by industrial countries for settling international payments, developing countries facing particularly acute balance of payments problems probably will continue to use gold in the form of swops as a source of foreign exchange in emergencies.

However, central banks sales could still emanate from the pending European Central Bank (ECB).

Mr Smith argues that if the course towards true European monetary union runs smoothly, then later this decade a single ECB would control 40 percent of the world's official gold reserves — 11 600 tons now in EC members' vaults plus nearly 3 000 tons in the European Monetary Co-operation Fund.

He asserts that a single European currency reduces the main need for reserves of any kind which are used for intervention in currency markets. An ECB could economise on all reserves, including gold.

Kersaf's casino revenues up 25%

STAR 25/2/92

By Sven Lünsche

Kersaf, the holding group of the Sun International and Safmarine-Rennies groups, reported a satisfactory earnings growth of 14 percent in the interim period to end-December.

The interim turnover beat the R1 billion mark for the first time rising by 13 percent from R904,1 million to R1,02 billion.

While operating profits rose by only 10 percent to R275 million (R249,1 million), a drop in tax payments to R66,1 million (R80,6 million) left after tax profits significantly higher by 15 percent at R213,3 million (R185,1 million).

The lower tax payment was due to a lower effective rate at Sunbop as a result of allowances on its extensive capital expenditure programmes.

Attributable earnings rose by 14 percent to R86,4 million (R75,8 million), equivalent to earnings per share of 115c (101c).

An interim dividend of 66c (58c) a share was declared, but Kersaf is offering shareholders 1,833 shares for every 100 shares hold in lieu of the cash payment.

The directors describe the group's results as satisfactory given the prevailing slowdown in consumer spending.

They are, however, happy with the performance of Sun International, given that casino revenues rose by 25 percent over the period following the opening of the Carousel in November last year.

"In line with the industry experience, the group's resorts suffered a decline in average occupancy, and the 66 percent level attained was four percentage points down on the previous year," the directors state.

Nothing is said in their comment on the performance of Safren but analysts believe that the group benefited from the strong rise in trade which was reported in the second half of last year.

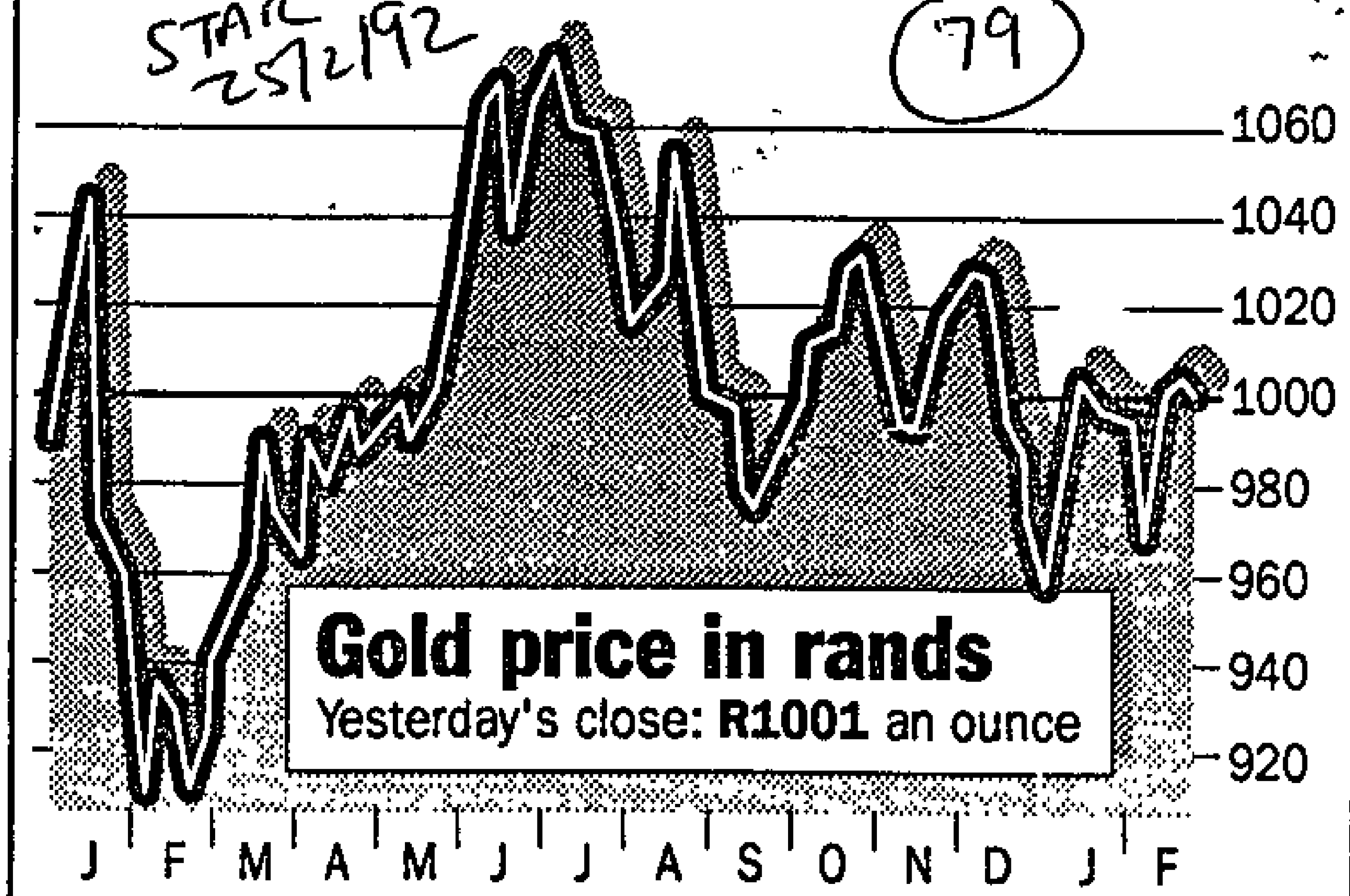
Looking ahead they say that the depressed economic conditions are expected to continue unabated for the remaining months of the year and the group will be affected by the ongoing restrictions on consumer spending.

It was nevertheless anticipated that the growth in earnings for the year should remain satisfactory.

Gold price sinks below $350 level

STAR 25/2/92

(79)



By Derek Tommey

There is no need to hit the panic button over the fall in the gold price yesterday to below $350.

The lower dollar gold price is almost entirely the result of the unexpected sharp rise yesterday in the dollar against all currencies — including the rand.

The dollar rose almost 0,6 percent against the Japanese yen, 0,5 percent against the German mark and 0,4 percent against the rand.

This provided a cushion for gold producers leaving therand price of gold still above R1 000 an ounce, as it was last Wednesday, Thursday and Friday.

The gold mines are, therefore, no worse off than they were.

On the other hand, the firmer dollar is good news for exporters of commodities such as coal, ferroalloys, manganese, steel, iron ore, chrome ore, diamonds, platinum and any other goods priced in dollars because they are getting more rands for their products than they were last week.

Surprise rise

The surge in the dollar appears to have taken some analysts by surprise.

But the guiding principle of financial speculators is: "When you see a good thing, go for it."

Clearly, company treasurers, bankers, importers and just plain speculators saw the dollar as a "good thing" yesterday and went for it — in expectation of either making or saving money by so doing.

Some analysts said the rise in the dollar — the result of heavy buying — was fuelled by over-optimism about US economic recovery.

But those who believe the US economy is in recovery mode and are responsible for managing their employers' currencies have no choice but to buy dollars.

As the US economy picks up it will draw in an increasing amount of capital from foreigners keen to share in the recovery profits.

This alone will lead to a firmer dollar.

Any businessman who has debts denominated in dollars will start buying dollars now.

And any businessman who has to make purchases in the US will be doing the same.

With the dollar rising, gold dipped below that psychological level of $350 an ounce, droppingmore than $2 to $349,50 — around its lowest levels since last September.

According to Sapa-Reuter, some traders feel it could lose as much as $10.

But analysts at the Johannesburg Stock Exchange do not agree.

They say the percentage drop in the gold price is almost equal to the percentage rise in the dollar against the rand and other currencies.

This means there has not been any change in demand for gold — only in the exchange rate of the dollar.

Analysts point out that the gold price has remained around $350, despite the world recession affecting demand at a time of heavy Middle East and Russian sales.

Consequently it is unlikely to go any lower when economic activity improves, they say.

Krugerrand sales rocket

Business Editor (79) ARG 27/2/92

SALES of Krugerrands have rocketed since December — a demand due to prevailing political uncertainty, says Mr Eli Levine, chairman of the South African Gold Coin Exchange.

Demand dropped to zero in December because of confusion about VAT applying to gold coins, then limped along between zero and 300 ounces a week.

But the latest weekly tender of Krugerrands by Rand Refineries was oversubscribed for the first time in several months, with bids exceeding the weekly offer of 6 000 ounces worth more than R6 million.

This demand was expected to continue in the run-up to the March 17 referendum, said Mr Levine.

The premium for Krugers — the difference between the current gold price and the coin's market price — has risen to 4 percent from a zero premium in November and December.

'Gold holding up well at lower price levels'

79

ARG 28/2/92

JOHANNESBURG. — Despite its failure to react to factors which traditionally favour the metal, gold has held up well at lower price levels says Anglo Amrican's Clem Sunter.

Writing in the annual report of Vaal Reefs, Western Deep Levels and Elandsrand, of which Mr Sunter is chairman, he said the unit cost of producing gold measured in rands per kilogram increased by four and eight percent at Vaal Reefs and Elandsrand respectively, while the figure actually declined at Western Deep Levels

For all three mines this was a "considerable achievement in today's inflationary environment" and reflects each company's "continued commitment to contain cost escalation", Mr Sunter said.

He added that the consumption of gold in jewellery was a critical element for the long-term health of the market.

"Effective promotion of gold through the World Gold Council continues to be vital in this regard," he said.

"It is hoped that the end of the world economic recession will signal the beginning of a sustained positive trend in the gold market."

Mr Sunter says the accelerated introduction of a new uniforn gold formula, which effectively eliminates the distortions which were previously contained in the formula, will have to be adjusted to reflect any reduction in the normal company tax rate.

He stressed government still had to ensure that the formula was adjusted to reflect any reduction in the ordinary company tax rate, in accordance with the recommendations of the Marais Technical Committee on Mining Taxation.

He said of the other major recommendations made, two have not yet been implemented, namely the abolition of lease payments and the elimination of "ring fencing".

But, since lease payments will fall away within two years of the implementation on January 1 this year of the Minerals Act, this is not a major cause of concern.

Foreigners cut back on SA gilts holdings

3 1D ay 2/3/92

MERVYN HARRIS

FOREIGNERS reduced their holdings of SA gilts and remained net sellers of shares in the week ending 21 February, according to latest JSE trading statistics.

But net sales of equities fell to almost half the level of the previous week — to R28,4m from R50,2m — despite the shock CP victory in the Potchefstroom by-election and the announcement of a whites-only referendum.

79

The figures show that net gilts purchased declined to R62,4m from R105,5m the previous week.

The statistics only represent non-resident finrand transactions through the JSE, and are therefore not comprehensive.

Forward sales depress gold price

STAR 3/3/92

By Derek Tommey

(79)

The practice of borrowing gold from banks and selling it forward to finance new mines has a permanent and severe impact on the metal price.

This is the conclusion of a former mining engineer and former director of Union Corporation, Hugh Monro, in a paper published in the latest issue of the journal of the South African Institute of Mining and Metallurgy.

In recent years several companies have financed new mines by borrowing gold at a low rate of interest from central banks, selling it and re-investing the proceeds at a much higher rate of interest.

The central banks approve of the practice because it enables them to earn some interest on their gold stocks and virtually assures them of getting their gold back when the mine to which they have lent the gold starts production.

Mr Monro has examined the supply-demand structure of gold in recent years and measured the various price elasticities of the structure's components.

After analysing the effects of sales of gold borrowed from banks, he comes to the conclusion that every ton of gold sold forward depresses the gold price by 20 US cents an ounce.

Without the forward sale of 240 tons of bank gold in 1990, he maintains the average gold price for that year, which was \$383,59, would have been \$49,25 higher.

Mr Monro contends that as far as the gold mining industry is concerned, the practice is counter-productive and should be stopped at once.

Furthermore, it should be reversed by the repayment of gold borrowed from banks.

Mr Monro argues that if his work should lead to a reduction in bank forward sales and to many loans being repaid, gold could rise rapidly and even exceed \$400.

"Complete acceptance, including the repayment of all loans, might raise the price to about \$500."

Mr Monro analyses the effects of selling bank gold and not of forward sales of new production by the mining industry.

But his findings could lead to the practice being reviewed.

The mining industry has been deeply divided about the merits of selling forward.

Some see the practice as a valuable way of protecting marginal mines against a future drop in price.

When a mine sells forward it undertakes to deliver gold at the current price and interest at a future date.

Therefore the mine is guaranteed a higher price on its forward sales than the one obtainable at the time the forward sales are negotiated.

If a mine is marginal and is having problems breaking even, the ability to sell forward and get a slightly higher price than the prevailing one is seen as a major benefit.

It is also argued that any depressing effect forward selling might have on the gold price will be reversed when the gold is delivered.

But there is another school of thought, led by Gary Maude, manging director of Gengold, which contends that forward sales push down the gold price permanently and the industry as a whole suffers a major loss.

For this reason Gengold has been reluctant to sell forward.

Mr Monro's paper is bound to cause a re-evaluation in the industry.

Everyone accepts that when the first forward sale is made it increases the volume of gold available and consequently depresses the price.

12 *The Argus, Tuesday March 3 1992*

'Forward sales depressing gold price'

79

DEREK TOMMEY

ARG 3/3/92

JOHANNESBURG. — The practice of borrowing gold from banks and selling it forward to finance new mines has a permanent and severe impact on the metal price.

This is the conclusion of a former mining engineer and former director of Union Corporation, Hugh Monro, in a paper published in the latest issue of the journal of the South African Institute of Mining and Metallurgy.

In recent years several companies have financed new mines by borrowing gold at a low rate of interest from central banks, selling it and re-investing the proceeds at a much higher rate of interest.

The central banks approve of the practice because it enables them to earn some interest on their gold stocks and virtually assures them of getting their gold back when the mine to which they have lent the gold starts production.

Mr Monro has examined the supply-demand structure of gold in recent years and measured the various price elasticities of the structure's components.

After analysing the effects of sales of gold borrowed from banks, he comes to the conclusion that every ton of gold sold forward depresses the gold price by 20 US cents an ounce.

Without the forward sale of 240 tons of bank gold in 1990, he maintains the average gold price for that year, which was $383,59, would have been $49,25 higher.

Mr Monro contends that as far as the gold mining industry is concerned, the practice is counter-productive and should be stopped at once.

Furthermore, it should be reversed by the repayment of gold borrowed from banks.

Mr Monro argues that if his work should lead to a reduction in bank forward sales and to many loans being repaid, gold could rise rapidly and even exceed $400 an ounce.

"Complete acceptance, including the repayment of all loans, might raise the price to about $450."

Mr Monro analyses the effects of selling bank gold and not of forward sales of new production by the mining industry.

But his findings could lead to the practice being reviewed.

The mining industry has been deeply divided about the merits of selling forward.

Krugerrand stays subdued

BDay 5/3/92

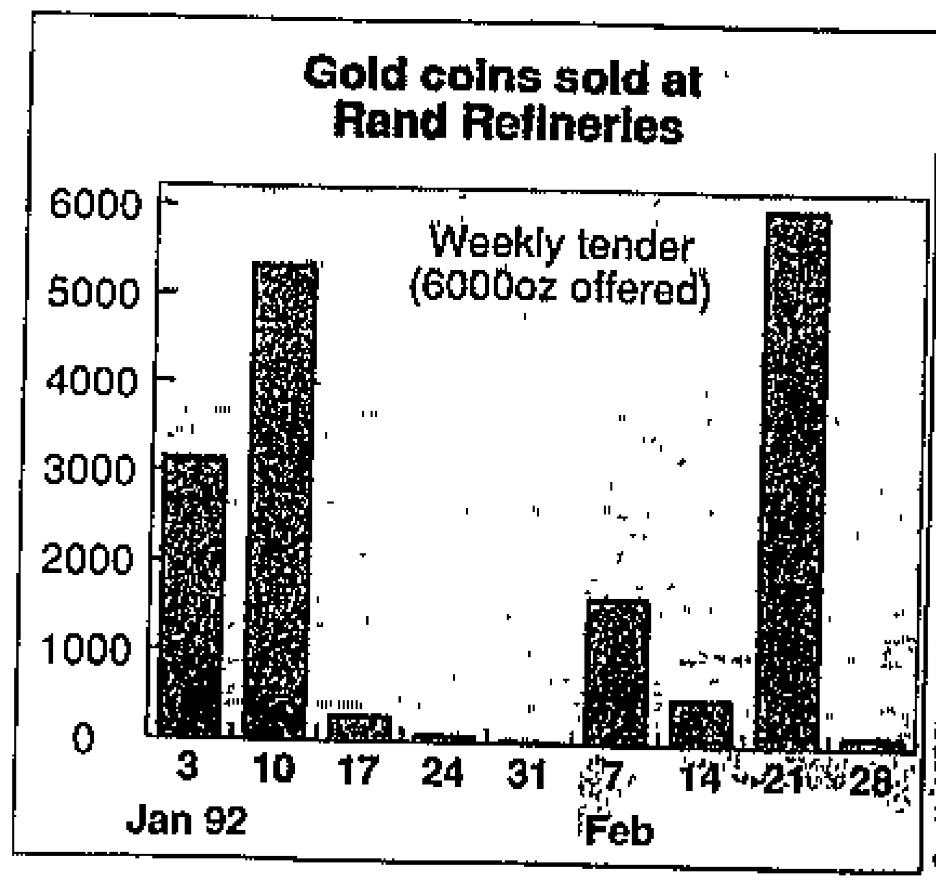
79

MATTHEW CURTIN

THE Krugerrand, once the world's premier gold coin, is missing out on SA's successful return to the international fold.

International and local markets for the coins are in the doldrums, delaying the relaunch of the unit, says Chamber of Mines senior GM Daniel Pollnow.

Pollnow said yesterday that not only had gold lost favour with investors, but gold coins were generally performing poorly.



He said in 1976 investors bought a record 6-million oz of Krugerrands, then the only gold coin in circulation. But over the past few years, with four main coins in circulation, only 2-million ounces of Krugerrands were traded a year.

As recently as 1987, Krugerrands traded at a 42% premium to the rand gold price, but now trade at a 2,6% premium. This means buyers can find coins more cheaply on local and overseas markets than at Rand Refineries, which offers Krugerrands at a minimum 3% premium to the previous day's average rand gold price.

There are 47-million Krugerrands in circulation.

Pollnow said the Krugerrand would be relaunched when the market picked up. Market research would determine whether it was relaunched in a new form.

Local demand is near record lows as the coin has not recovered from the blow to market confidence by the threat last year of VAT being imposed on gold coins.

□ To Page 2

Krugerrand

BDay 5/3/92

79

□ From Page 1

Every Friday Rand Refineries puts 6 000 oz of gold coins struck by the SA Mint out to tender. Last Friday, buyers subscribed for only 100 oz. The previous week the tender was oversubscribed for the first time in more than a year, triggering speculation by the SA Gold Coin Exchange that the Krugerrand was back in favour as investors became jittery before the referendum. Exchange chairman Eli Levine said yesterday such hopes had proved short-lived. The decision to exempt Krugerrands failed to revive local demand.

Levine said the Krugerrand was doomed unless it was redesigned and renamed. The most popular gold coins were now the Austrian Philharmonic, the Australian Nugget, the Canadian Maple Leaf and the Chinese Panda, all 99,99% pure gold — nearly 24 carat. That compared with the 22-carat Krugerrands, which were still tainted as "coins of apartheid".

A Rand Refineries spokesman said yesterday that "the threat of VAT killed the market". The Krugerrand tender had not been regularly oversubscribed since February last year when sales plummeted as government toyed with the idea of taxing new gold coins. The refineries had not received an international order since 1985.

A Krugerrand dealer with one of SA's merchant banks complained yesterday that although sanctions had been lifted, international demand was poor. One reason was that SA merchant banks were unable to trade the coins overseas because of the monopoly over gold exports held by the Reserve Bank and Rand Refineries.

Gold, forex reserves rise at a slower rate

(79)

Finance Staff STAR 9/3/92

Gold and foreign exchange reserves continued their rise in February, but at a slower-than-expected monthly rate of under one percent.

The Reserve Bank said on Friday that total reserves had risen from R9,36 billion in January to R9,46 billion last month.

The gold holdings were virtually unchanged at R5,81 billion as a small drop in the volume of gold held to 6,45 million ounces (6,47 million ounces) was offset by a rise in the average value of gold held to R900,79 per ounce (R898,15).

The rand gold price was boosted by the lower rand-dollar exchange rate.

The foreign exchange content of the reserves improved from R3,55 billion to R3,65 billion, reflecting the smaller surplus during the month. However, capital outflows were limited in February.

Reserves beat debt repayment

BDay 9/3/92 (79)

SHERIDAN CONNOLLY

SA's gold and foreign exchange reserves continued their upward trend in February in spite of a foreign debt repayment of $160m.

The Reserve Bank said on Friday that total reserves increased R92,47m to R9,45bn in February from R9,36bn in January.

The Bank's gold holdings were largely unchanged at 6,448-million ounces in February from 6,469-million in January.

It said, however, the value of gold reserves declined by R1,08m to R5,80bn in February from R5,81bn in January. Average price of the metal was only slightly higher at R900,79 in February, against R898,15 in January.

Foreign assets were up R93,55m to R3,64bn in February from January's R3,55bn.

Nedbank chief economist Edward Osborn said the rise in total reserves was extremely small and was, in part, due to a lower dollar value of the rand.

Osborn said the net overall increase was thus a positive improvement.

An upward trend in the level of foreign reserves would be dampened by the need to import grain, Osborn added.

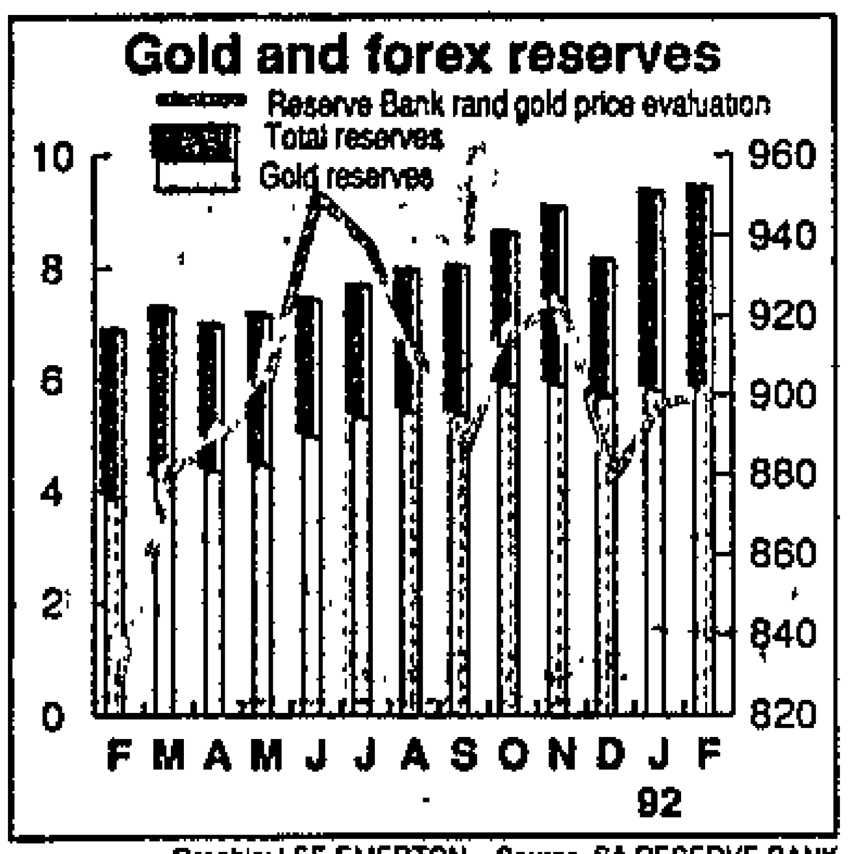
Bankorp economist Jaques du Toit said the small decline in gold reserves had been offset by a build-up in foreign assets.

An increase in total reserves was significant in the light of any capital outflows to finance a debt repayment, Du Toit said.

The R1,2bn rise in January had been a substantial increase and the smaller February rise was by no means disappointing, he added.

Du Toit was confident that the good performance in the level of reserves would continue and said there was an excellent chance that total reserves would reach the R10bn mark within the next few months.

He was optimistic that the Reserve Bank would reach its target of having sufficient reserves to cover the cost of three-months imports by mid-year.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Peering beyond gold's uncertainties

BDay 10/3/92 '79

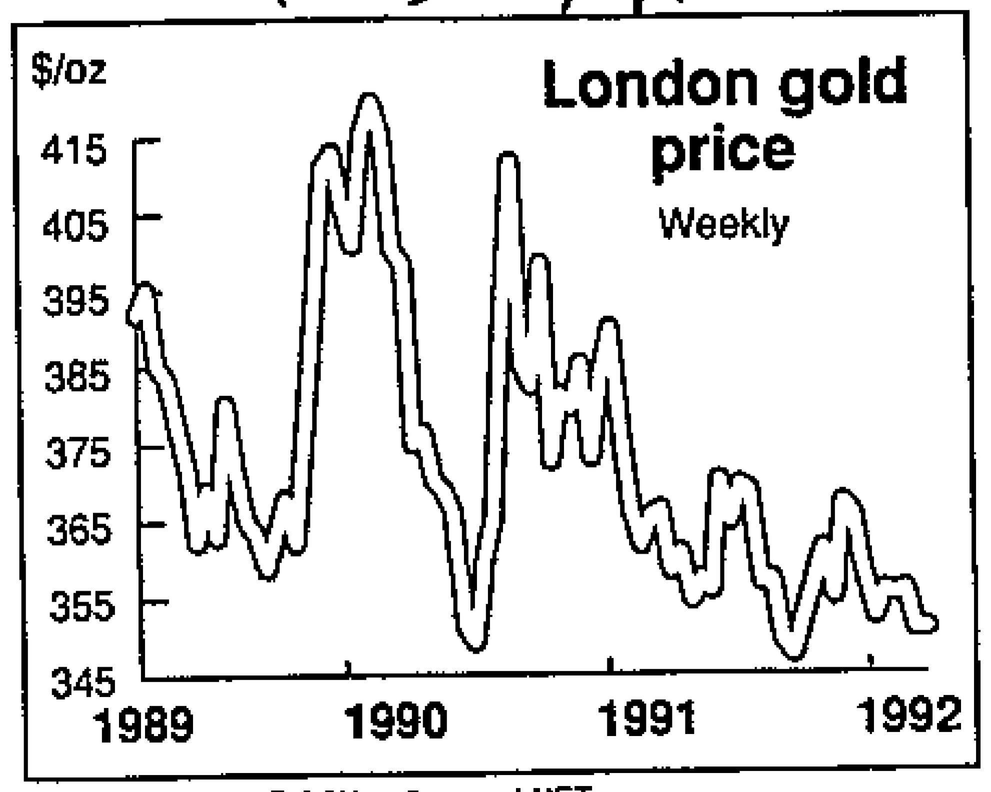
NEW YORK — Three seasoned observers sat down recently with the editors of Barron's, the influential financial journal, to size up the outlook for gold. What they predict holds great significance for the industry, including traders in futures.

The three wise men were Ted Arnold, a London-based metals analyst with Merrill Lynch; Jeff Christian of the New York-based CPM Group; and Peter Marcus, senior vice-president at Painewebber.

Christian, noting that spot gold had been trading at between $350 and $420 since August of 1988, said there had not been quiet stretches as long as the present one. "In terms of quarterly price fluctuations, gold has been quiet since 1983-84. And that's an aberration in the 21 years since 1971, when gold prices were freed."

Asked about Russia's role in the price of gold, Christian said he was "reasonably certain that there are sizeable gold reserves remaining in what was the Soviet Union" and that reserves were sold off to a level of 250 tons, though he could not say where the extra reserves could be found.

Christian said that Gregori Yavlinski's job as chief architect of Russian economic policy in the last part of 1991 was to stimulate investment in loan guarantees from western and the Japanese governments to help bail out the Soviet Union. "He was not involved in the gold market. He was involved with dealing with the IMF, the US, the British, the Germans and Japanese," who all asked to see gold as collateral. In effect, Yavlinski's job was to say that there wasn't any gold left that the Russians could sell, Christian said.



Graphic: FIONA KRISCH Source: I-NET

Christian nevertheless did not think that whatever extra gold the Russians had would have a dramatic effect on the price, unless it was actively played in the market. He said that after the Soviet dissolution, the reaction was "how could it possibly be producing gold? Gold prices are going to have to skyrocket because Soviet sales, about one-eighth of the market, are going to have to fall."

But, Christian said, the price didn't fall "because gold production held up reasonably well in the Soviet Union. The Soviets sold a lot of production and they sold gold from reserves. The disruption in the Soviet Union was negative for gold on a short-term basis because they increased the supply of gold."

He said that his sources in in the Soviet Union had told him production was about 7,2-million ounces last year and "that they have been selling about 8- to 10-million ounces a year."

Beyond 1992, mine production would probably rise faster than most people thought, and by 1995-96 "you could see a remarkable increase in production", he said. "By the end of the century, (ex-) Soviet gold production could easily exceed its old level of 10-million ounces a year."

Another consideration hurting gold, Christian said, was that when US inflation stayed below 6%, as it had for the past five years, people did not buy gold and unless the inflation outlook changed speculative demand would remain weak.

Arnold of Merrill Lynch said the birth and growth of the financial futures should not be overlooked as a factor influencing gold's decline as an inflation hedge. He said one could "plot the growth of financial futures markets vs the decline in volume of gold trading on the Comex" and find a "very good negative correlation". He said that the vast bulk of inflation hedge money was now going into financial futures.

Arnold said that central bankers, if anything, were "likely over the next 20 years to be small net sellers. So I can't get wildly bullish about gold, though there may be a gentle rise in demand over time."

Christian disagreed, saying "if you consider financial futures . . . you'll see it's primarily institutional investors who look at financial futures as an inflation hedge or a safe haven and use it as a portfolio diversifier instead of using gold." He said it was individual investors and private banks trading on a worldwide basis that had turned the gold price upward in the past.

He said "financial futures do have a limited effect on gold prices," but did not think they were a factor that would prevent a gold rally in the future.

Marcus of Painewebber put this year's average pretax production cost of gold in the western world at $350, or about the same level as the current price.

But Christian said that did not put a significant floor on the price. He said "while you have had a rapid appreciation in production costs in North America and Australia over the last couple of years, that trend may be slowing. You have major countries that are coming on stream like New Guinea, Indonesia and Ghana — all with much lower production costs."

On the other hand, Arnold said "great note" should be taken of the SA Reserve Bank's gold policy when talking about a floor price for gold. He said "I think they are likely to support the price around $350 basis spot."

He said they could withhold gold sales from the market, noting that as the largest single producer with 600 tons a year, "that can be quite helpful to the market in the short term".

At the same time, Arnold said, the SA Reserve Bank "has stated quite clearly that they equally don't want prices to run ahead very quickly, because if you have a rapid rise in the price you tend to destroy the underlying consumption base. I would be very surprised if the South Africans would like to see markets shoot ahead to more than $380 to $390." — AP-DJ.

Gold plummets to six-month low

79

B/Day MATTHEW CURTIN 17/3/92

GOLD crashed through technical support levels yesterday to hit $343 an ounce, its lowest level since September last year.

Gold was fixed in London yesterday afternoon at $343,00, compared with Friday's fix of $347,60. It fell $5,35 yesterday to close at $342,25.

However, the JSE's all gold index held up at 1 165, only eight points down on the day. Heavyweight gold shares were supported by a sharp drop in the finrand.

Gold has been trading in a narrowing range, with an average London price of $353 in the past three months, and $356 in the past year. Mathison & Hollidge gold analyst Rob Gillan said yesterday the movement in prices reflected technical factors rather than fundamental changes in market conditions. Senekal, Mouton & Kitshoff analyst Hilton Ashton said the fall was relatively unimportant because gold had been trading in a narrow range.

The recent weakening in the commercial rand means the fall in dollar gold prices has not unduly concerned SA's gold producers, who — while receiving dollars for their product — have to pay costs in rands. The rand price has been relatively stable at marginally higher than R1 000.

The Chamber of Mines said yesterday gold production from SA's mines rose 3% in January and February to 98 527kg from 95 414kg in the same period last year. Production was 48 633kg (47 109kg) in January and 49 894kg (48 305kg) in February.

Japanese sales send gold price plummeting

(79). STAR 18/3/92.

By Derek Tommey

The London gold price sank to \$337 at one point yesterday — its lowest level since July 1986 — apparently on profit-taking by Japanese investors.

But later in the day the price staged a small recovery to reach \$339 at the afternoon fixing.

Interestingly, this drop in the gold price had little effect on the prices of gold shares, which closed only slightly lower on the Johannesburg Stock Exchange.

The market as a whole closed on a mildly bullish note.

Gold had closed at \$343 in London on Monday evening and remained fairly steady yesterday morning.

But sales of gold built up in the afternoon, pushing the price below the \$340 level and triggering some programme selling.

Traders attributed the fall in the price to the absence of normal support for the metal at just below \$350.

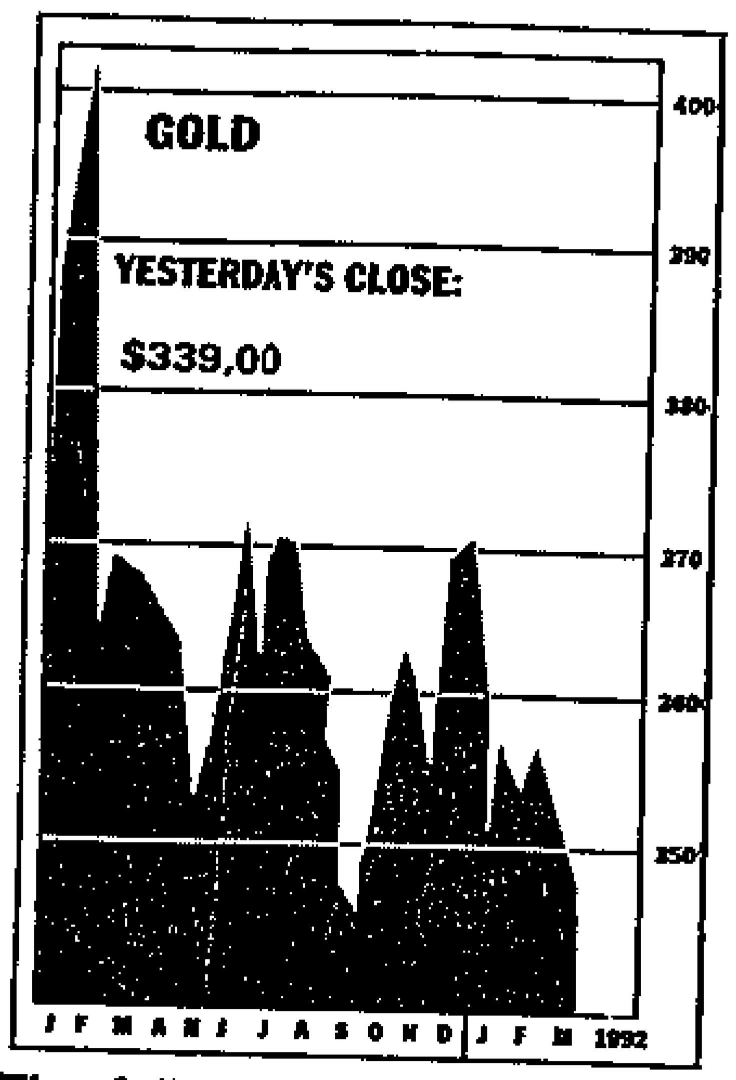
But an analysis of the yen price of gold indicates that it has been the recent strong rise in the dollar that could have removed this platform, and not any decline in support.

The rise in recent weeks in the dollar against the yen has resulted in the yen price of gold increasing.

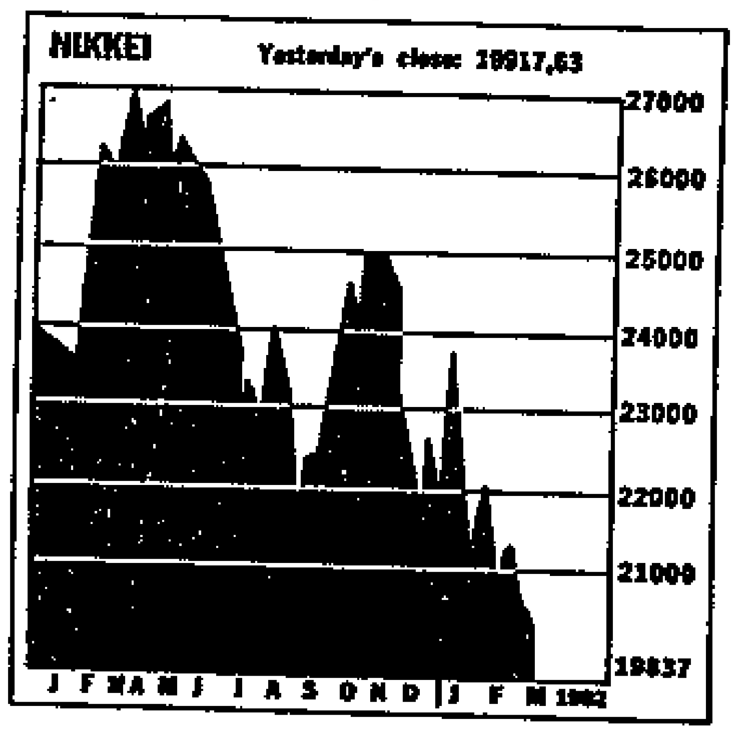
At the end of January gold was trading in Tokyo at 44 974 yen an ounce.

By last Thursday the price had risen to 46 666 yen an ounce — an increase of 3,7 percent.

However, while the gold price has been firming in Tokyo, there has been a steep decline in the Japanese share market.



The fall in the gold price has mirrored to some extent the drop in the Nikkei index, as these graphs show



On Monday the Nikkei index, which has already dropped 12 000 points in the past 21 months, tumbled a further 600 points to 19 837 — its lowest level since February 16 1987.

Although the Nikkei staged a modest recovery of 60 points yesterday, the Tokyo market still remained weak.

With the gold price remaining reasonably firm, dealers believe the Japanese have been selling the metal to raise cash, either to cover their stock exchange commitments or to buy shares at the low prices.

The stability of the gold price in yen terms, despite the drop in the dollar gold price in the past few weeks, highlights the fact that the Japanese today are the market makers in the metal.

It is significant that the downward trend in the dollar gold price has to some extent followed the fall in the level of Japanese share prices.

It appears, therefore, that the future of the gold price could depend to a great degree on the growth of the Japanese economy.

The economy is in the doldrums at the moment, but the expected further growth in the US economy in the coming months could quickly prime a Japanese recovery.

The South Africa mining industry must be disappointed at the latest fall in the gold price.

In rand terms the gold price is down from around R1 000 an ounce to R980 an ounce, where it was at times in January and February this year.

The industry can live with this gold price.

Nonetheless, for the moment at least, it is moving in the opposite direction to the one the industry would like.

However, a recovery in the US and Japanese economies later this year could give the mining industry a much more attractive gold price.

Investors' trust in gold evaporates

(79)

BDay 18/3/92

MATTHEW CURTIN

GOLD prices sank to their lowest levels since mid-1986 yesterday as investor confidence in the metal evaporated, triggering sharp falls in platinum and silver prices.

Gold closed in London last night at $339,45, compared with Monday's close of $342,25.

Although gold seemed to steady in London yesterday morning, when it was fixed at $343,35, by the afternoon fix it had fallen to $339 an ounce.

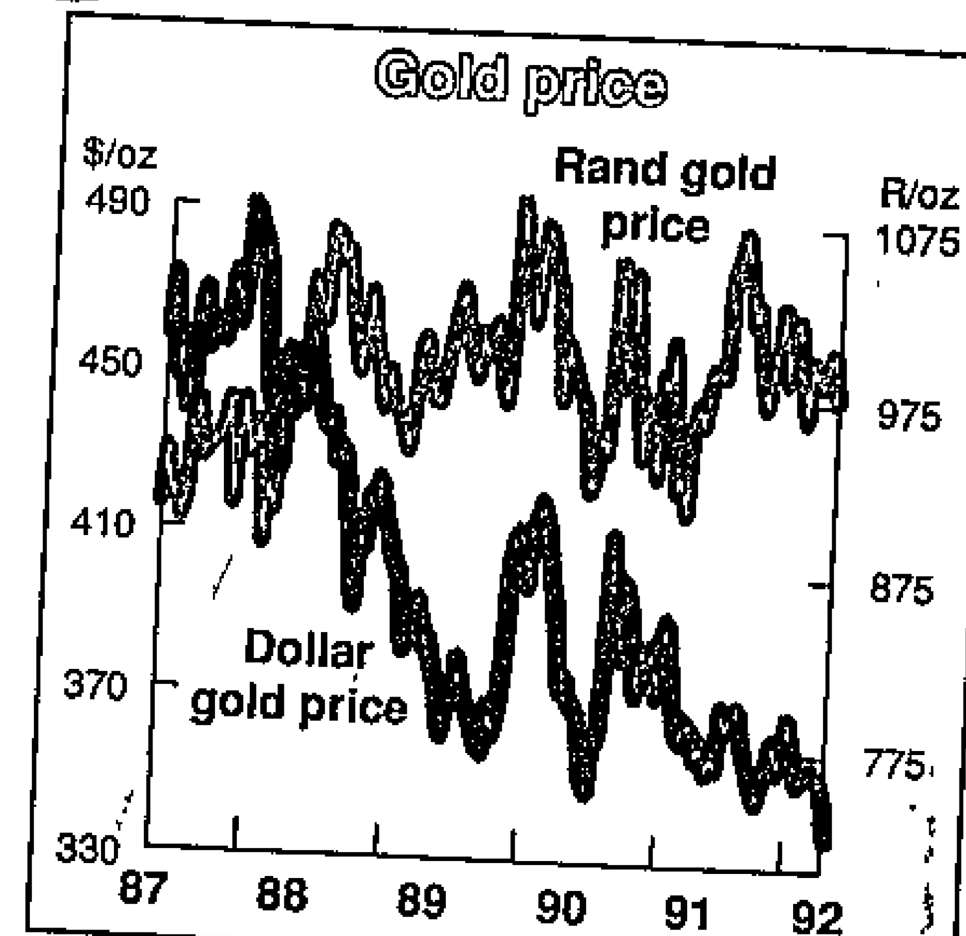
However, on the JSE, overseas and speculative buying of gold shares contained the damage caused by falling metal prices. The all gold index was 19 points higher at one stage, before closing nearly 2% or 22 points down at 1 164.

Several gold shares rose yesterday, including Driefontein, Harmony and Ofsil, while Vaal Reef traded 500c higher than Monday's close of R208 before finishing only 200c down at R206 a share.

Platinum shares weakened as platinum prices tracked gold. Platinum was fixed in London yesterday afternoon at $355,75, against a morning fix of $358,25, down from Monday's close of $360.

Senekal, Mouton & Kitshoff analyst Hilton Ashton said the market was awash with rumours of possible physical sales of gold from eastern Europe and the former Soviet Union. He said a large component in the metal's weakness was the strength of the dollar, with gold prices in other currencies generally strong in recent weeks.

"The underlying cause for the weak gold price is the dearth of investment interest



Graphic FIONA KRISCH Source I-NET

☐ To Page 2

Gold

BDay 18/3/92

(79)

☐ From Page 1

in the metal. Low inflation in OECD countries, high real interest rates and the world recession have knocked investor demand for gold, exaggerating the effect small changes in supply and demand have."

Until this week, consistent physical demand for gold and negligible investor interest had kept gold prices stable in a narrow trading range, he added.

Lehman Brothers precious metals analyst George Milling-Stanley said in New York yesterday that Arab speculators triggered the fall in prices on Monday by taking short positions on the Comex futures exchange. Arab dealers traditionally had large numbers of long positions, to take advantage of any rise in oil prices.

He said US speculators and fund managers followed the Arabs' lead yesterday, ensuring the downward slide in gold prices continued. US speculators took long positions last week in the hope that prices would rise in the run-up to the referendum, but they lost confidence this week

In contrast, Genmin strategy/planning department senior manager Almorie Maule said that while commodity funds on Comex had pushed prices down yesterday, after only technical falls the day before, bearish sentiment was being driven by fears of large Russian and European central bank gold sales.

Milling-Stanley said he had seen no evidence of such physical selling.

Maule said that trade in gold futures was particularly thin, making the market sensitive to physical selling. Genmin was confident factors would push gold prices higher in the medium to long term.

GOLD

FM 20|3|92

Caught in a bear squeeze

79

After moving in a range of US$345-$370/oz for more than a year, the price of gold fell through the floor on Monday, to a London afternoon fix of $343. By Tuesday it was well below $340.

The Wall Street Journal reported rumours of heavy selling from the former Soviet republics, while the recent loss of confidence in Tokyo financial markets (see page 40), which had helped support the metal in the past year, must have contributed to the slide.

Technical factors also played a part as the market tested a series of support levels.

The effect on SA gold producers was cushioned by the fall in the domestic currency against the US dollar, so the rand value remained higher than it was at the start of the year. But the falling currency, though sustaining revenue now, will soon be translated into a higher price tag on imported inputs. So one way or another the effects of recent price movements on international financial markets will have a negative impact on industry profits.

At $343 and an exchange rate of $/R2,90, the industry would average R31 980/kg. With working costs averaging R27 000/kg, it would still be in a profit situation, though paying for capital expenditure out of this margin. Moreover the cost is an industry average and a number of marginal mines will be at risk by the end of the year, says Gengold MD Gary Maude.

The implications for the economy are significant.

In June 1991 it was estimated that, if 10 marginal mines closed, GDP would contract by an estimated R3,5bn and 88 000 jobs would be lost in mining, with a further 48 000 jobs likely to be lost in service or mining-related industries.

The latest drop in the gold price comes at a time when the industry has drastically pruned its operations. The latest Chamber of Mines newsletter records that the cost of milling a ton of ore increased only 6,3% in 1991, over a period when the official inflation rate stood at 16,2%.

"The achievement is even more impressive when the working-cost increase takes account of the rise in the average grade of ore, which went up from 5,05 g/t in 1990 to 5,20g/t in 1991. Effectively, this means that the working cost per kilogram of gold produced rose a mere 1,6% — or just one tenth of the annual official inflation rate."

The flattening in the cost curve, at a time when the price was moving up in rand terms (see graph), left a margin for comfort in 1991. But what are the prospects for the industry if the price does not improve significantly?

Says Frankel Max Pollak analyst Adrian Finch: "At this stage there is not much scope for further cost cutting. Head office charges have been cut to a minimum and, on the mines, the cost of consumables such as timber and explosives has been held in check but inflationary pressures are building."

He says the full effects of productivity agreements negotiated with unions last year will take time to work their way through. "In the UK, the British Coal agreement, which linked output per shift to wages, pushed up productivity dramatically since the mid-Eighties. But this only happens as the workforce begins to realise how the system can work for them. Once they are educated into it they look at everything very differently — saving on materials and concentrating on maximum output."

But this is in the future. And there is the danger that existing profit- and productivity-linked deals will not be renegotiated in June. The National Union of Mineworkers has been critical of aspects of the deals — it argues that a number of factors influencing productivity and profitability lies outside the control of the work force.

Remuneration, which includes housing, bonuses and rations, represents more than half of the industry's costs. Other costs are:

- Electricity, 12%. These costs are linked to the gold price so can be relied on to be counter cyclical; and
- Stores, 35%. Mining consumables include chemicals, spares, timber and explosives. Though there is some scope for containing costs of certain chemicals, there is little that can be done to cut the costs of timber and explosives.

continue →

Gold and platinum decline continues

(79)

BDay 20/3/92

MATTHEW CURTIN

THE gold and platinum tailspin gathered momentum yesterday. Technical analysts said worse was in store for the metals which had hit a severe bear market and could fall to their lowest levels since 1985 within weeks.

Gold and platinum prices fell again yesterday, taking JSE shares with them, with overseas reports crediting the price weakness to Wednesday's "yes" vote in the referendum.

Gold was fixed in London yesterday afternoon at $337,80, down from Wednesday's close of $340,25. The metal ended the day at $336,65.

Platinum's crash continued as the metal fell to $346,25, London's afternoon fix, down from $360 at the start of the week. The all gold index shed 41 points to close at 1 126, while the platinum index lost 108 points, ending the day at 4 384.

Irish McNell Rosenberg analyst Jack Singer said: "Gold will move down to as low as $331 an ounce by March 24." He said the metal would recover towards the end of the month, before slipping back to $331 in early April. "April 3 to 10 is going to be a crunch period for precious metals. Gold may hit new lows, but then recover to test the key $356 resistance level again," he said.

Reuter has reported that fears of a no-vote and ensuing unrest which could disrupt gold and platinum production buoyed prices last week but soon evaporated when the extent of the pro-reform vote became clear.

However, Edey Rogers analyst Keith Bright said such fears were no more than "misplaced overseas investors' perceptions of SA".

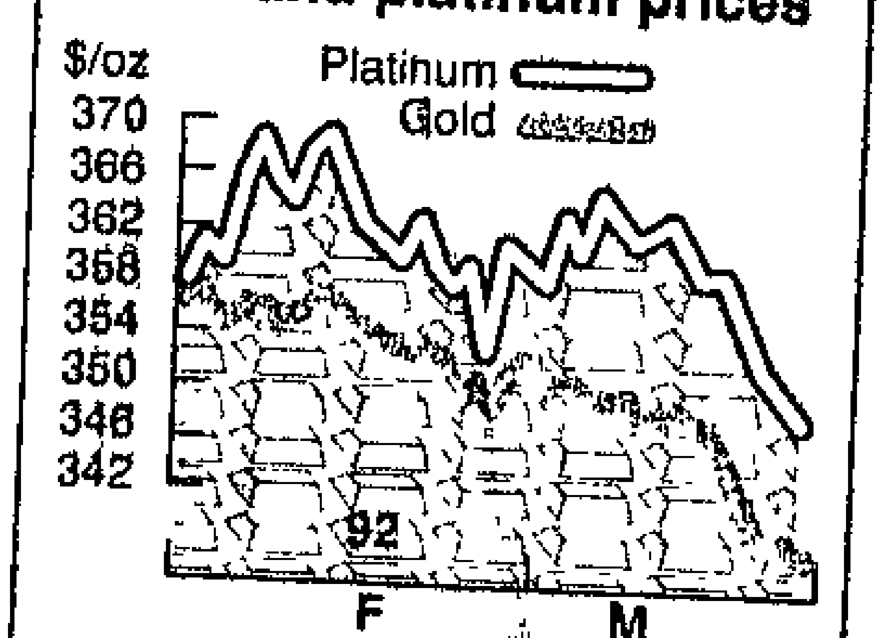
More importantly, analysts said the strong dollar and increasingly fragile New York, London and Tokyo stock exchanges were taking their toll on prices.

One technical analyst said: "Gold prices have lost momentum ever since the dollar started to strengthen in early 1991. It's now a traders market and gold's downside is such that it could fall below $330 an ounce." She said gold would have to fall even more sharply if there was to be a good rebound in prices, with only a mild recovery likely in mid-year if the metal steadied around $330/340.

Singer said platinum could fall as low as $329 an ounce.

He said his point and figure chart analysis showed that platinum had fallen through the $355 support level, and while it would find support at $344 and recover in the short-term to $348, the metal "looks sick" and could fall lower.

Gold and platinum prices



Graphic LEE EMERTON Source: INET

(79)

It is the more profitable mines that still have room to manoeuvre, says an industry economist. "While producers of low grade ore have been forced to cut costs, those with higher grades have not yet had to make the same economies." He illustrates the point by comparing two different sets of costs at two different mines, Kloof and Blyvooruitzicht.

"Because of the higher grade ore milled at Kloof, the working cost per kilogram of gold produced amounted to only R18 589 in the third quarter of 1991, while that of Blyvooruitzicht's was R29 342. Because of a lower grade ore, Blyvooruitzicht was forced to restrict its costs per metric ton of ore milled to R119 in the third quarter, while at Kloof the cost has remained relatively high at R241."

Though the difference in working costs can be partially attributed to the diversity of the mining operations at Kloof, it does imply there may be fat in the Kloof operation that no longer exists at Blyvooruitzicht. But for those mines already lean, much depends on the price in the months ahead.

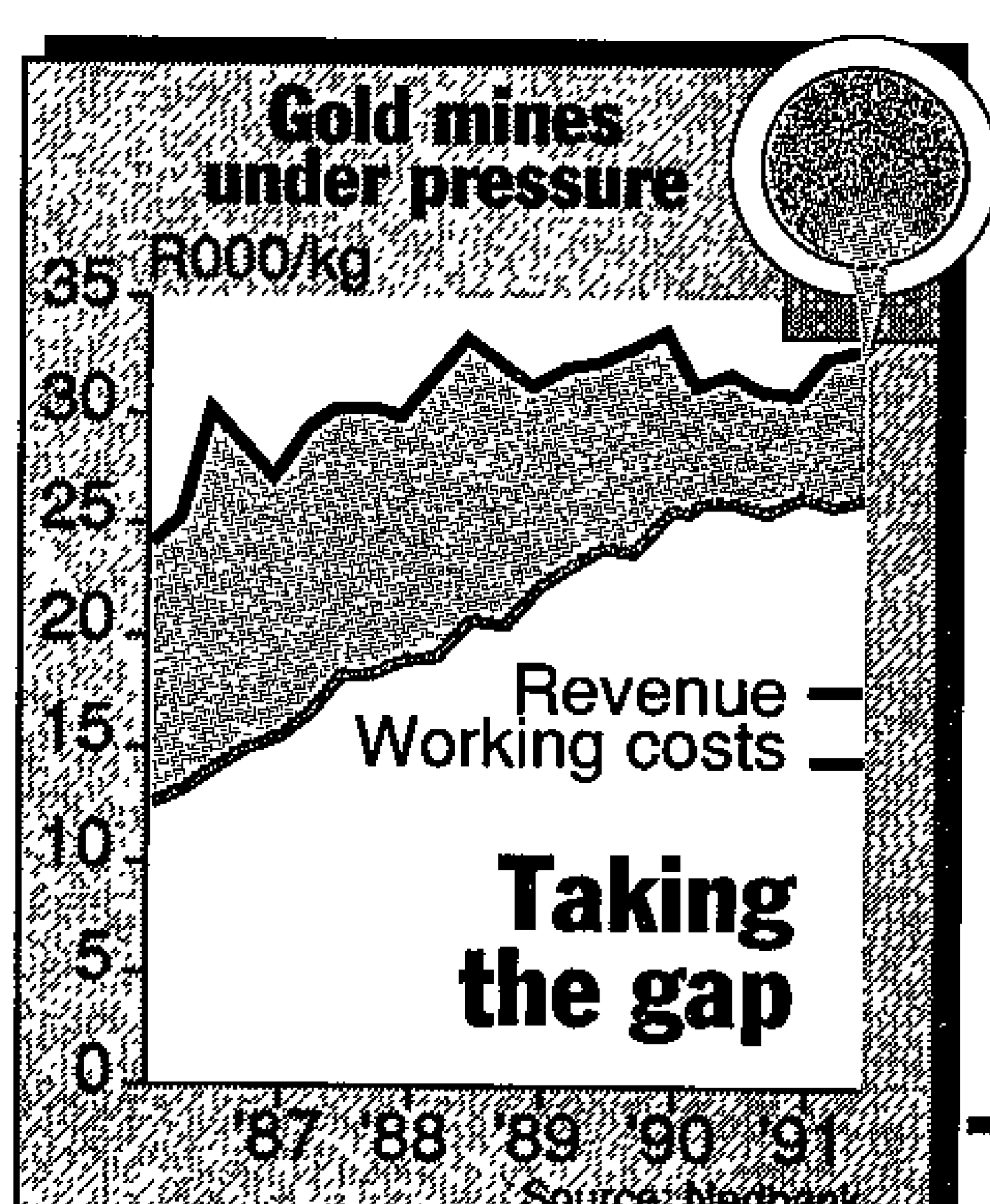
Except for a brief spike towards $420 after Iraq's invasion of Kuwait in August 1990, gold has failed to respond to all its traditional cues. The immediate outlook is bleak, says Finch.

But there are positive factors, he says. There is still support coming from Singapore and Thailand. "And, in India, where there is a propensity to build up physical holdings, a 22-year ban on the importation of gold has recently been lifted."

Encouragement comes also from a Union Bank of Switzerland forecast, made at the end of January, when the metal stood at around $354. The one-month outlook then was $345, in a "sickly physical market." The three-month outlook however was $375. The reasons: "A turning point in Russia, swaps sold, gold and platinum cupboards pretty bare; and low interest rates — opening a window in the brick wall of producer hedging."

And the year-end projection was $380.

All this is well below the price of over $400 predicted by bulls at the close of 1990, when gold topped $391. But it looks comfortable enough from the present troughs. ■



Gold heads downwards with Middle East out of market

(79)

STAR 24/3/92.

LONDON — Gold's tarnished image has suffered further in the past week as its priced sagged to the lowest level for six years.

A major blow came last Monday when the London bullion market price fell below $342 a troy ounce, which many traders had seen as the last line of defence.

Michael Spriggs, analyst at the SG Warburg Securities financial services group, said: "It is very worrying. Chartists say there is no real support for the price below $342.

"The price could go all the way down to $325 and I can't see what would push it back over $350 in the near term."

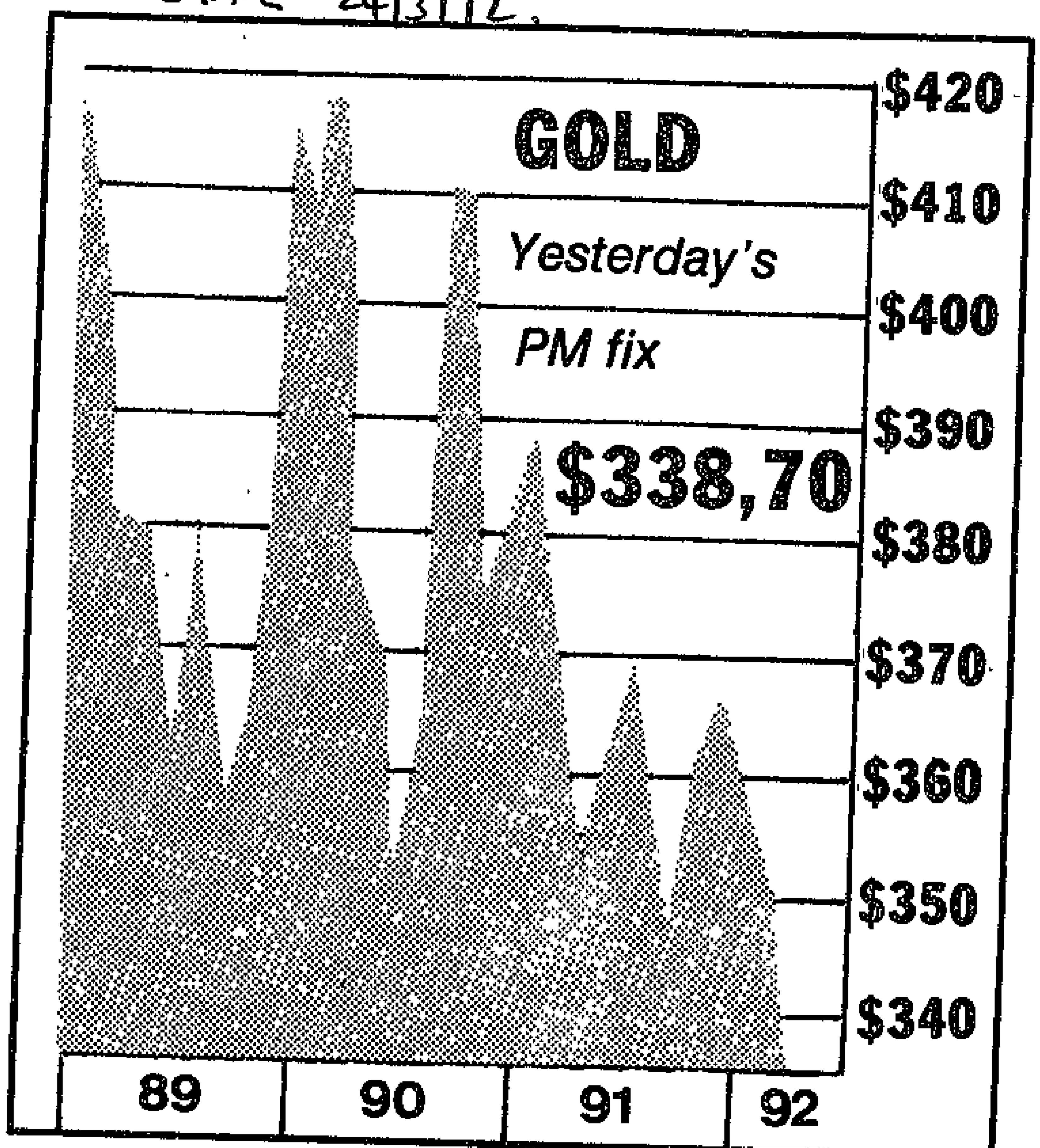
Persistent selling, some of it suspected to be on behalf of an eastern European central bank, pushed the price below $336 later in the week, before it was lifted on Friday to $339,05, down $7,95 on the week, in what one New York dealer described as an anaemic rally.

No buyers

One excuse for the market's weakness was the absence of most Middle Eastern operators during Ramadan, the Islamic fasting month.

"There were no buyers when people began bailing out," said Wiktor Bielski, analyst at Carr Kitcat & Aitken, part of the Banque Indosuez group. "The price could just keep going down."

The possibility of a "no" vote in the South African reform referendum acted as a steadying



influence on the market in the early part of the week.

But the announcement on Wednesday of a big majority in favour of reform was followed by a modest rally in the gold price.

For platinum, however, the referendum result was unequivocally bearish.

South African mines last year accounted for three-quarters of world platinum supply outside the former eastern bloc countries, and there had been fears that disruption would follow if the vote had gone against further reform.

At the London bullion market the platinum price, which had already lost ground, responded with an immediate fall of nearly $7 to $349 an ounce and later in the week slipped to $346,25.

A substantial rally was staged on Friday, however, and the price was fixed in the afternoon at $352,35 an ounce, down $6,65 on balance.

Dealers said signs of recovery in the US motor industry were steadying platinum, the main use for which is in exhaust-cleaning catalytic converters.

Base metals markets had a quiet week at the London Metal Exchange, the main bright spots being gains for aluminium and lead.

Traders attributed cash aluminium's $15 rise on the week to $1 297,50 a ton to US speculative buying.

Floodgates

It came despite a continued build-up in LME warehouse stocks of the metal and news from Moscow that the Russian authorities had given way to producers' demands for the scrapping of export duties on aluminium and requirements that part of hard currency export receipts be sold to the Russian central bank.

"That was an indication that the floodgates are about to open again," said Angus MacMillan, research manager at Billiton-Enthoven Metals, part of the Royal Dutch/Shell group.

Exports from the former Soviet Union, which were largely responsible for the unprecedented rise in LME aluminium stocks last year, had slowed considerably after the imposition of the duties and the foreign exchange requirements. — Financial Times.

Nugget strikes it rich in coin market

S Times (B 4557) (79) 29/3/92

By LOUIS BECKERLING in Perth

AUSTRALIA has dislodged Canada as the world's leading seller of gold bullion coins after more than doubling its share of a sharply contracting market for coins in 1991.

And the man who played the key role in the coup for the Nugget is former South African, Don Mackay-Coghill, who was once responsible for guiding the Krugerrand to runaway domination of the world market for bullion coins.

Figures released this week by the World Gold Council show that world-wide sales of bullion coins totalled 1 464 000 ounces, or 45,5 tons in 1991 — a big decline on 1990 sales of 75,1-million tons.

But in a declining market, sales of the Australian Nugget grew from 373 000 ounces (11,62 tons), to 509 303 ounces (15,84 tons) in 1991, to lift its share of world market sales from 15% to 35%.

In 1987, when Mr Mackay-Coghill was responsible for the launch of the Nugget, sales totalled 10,1 tons to give the Australian coin 10% of the market.

Mr Mackay-Coghill is managing director of Goldcorp Australia, operator of the Perth Mint which is responsible for refining about 60% of Australian gold.

Mr Mackay-Coghill spoke of his satisfaction at dislodging the Canadian Mapleleaf from top spot in the coin market and said he was also confident that sales of the Nugget would continue to grow in an expanding market. But he was less confident that Australia would retain its leadership position once the Krugerrand — or its yet to be named successor — returned to the market.

"I know that the South African gold industry is serious and highly professional. When they do come back, it will be only after careful research and I have no doubt they'll have a big impact.

"They're obviously going to be formidable competition," he said.

Outlook bleak at mines

STAR 6/4/92

(79)

A weak gold price has already caused the loss of thousands of jobs in South Africa's mining industry and more than a dozen marginal mines are still in a profit danger zone, despite a wave of austerity measures to reverse the spiral in production costs, reports MICHAEL CHESTER.

THE NUMBER of jobs that South African gold mines have been forced to axe because of the dramatic slide of world bullion prices has swollen to 110 000 — in spite of a programme of austerity measures designed to hold the casualty toll as low as possible.

Moreover, as the gold price sinks even lower and struggles to survive above $340 an ounce, the Chamber of Mines fears that still more cuts may hit the labour force — already down from 534 000 in 1986 to 424 000 by the start of 1992 — unless the outlook improves.

The latest alarm bells have been rung by Gengold chairman Gary Maude, who warned at the weekend that underground work at the West Rand Consolidated mine may be forced to a standstill this year

The mines have become trapped between low gold prices and the soaring costs of production.

What has gone wrong?

South Africa was the envy of bullion markets around the world a decade ago with its massive gold production At home, its mines were relied upon to serve as the goose that laid the golden eggs for the entire economy.

The decline can be tracked in the computer records at the Chamber of Mines in Johannesburg.

When the gold boom hit global markets in 1980 — triggered largely by the Soviet invasion of Afghanistan that sent international investors scurrying to seek safe havens for their cash — South Africa was in the grandstands.

The gold price rose to a phenomenal $850 an ounce. And South Africa, by far the largest producer, was turning out bullion at the rate of 675 tons a year — equal to 71,3 percent of Western world production.

By last year, the average gold price had been more than halved at $359 and annual production was down to 598 tons.

Moreover, South Africa's role among world producers had shrunk dramatically.

It now accounted for no more than 34 percent of global production outside the Soviet bloc.

The lion's share of an overall output that had climbed to 1 115 tons was now divided between such growing rivals as the United States, Australia, Canada and Brazil

Mercifully, the South African mines were able to benefit from the chronic erosion of the rand exchange rate which slashed the value of the rand by two-thirds in US dollar terms.

Through the bizarre distortions caused by the devaluation, despite the collapse of bullion prices, the mines were earning more rands for every ounce they produced than they were in the 1980 boom.

However, all the benefits were wiped out by rocketing production costs as double-digit inflation sank its teeth into profit margins and newly emerged black trade unions flexed their muscles at wage negotiations.

The working costs for every kilogram of gold output had streaked from R4 165 in 1980 to R25 975 by the end of last year

By the early 1990s, the mines had not only been knocked from their perch as the cheapest gold producers in the world but their actual working costs were now among the highest

Mines have been hit by new shock waves as bullion prices in recent trading dipped to around $340 an ounce, the lowest for six years in United States dollar terms.

And concern has been deepened by still worse news from key markets — the gold price in Swiss francs is now at its weakest since 1978 and in Japanese yen at its lowest in 20 years.

Production costs have been cut to the bone to avert retrenchments and even mine closures, especially at marginal mines, says Chamber of Mines senior economist Ivor Leibowitz.

Thousands of jobs were saved when the National Union of Mineworkers last year agreed to a radical new pay package which held general increases down to about 5 percent or 6 percent but offered the incentive of bonus payments linked to the performance of the gold market and productivity levels

As it turned out, the weak gold price on world markets hit the bonus element tied to the bullion market.

But co-operation in productivity schemes yielded bonus pay-outs which lifted the overall size of increases for many miners to about 16 percent — "better than most workers did in the recession"

The success of the schemes, plus austerity measures, slowed down the annual increase in average mine working costs, which surged by 25 percent in 1987, to no more than 1,6 percent last year

It was a triumph that was also linked to management strategies to close down sections of mines where the low gold content of the rock involved working at a loss and concentrate instead on the shafts that promised richer yields

The result for last year was that the amount of ore that was mined dropped down from 111 tons to 107 million tons, but the average gold content rose from 5,05 g to 5,20 g a ton

The relentless pressures of high inflation, however, were still snapping at the heels of mines without rich grades to save them

The Stilfontein gold mines collapsed under the burden — and there were still as many as 13 mines, with combined labour forces of 97 000 workers, listed by the Chamber of Mines as marginal and hovering in the danger zone at the start of this year.

That particular formula is based on working profit staying at least 6 percent above working revenue to leave a reasonable chance of staying alive

If one draws a line that puts mines in the danger zone if their operating costs are running higher than R30 000 a kilogram, as some analysts do, the lists expands to 17 — almost one in every two mines

Fortunately, at least in economic terms, the main thrust of total gold production comes from the heavyweights with high-grade ore to work on

The lowest of all operating costs — and thus the chance of best profits — are enjoyed by such mines as West and East Driefontein, Kloof, Beatrix and Kinross

Economists at the Chamber of Mines feel fairly confident that overall, South African bullion production will manage to stay at about the current 600 tons a year at least until the mid-1990s.

However, it seems the richest of the pickings have already been taken Though the average grade of ore milled last year edged higher to 5,20 g of gold a ton, old-timers recall that the average grade 20 years ago was more than twice that — at 13 g a ton.

Also, the more production is concentrated on the higher grades, the faster total gold reserves will vanish and so shorten the life-spans of many mines — unless investors come forward to foot the bill for replacing them with new mines

Harry Oppenheimer, former chairman of Anglo American, has been quoted by the Financial Times of London as saying that unless the scenario improves, total gold production by South Africa could fall by as much as between 100 and 200 tons a year — perhaps 30 percent — by the year 2 000

The mind boggles at the implications for the economy

"There comes a limit to the cost-cutting that can be achieved," says Mr Leibowitz "And many mines have reached or are very close to the limit by now

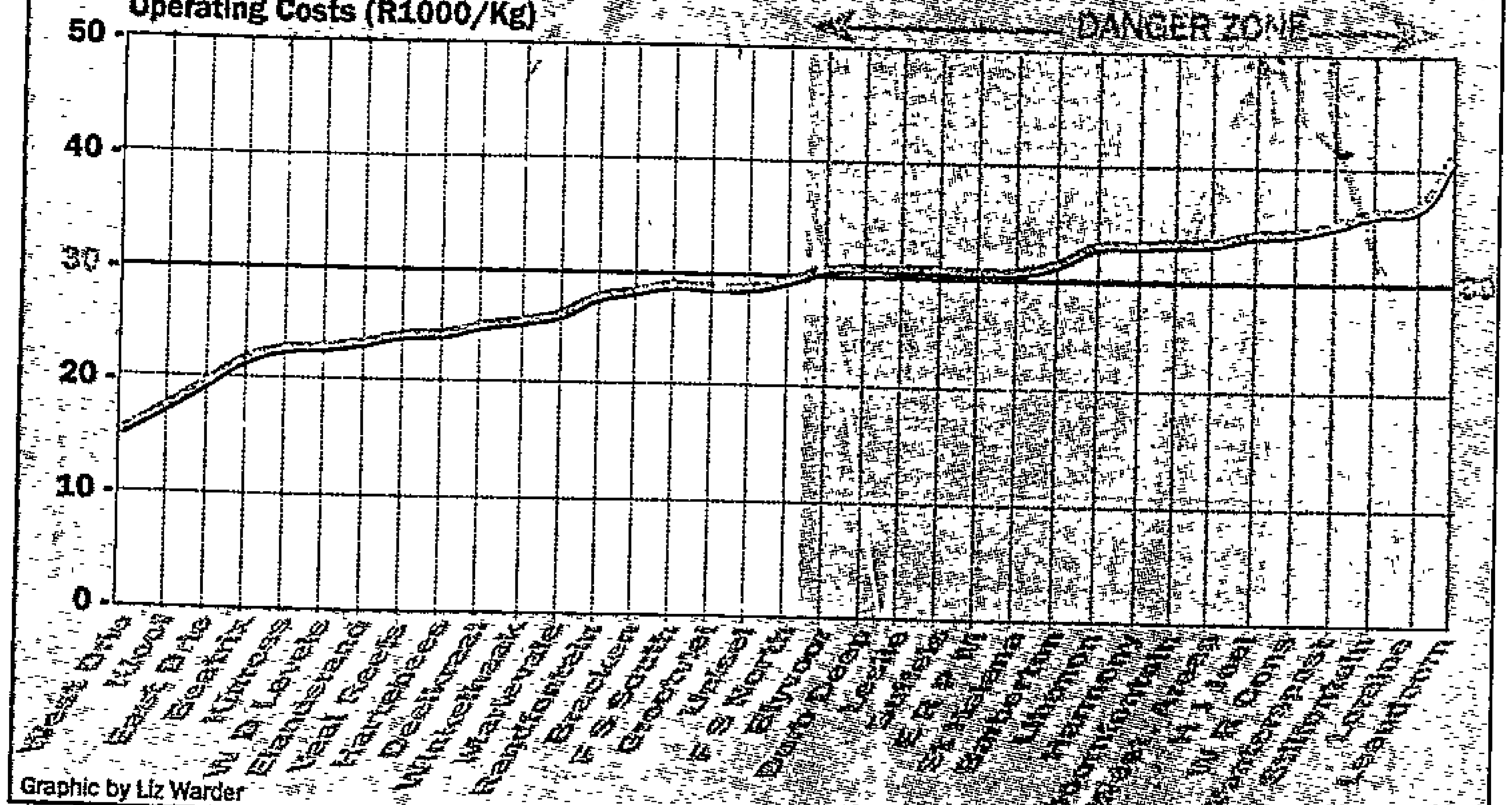
"If the gold price stays at current levels of about $340 an ounce, more production cutbacks will be inevitable "

The next hurdle for the mines will be the annual round of wage negotiations with the National Union of Mineworkers due in June

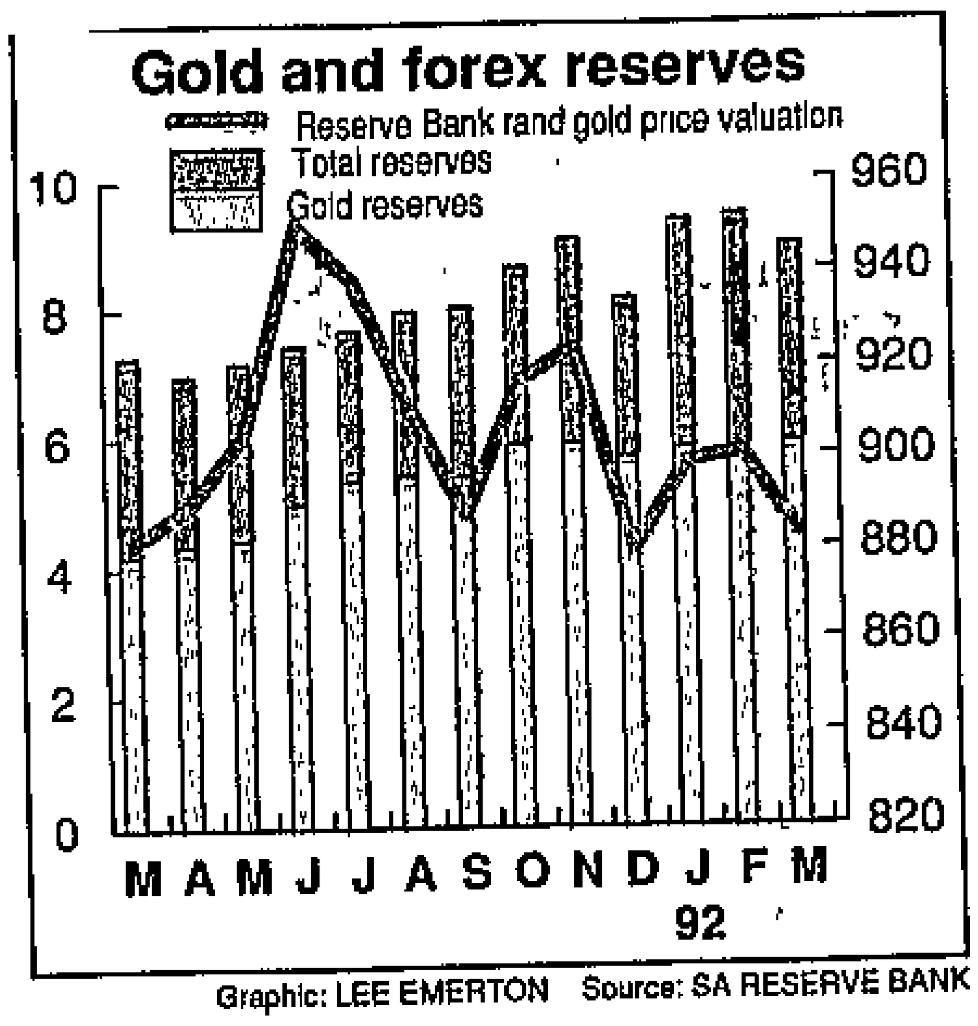
The union already looks disillusioned about the part of the bonus incentive package that was linked to the performance of the gold price Much may depend on union attitudes towards the renewal of agreements on productivity bonuses

It is not only the gold price that makes nerves twitch at the mines More ulcers are enflamed by the stubbornness of double-digit inflation which gnaws away at profitability □

Operating costs of the major gold mines



Graphic by Liz Warder



Graphic: LEE EMERTON Source: SA RESERVE BANK

R500m dive in gold and forex reserves

B/Day 9/4/92 SIMON WILLSON 79

GOLD and foreign exchange reserves took an unexpected R500m dive in March, Reserve Bank data indicate.

Figures released yesterday showed total reserves at R8,96bn at the end of last month, against R9,46bn at end-February. The dip in March's reserves is only the second monthly decline in reserves in the past 12 months.

The Bank's gold valuation, reflecting the slide in the gold price last month, eased to R883/oz from February's R901. The gold component of the March reserves rose despite the lower valuation thanks to an increase in gold holdings, up at 6,7-million ounces from February's 6,4-million.

The first of the year's two scheduled inside the net debt repayments was made in February, and partially accounted for reserves ending that month only marginally up from January's R9,36bn.

Nedbank chief economist Edward Osborn blamed a flat current account of the balance of payments position in the first quarter and heavy capital payments outside the foreign debt standstill for the decline in reserves last month.

"The first quarter trade figures may have looked good on the surface, but the main export performer was diamonds."

The monthly trade figures accounted for all Southern African Customs Union members. "The export figures include items such as sugar and citrus from Swaziland and, particularly, diamonds from Botswana. Prospects for SA's own primary exports this year are not at all good."

Knights gains from property

B/Day 10/4/92 WILLIAM GILFILLAN (79)

WHILE the gold price remained depressed, substantial property interests originally held by Simmer & Jack Mines would contribute as much as half the earnings of the newly merged Knights Gold Mining Co, CE David Wassing said yesterday.

But the potential upside was far greater in the gold operations as they were more price sensitive.

More than 390ha of strategically positioned land valued at more than R120m had been acquired following the merger into Knights of Waverley Gold Mines and Simmer & Jack. About R12m would be raised each year as the disposals were to be evenly spread over the next 10 years.

At a gold price of R29 500/kg, bottom-line earnings would also be R12m, bringing total earnings from the two to R24m or 9,13c a share.

Gold operations would generate earnings of R16,7m at R32 500/kg.

Gold Fields battles falling gold price

Bday 10/4/92

MATTHEW CURTIN

GOLD FIELDS' three marginal gold mines have their backs to the wall after suffering another three months of falling gold prices in the March quarter. (79)

Doornfontein, Libanon and Venterspost posted after-tax losses of R7m, R3,2m and R3,3m respectively. The mines are battling to withstand low gold prices and their dwindling payable ore reserves long enough to open up the virgin ore bodies on which their long-term survival depends. Restructuring programmes have failed to return them to profitability.

Doornfontein has been hit by fires and strikes, Venterspost turned a R2m after-tax profit into a R3,3m loss and Libanon slipped deeper into the red.

Gold Fields' management is not considering closing the mines, and is prepared to keep them open as long as necessary to exploit their unrealised ore reserves.

Gold division MD Mike Tagg said yesterday Doornfontein could not "go on making losses forever". But he and executive director Alan Munro told a news conference they were confident the mine would break even in the current quarter.

● See Page 9

Time for SA to join forward gold sellers

STimes [BUSS] 12/4/92 (79)

BY rejecting forward selling of gold, directors of SA mines must firmly believe that the spot price will be higher than that which could be received from forward sales.

Gold bulls have been wrong for more than four years now.

Lower gold prices mean rising pay limits and mine planning can no longer be undertaken with confidence.

Willo Stear and Andy Clay of mine management consultancy Venmyn Rand say pay limits have risen because costs have climbed and spot gold prices have declined in real terms.

Higher-grade reserves are being depleted and the crunch comes when the paylimit exceeds the average grade of the mine. At that point, closure is imminent.

Venmyn believes the answer is a structured risk management programme. SA's mining-house directors might be wrong about a higher gold price in the future and steps should be considered to soften the impact of lower revenue.

Closures at Gencor's St Helena mine this week because of the shortage of payable reserves underline the problems facing gold mines. In trying to stay in the black they have cut costs until nothing more can be trimmed.

To maintain profit margins, they must consider what can be done to the revenue side of the equation.

H Monro published a paper two months ago about forward sales of gold. It is believed to have been commissioned by a mining house that vigorously opposes forward sales.

Data for the calculations used price elasticity factors on both supply and demand for gold. The paper specified that mine production, gold loans and industrial demand were all inelastic to price.

The mine production argument was shot down this week by Gencor, which said that St Helena's No 10 shaft would be placed on care and maintenance until the gold price exceeded $400 an ounce.

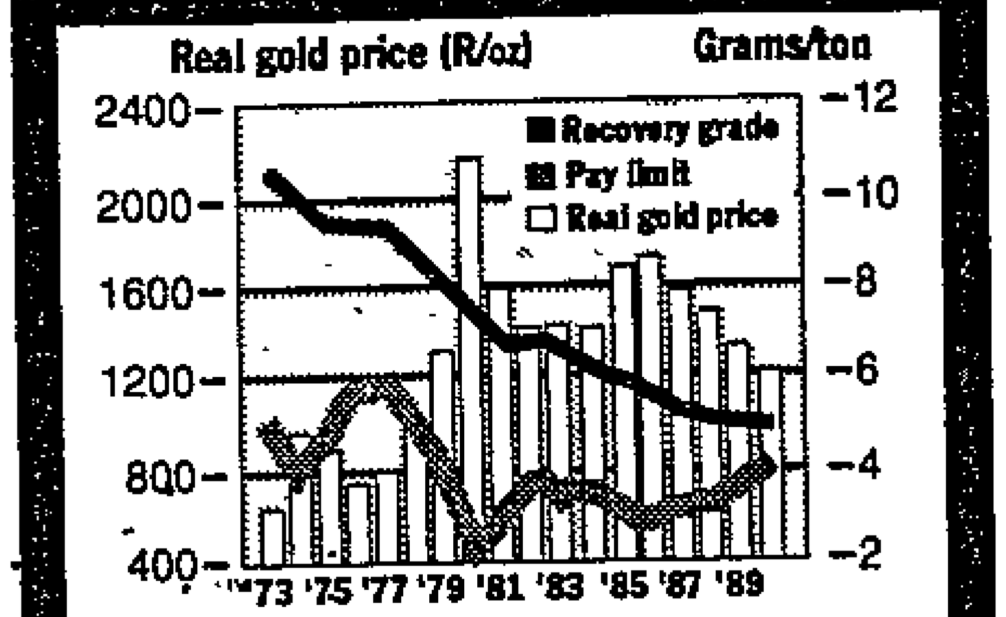
The fact is that there are several shafts both here and elsewhere in a similar state of readiness. If the price rises, so will primary production.

By means of debatable assumptions and calculations, Mr Monro showed that every ton of gold sold forward reduces the price by about $0,20/oz. He claims that revenue lost as a result of forward selling of gold was $2,55-billion in 1990.

"It should now be clear that forward selling is counter-productive and should be stopped at once," says Mr Monro.

Perhaps there is a certain amount of petulance. SA's gold producers have generally shunned forward sales while

RELATIONSHIP BETWEEN REAL GOLD PRICES AND SA GOLD INDUSTRY AVERAGE PAY LIMITS AND RECOVERY GRADES



the rest of the world's mines have made hay. There comes a time when, if you cannot beat them, you have to join them.

Shareholders in SA's mines might be more interested in the theoretical calculation of the dividends they might have earned had the directors sold gold forward at better prices instead of stamping their feet about the rest of the world spoiling it for them.

Sean Llewelyn of Rand Merchant Bank differs with Mr Monro's findings. Mr Llewelyn worked in foreign-exchange risk management and commodities markets, specialising in gold, in Australia and America before coming to SA two years ago.

He has been bemused by the comparatively negative attitude of the industry to securing more control over its revenue.

Mr Llewelyn says the forward price of gold, in rand terms, is a function of the difference between the rand interest rate to the forward date and the gold lease rate to that date.

Because there is so much gold around, having been hoarded for thousands of years, it is readily available for lending. Consequently, the gold lease rate is low — below 2% a year — and the forward price in rands is significantly greater than the spot one.

Therefore, he says, a mine must have a compelling reason not to sell a large quantity of gold forward or otherwise to derive benefit from the forward price structure, such as by granting or buying options.

If it is both sensible and responsible to sell gold forward, who is fool enough to buy it? This question probably lies at the heart of the SA gold-mining industry's suspicions about hedging.

Mr Llewelyn provides the reason for it.

"No rational seller will sell forward at less than the actual forward price, nor will he write or buy his options valued off less than the forward price.

"This is because the seller always has the alternative course of borrowing the gold, selling it on the spot market and investing the cash in the money market.

"He repays the gold from future production and the net result after paying the gold lease rate will be to achieve the forward price. Otherwise, there would be risk-free arbitrage.

"Because the forward price is the 'fair' value, buyers will deal at this price. For every seller, there must be a buyer."

Mr Llewelyn contends that not all forward selling affects the spot price adversely. For example, there is the time fallacy: gold sold forward might affect the spot price in the year in which the contract was established, but it does not affect it in the year in which delivery takes place because that metal is already spoken for.

He says the spot price is actually benefiting from repayments of gold loans taken out in earlier years.

Another factor is the extent of trading in the paper markets, such as Comex, where the volume of gold traded can be 50 times SA's annual output.

There is no doubt that much trading which would otherwise affect the spot market is taken off in these paper markets by investors and speculators.

The gold price might go up, but the mines at least should consider steps to hedge themselves in the event that the bullishness is unfounded.

The current attitude is to hang fire, close the shafts and wait for gold to go better while options such as hedging are never tested.

A mine that hedges could reduce its pay limit, extend its life, pay dividends and keep jobs.

In their mine valuations, Venmyn Rand and Rand Merchant Bank have developed a method which measures the effects of changing pay limits with changing gold prices on mining profits and mine life.

A structured risk-management programme is crucial if mines are to survive a likely flat gold-price scenario for the rest of the century.

DIAGONAL STREET by Julie Walker

Oc... warns ...

THIS week's drop on the JSE and other equity markets was arrested before the damage was too severe.

But it served to remind that share prices have run far ahead of the recovery in the economy.

South Africa does not warrant a mention yet in the International Bank Credit Analyst (IBCA), a respected independent publication aimed at identifying major investment oppo... risks.

Wednesday's share-slide underlines to SA that ... will not be excluded from a fall in the world's equity markets if they come down like a house of cards.

Showing early foresight, last month's copy of the IBCA gave an international summary which echoed the fears of certain commentators here: the global equity markets are too high and will undergo a major bull-market correction.

... rest o...

Global ca... moving into a ... fore a major adjust... that will harmonise tr... economies with trends in m... kets.

Surprises ahead are likely to be the extent by which stock en... reality

IBCA pu... present diver... market prices performance c... can monetary continues to flo... kets with liquic... no indication t... ing will soon er...

"In addition ... and Japan are of success in ... vate credit gr... ing domestic s...

The public... common sense divergence is ...

"Later this after the US p... tions, there w... cant and pro... realignment trend in capit... the bearish tr... economy."

The world' begin to expa... major correc... market in equ...

Sanlam pair shine in a year's returns

STimes [BUSS] 12/4/92

TWO Sanlam funds came tops in the 1991 unit trust survey produced by Hugo Lambrechts of the University of Pretoria's Graduate School of Management.

The survey provides facts about the performance of every unit trust. On a repurchase-to-repurchase basis, Sanlam's Dividend Trust gave an all-in return of 44,69% in 1991.

Second was Sanlam Growth Fund with 41,58%, closely followed by Syfrets Growth Fund.

The worst return among general equity trusts came from the Allegro fund, now CU Growth, which returned only 23,38%. Three funds topped returns of 40% and three were worse than 30%. But only 10 of the 18 could beat the JSE All-Share index's rise of 31%.

Sanlam's pair obviously had a good 1991, because in the longer run they are soundly beaten. Over 10 years, in which the All-Share index comparison is 23,2%, only Old Mutual Investors and Guardbank Growth were ahead.

The best 1991 return from a mining and resources fund was achieved by UAL M&R, which returned 24,46%, beating both the mining producers and the mining financial indices. It was the only such fund to do so.

The pair of pure gold funds fared far worse than the decline in the All-Gold index. But the returns on the industrial funds all exceeded 40%.

Half the high-income funds beat the consumer price index, but neither gilt fund could outpace the all-bond index.

At December 1991, there were 938 254 unitholders across the 41 funds, of which almost 300 000 were in one of the most consistent, Old Mutual Investors.

Over 15 years, the maximum for which representative statistics can be compiled, the average compound annual return from equity unit trusts is 25,2% compared with the average rate of inflation in that time of 14,3%.

Gold bulls pin hopes on demand from Asia

STAR 21/4/92.

By Neil Behrmann (79)

LONDON — Southeast Asian countries may well come to the rescue of gold again.

Swiss Bank Corporation's precious metals director, Alfred Schneider, says demand from Hong Kong, Singapore, Korea, Vietnam and other Asian countries has soared in the first quarter.

"They have taken advantage of low gold prices and have bought."

While most western market participants are bearish about gold's prospects, demand in the Far East and recently the Middle East is improving.

Mr Schneider believes gold will bottom out within the $335 to $345 range and recover to the $360 to $370 level by the end of the year.

It could break below $335, but the slide would not be long lasting. Buyers in the Far East would snap up cheap gold.

"The market appears to be far too pessimistic at the moment," he says.

Mr Schneider's relative optimism contrasts with the pessimism or caution of London, Japanese, US and other Swiss dealers, who are complaining about quiet markets and slack business.

Dumping by Middle Eastern, East European and South American banks jolted the market last month. Adding to the pressure, the National Commercial Bank of Jiddah, has been selling, dealers say.

They suspect it is launching "bear raids", particularly since visitors to the bank claim that its dealers believe the price will eventually tumble to $280.

Unfashionable

Clearly, with inflation in major industrialised nations projected to fall to only 3,1 percent this year from 3,6 percent in 1991, gold is unfashionable as an investment in Europe, the US and Japan.

Holders have lost capital and have foregone income for many years. Gold funds have been among the worst performers in the unit trust industry in the past 12 months and the past three years.

It is thus hardly surprising that holders become jittery with each price decline.

Swiss bankers, however, expect an improvement in the supply-demand balance of the gold market later this year.

For a start, Russia has steadily sold gold collateral with Western bankers to repay loans. The amount of gold collateral, originally estimated at 200 tons, is now much lower, say Swiss bankers.

Meanwhile, gold buying attitudes are far more positive in developing countries. Inflation is much higher and jewellery demand is growing despite world recession.

The World Gold Council estimates that physical demand for gold in developing countries rose to 1 510 tons in 1991 from 1 434 tons in 1990.

It forecasts that demand in these countries will increase to 1 600 tons this year, equivalent to 58 percent of total worldwide consumption. This compares with 791 tons or 43 percent of total worldwide demand only five years ago.

Then investment in bars and coins accounted for a much larger proportion of demand. Now the growth comes from jewellery fabrication, which accounts for about 86 percent of total consumption.

In Southeast Asia, for example, jewellery consumption is estimated to rise to 475 tons this year from 169 tons in 1987. But investment in bars and coins is forecast to fall to 160 tons from 169 tons in 1987 and 252 tons in 1989.

Of the developing nations, Southeast Asia with estimated consumption at 635 tons in 1992 is the most important region, followed by the Middle East (355 tons), the Indian sub-continent (290 tons), Latin America (115 tons) and other countries (205 tons).

The World Gold Council is raising its developing nation promotion budget to $9,4 million (R27 million) from $6,4 million (R18 million) to stimulate gold purchases there.

Promotions

Promotional costs are much lower than for the west. For example, advertising costs are 11 times higher in France than in Thailand but the populations of the two countries are the same.

In deregulated markets, notably Hong Kong (which also re-exports gold to South China), Taiwan, Thailand, Malaysia, Turkey, Saudi Arabia and United Arab Emirates, the Council is conducting fully integrated promotional programmes.

In regulated markets, South Korea, Indonesia, Vietnam, India, Iran and most Latin American countries, there will be lobbying efforts to end trading restrictions and reduce tax.

Outlook for gold 'shockingly weak'

(79) CT 28/4/92

By AUDREY D'ANGELO
Business Editor

BARGAIN hunting and the weak financial rand caused top quality gold shares to edge up slightly on the JSE yesterday as gold fell in London to a six-year low of $335,70 an ounce.

Portfolio managers and analysts held widely differing views on the outlook for the metal as investors waited to see if there would be a steep fall in gold futures when the New York Commodity Exchange opened.

Some forecast it would fall below a support level to reach $300 an ounce. Others said it would fall no further than $330 at worst before bouncing back.

Matt Brenzel, head of research at Syfrets Managed Assets, said gold looked "shockingly weak."

There seemed no support factors, with supply good relative to demand. But the weakness of the financial rand was making SA gold shares attractive to overseas buyers at present prices.

The financial rand had fallen in spite of the Reserve Bank's announcement that it would act as a market maker to provide stability for the second-tier currency. "Nobody wants the financial rand. Obviously someone is selling it."

Rises of 2% in quality gold shares and 1% in rand hedge shares on the JSE were obviously currency-linked.

Paul Beachy Head, assistant GM (investment) at Southern Life, said it was lack of selling rather than strong support that held quality gold shares up. "The financial rand has weakened more than the gold index. There is no sign of (overseas) selling at these low prices."

A rise of 1,7% in mining financials was also financial-rand driven.

Beachy Head did not foresee any improvement in the environment for gold and would not be surprised if it fell to the $300 level.

He did not see the present prices as a buying opportunity. "Bargain hunting has been going on for a long time, with speculators convinced gold is bottoming out.

"I am not saying it will fall to the $300 level but perhaps that is what we need to blow out all the ghosts. There are speculators who need to be shaken out before the bear market is over."

Adrian Finch, gold analyst at Frankel, Max Pollak, said he thought gold might go down to $330 but he did not believe it would fall to $300.

"I think the whole gold sector is oversold. Some of the quality gold shares are undervalued and I see them as buying opportunities. I am fairly bullish in the longer term."

Rob Lee, senior portfolio manager at the Board of Executors, said:"Gold shares have fallen very sharply in the last three or four weeks and some are now up by about 1% from a very oversold position.

"The gold price is pretty disappointing but the chances that gold will fall to $300 are very unlikely.

"Physical demand for gold, from the jewellery trade, should be strong enough to support it at these lower levels and prevent it from falling further."

David Giese, gold analyst at Davis, Borkum, Hare said that although gold was on a downward trend he did not believe it would fall to $300. "Always buy on the down, but I'd restrict myself to the better quality gold shares."

Giese said there was no oversupply of gold. "If anything there is an under-supply. Those who are still producing gold are slowing down. This will result in a shortfall."

Wall Street

NEW YORK. — Sell programmes knocked Wall Street blue chips at the close for a second consecutive session yesterday

Weak bond prices added pressure in a cautious climate ahead of economic data and a quarterly refunding announcement later this week.

The Dow fell about 20 points or 0,6% to 3 305

"The market is just going to drift until we get an opportunity to look at the big announcement on Wednesday," a dealer said. — Reuter

March inflation rate stubborn at 15,7%

CT 28/4/92

By AUDREY D'ANGELO
Business Editor

THE year on year inflation rate for March remained stubbornly high at 15,7%, slightly down from the 15,8% in February.

And food inflation climbed to an 11-year high of 28,9% (27%) in the year to March.

But economists — pointing out that the effect of introducing VAT last October is still being reflected in the consumer price index (CPI) compared with a year ago — forecast a steep fall in inflation in the last quarter of this year to around 12%.

Figures released yesterday by the Central Statistical Services show the month on month rise in the CPI between February and March was 0,9%. Food rose month on month by 0,4%. Education rose by the same amount and clothing and footwear by 0,1%.

The cost of housing dropped by 0,3%, reflecting the 1% fall in mortgage bond rates

The drop in mortgage rates was one of the reasons that the CPI for the higher income group rose least, by 15,2% year on year.

The CPI for the middle income group was up by 16,3% and for the lower income group by 16,7%.

Rob Lee, economist and senior portfolio manager at the Board of Executors, commented:"In the five months since VAT was introduced the CPI has risen at an annualised rate of less than 13%. For the last three months it has been under 12%.

"So the underlying inflation rate is 11% or 12%. I think that's very positive and it's what the Reserve Bank is looking at in terms of inflation data.

"When we have had another another month or two of such figures I think another cut in bank rate will be on the line.

"The CPI should be down to 12% or less by the end of the year and then we should get another bank rate cut."

Sanlam chief economist Johan Louw said said the CPI was "more or less in line with expectations.

"The worrying factor is that the food price index has gone up by 28,9% on an annual basis.

"It is true that meat prices have come down a bit month on month — no doubt due to slaughtering because of the drought — but they have risen 33,6% year on year.

"Prices of fruit and nuts are up by 57,1% year on year and vegetables by 57,4%, again no doubt because of the drought.

"Another big increase is in the cost of education, which has gone up year on year by 45,9%. This is a substantial amount.

"We foresee that the CPI for April, year on year, will be much the same as for this month. It will stay on levels above 15% for the next two months.

"The real decline will come in the last two months of the year, when the effect of VAT has come out of the system. By the end of the year I think it will have fallen to 12,5% which means that the average for the year will be 14,7%."

Louw pointed out that the falling producer price index (PPI), and further cuts expected in interest rates, would help to bring the CPI down by the end of the year.

Nils de Jaeger, an economist at the Stellenbosch Bureau for Economic Research (BER), said that the imposition of VAT on milk and other basic foods from April 1 must have helped to push up the food component of the CPI both month on month and year on year.

But there were several factors that would help to push retail prices down towards the end of the year.

They had started to rise in June last year in anticipation of VAT. And some retailers had probably increased mark-ups to compensate for falling demand this year.

But this could not continue and the fact that consumers were short of money would put downward pressure on retail prices. "They will have to come down to maintain sales."

Rand hedge shares feature

JOHANNESBURG. — Rand hedge shares were the main feature on the quiet JSE yesterday as they posted sharp gains on the back of the weaker financial rand.

The financial rand, which was quoted as low as 3,48/3,52 against the dollar during the day, closed at 3,47/3,49 on lack of lack of demand on the market, dealers said.

Lifted by the gains in market leaders, the Overall Index closed 15 points higher at 3 386, while the Gold Index rose 11 points to 1017 Selective buying of index shares, helped lift the Industrial Index by nine points to 4 225.

Among rand hedge shares, or stocks deriving part of their income from offshore, Anglos jumped R1 to R111,75 and associate De Beers was 45c higher at R83,85. Minorco added 65c to R45,15 and Richemont firmed 30c to R33,10. Lonrho closed 15c up at R5,15.

IMF readmits

From WILLIAM GILFILLAN
JOHANNESBURG —

Little respite in store for battered mining industry

BDay 30/4/92 (79)

SA's gold mines, some already with their backs to the wall, can expect conditions to get worse before they improve, analysts said.

"Rising costs and no sign of an increased gold price will be another nail in the coffin for marginal mines that have run out of flexibility," said Irish Menell Rosenberg's Duncan Ingram. "It's going to get worse."

The gold divisions of the six major mining houses reported mixed results in the quarter to March 31, but all reflected a return to the basics of mining.

An analysis by Ed Hern, Rudolph said the mines generally showed further resilience in containing cost rises well below inflation, which is currently running at an annual 15,7%.

"They were assisted by better efficiencies and yield increases through more selective ~~mining~~ against a background of falling tonnages," the stockbroking firm said.

Ed Hern said results showed the combined gold production of the six mining houses, which make up the bulk of national output, was steady at 143 tons in the March quarter against 142 tons in the preceding quarter.

The overall yield rose 5,0% to 4,87g/ton.

Working costs excluding capital expenditure rose 1,0% to R814/oz.

Ed Hern predicted further rationalisation of operations in the current quarter.

It expected more cuts in capital expenditure, as already evidenced by Gencor's gold mining arm Gengold, which slashed capital spending by 34,1% to R34,4m in the March quarter.

Closure

More retrenchments and cutbacks in operations have been announced by Gengold's St Helena and Rand Mines' Harmony.

Anglovaal held combined net profits steady in the March quarter, but its Loraine reported that an inability to secure adequate forward selling prices beyond July could well mean closure.

Analysts warned that the focus on high grade areas and cuts in capital spending, which dropped 12% overall in the quarter to R498m, would leave the mines vulnerable in the long term.

"If we have a run on the gold price, the mines will have to spend far more to catch up.

"In some cases they may have to completely recapitalise," said Ingram.

He expected a gold price of R975/oz in the current quarter, versus an average R994 in the March quarter.

Analysts said the tough economic conditions would influence the annual wage talks between mining houses and trade unions, which climax in June.

"The mines can show the unions that some operations could close — it is a weapon they used successfully in the past," Davis Borkum Hare's David Giese said.

Bonus schemes linked to productivity and movements in the gold price are likely to be renewed.

However, analysts expected agreement on a more uniform application of the schemes.

Analysts said Gengold had done unexpectedly well in the light of extensive rationalisation at its 11 mines over the past three years.

"Just when you think they've exhausted all options, they pull something out of the hat," said Ingram, referring to the news of Gengold's plan to merge its Kinross and Winkelhaak gold mines to increase tax benefits.

Anglo American sprang a surprise by announcing the go-ahead for a major new mine in the Free State.

But its March quarter showed a 9% drop in its gold and uranium division's net profit to R167m. — Reuter.

Pressures may cause gold price to recover

ARG 2/5/9 (79)

JOHN SPIRA
Weekend Argus Correspondent

JOHANNESBURG. — The world's emerging political leaders will bow to social and unemployment pressures, with the result that negative returns will reappear in the global investment scenario.

And since real returns are the driving force in the gold market, the price of the yellow metal may well recover in due course.

This is the conclusion reached by stockbroking firm Kaplan and Stewart Inc in a major study of the gold market and its outlook for the years ahead.

It postulates two scenarios, one of which envisages gold remaining flat for some years — and thereafter rising — with the other postulating huge US economic excesses that would kickstart the price sharply higher in the near future.

The study identifies two factors of potentially far-reaching change which could erode the real returns currently prevailing:

■ The economic excesses and imbalances threatening the US economy at present.

■ The international economic consequences of the demise of communism.

It regards the American debt/GNP ratio if 2,6:1 as unacceptable. It was last recorded in 1929.

"This excessive debt burden is coupled with the effects of a decade of strict monetary controls and a decline in productive investment.

"Ineffective fiscal controls have already caused an increase in the velocity of money with a resulting impact on their inflation rate.

"Unemployment is starting to raise its ugly head, which is particularly dangerous with elections only seven months away."

On the demise of communism, the firm predicts "huge economic consequences" arising from the capital required to complete the transition — capital which the West can ill afford — and a considerable influx of economic refugees into Western Europe.

"It is our view that unemployment, with resulting inflationary pressure, could be the inevitable consequence."

The outcome will be a "significant impact" on gold during the 1990s, particularly if unemployment replaces inflation as the dominant fear.

Kaplan and Stewart characterises the two possible scenarios as "The Golden Tightrope" and "Falling off the Tightrope".

In the first, the governments and central banks of the world's leading nations perform a balancing act between the demands for capital and unemployment. They barely manage to maintain real returns.

The scenario envisages an erosion of the current levels of return to a low of zero, with the world going through a precarious period of economic and social unrest.

The present low gold price will result in declining production levels in five to six years' time, which could ultimately trigger off an upswing in the gold price.

In the second scenario:

■ The US will attempt to correct its economic imbalances and unemployment pressures, while at the same time channelling capital into the former USSR and Eastern Europe.

■ Western Europe will be in fear of social unrest in Eastern Europe, starvation on its doorstep and an influx of economic refugees. At the same time, it will attempt to fund the unification of former communist countries with the West.

■ Unemployment becomes the dominant fear of the 1990s.

"Should this scenario emerge, one can easily envisage an era in which negative returns will re-appear. "These negative returns will be accompanied by a demand for hard assets and will result in a sustained bull market in gold."

Doomsday's the best hope for gold price

STimes (BUSS) 3/5/92

79

DIAGONAL STREET by Julie Walker

MALCOLM STEWART: Rabbits in the hat pointers to the future

THE only scenario under which investors would consider buying gold would be if it offered them a real return on their money.

If the global investment scene that prevailed through the 1980s — high positive returns from shares, property and cash — cannot be sustained in this decade, the glister might return to gold.

Stockbroker Malcolm Stewart of Kaplan & Stewart, commissioned a team of economists, geologists, statisticians and international affairs experts, to bring together a remarkable scenario for gold

The work has been presented to institutions, which have given it a tremendous response.

First aired last year, it is being updated and further modelled by the team

The latest form was presented in Johannesburg this week.

Every aspect has been viewed from likelihood to predictability Rabbits in the hat are used extensively to describe "what-if?" possibilities.

Gold began the 1980s on a high and progressively weakened to its current low The price-depressing influences are well logged — better returns elsewhere.

There was a deep-rooted fear of inflation, conservative government, lots of new gold producers, a new market in gold loans and forward sales.

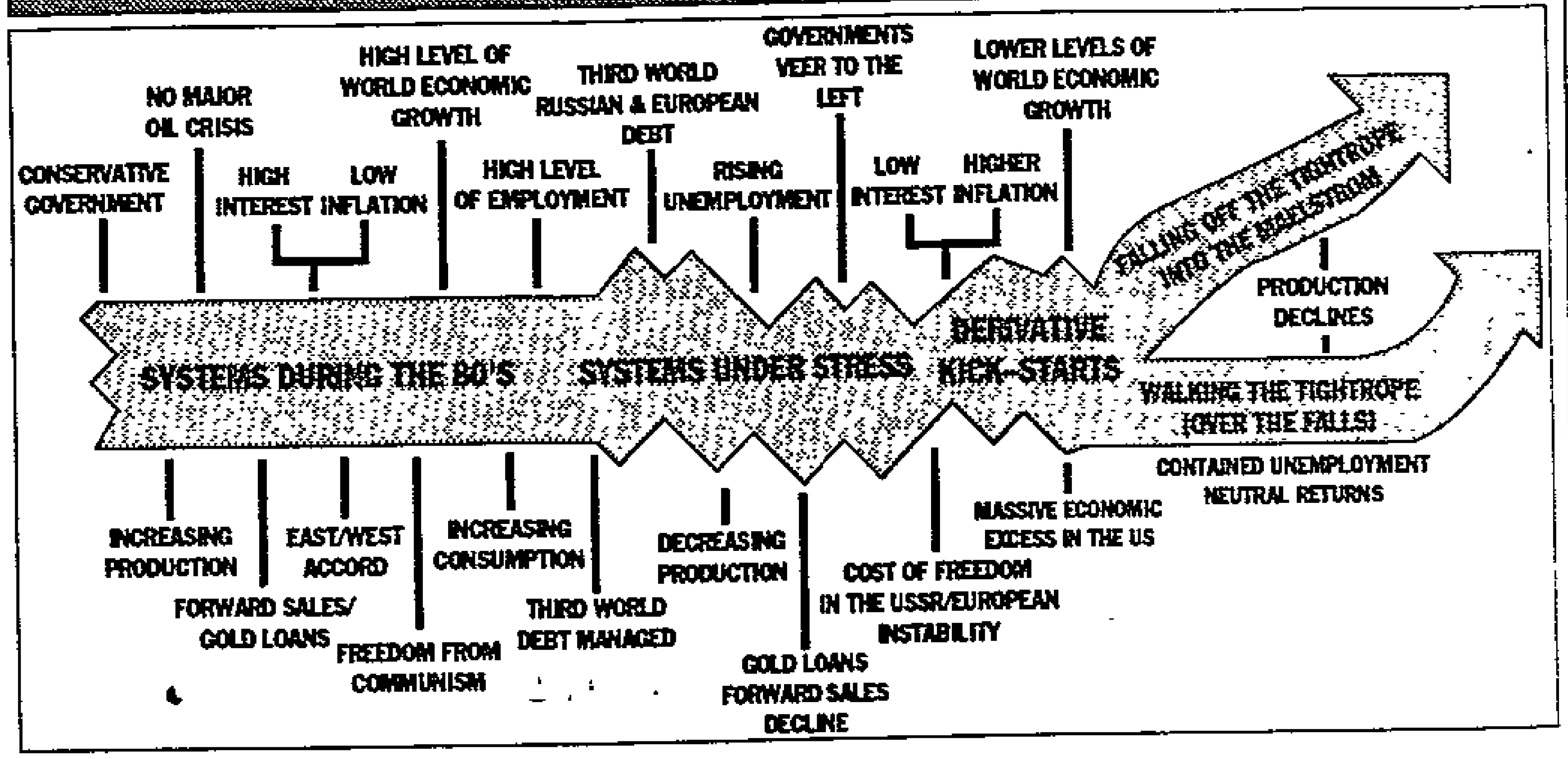
Into the 1990s the scenario team presents two factors that could erode the current positive real returns: economic excesses and imbalances threatening the American economy (as a result of Ronald Reagan's "credit-card binge"); and the international economic consequences of the demise of communism (the cost of freedom).

On the first count, the current ratio of America's debt to gross national product of 2,6:1 was last recorded in 1929. The debt burden is coupled with the effects of a decade of strict monetary controls and a decline in productive investment.

Ineffective fiscal controls have already caused an increase in the rate of inflation and unemployment is rising.

The cost of unification of eastern and western Europe has enormous economic consequences for capital the West can ill afford. A symptom of the fear is the European squatter-camp syndrome. which will worsen when Russian passports become available next year.

THE GOLDEN TIGHTROPE



Large-scale unemployment and resultant inflationary pressures seem likely.

Unemployment is likely to replace inflation as the No 1 fear of the 1990s.

Two potential scenarios arise should these factors prevail in the next few years as the world walks the golden tightrope.

The first is that the waterfalls are crossed. Here, the governments and central banks of the world's leading nations perform a balancing act between the demands for capital and unemployment. They barely manage to maintain real returns on money.

This scenario envisages an erosion of the current levels of return to a low of zero, the world going through a precarious time of economic and social unrest.

The current low gold price will result in declining production levels in five or so years' time. That could ultimately trigger an upswing in the gold price.

The alternative to staying on the tightrope is falling into the maelstrom.

Here, western governments bow to social and economic pressures.

America will try to correct its economic imbalances and unemployment pressures, at the same time channelling capital to Russia and eastern Europe

Western Europe will be in fear of social unrest to the east of it, starvation on its doorstep and an influx of its refugees. At the same time it will attempt the unification of former communist countries with the West.

Should the second scenario emerge, negative returns on investment could easily appear. It would be accompanied by a demand for hard assets and result in a sustained bull market for gold.

Mr Stewart believes the world is already on the golden tightrope. Even now, governments are veering to the left, to social democracy after a decade of Reaganomics and Thatcherism.

There is a trend away from the discipline of monetarism, particularly ahead of American presidential elections.

The topical rabbit in the hat is forced selling of gold by distressed nations From available information, it seems there are 90 tons of former Soviet Union gold and other unspecified amounts from Romania and Yugoslavia overhanging the market Such sales are taking place now, accounting for the low price.

Mr Stewart makes no forecast about gold's prospects. but the consensus of the scenario-planning team is that governments will bow to social and unemployment pressures and that negative returns from 1980s-type investments will recur.

He does not say it, but it looks like a time-dependent thumbs-up for gold.

THE WEEK AHEAD by Simon Willson

Gold hazard for forex reserves

BDay 4/5/92

79

PERSISTENT weakness in the gold price continues to jeopardise further improvement in the gold and foreign exchange reserves. When the April figure is released, probably towards the end of this week, an appreciable increase on the March total may, accordingly, be too much to expect.

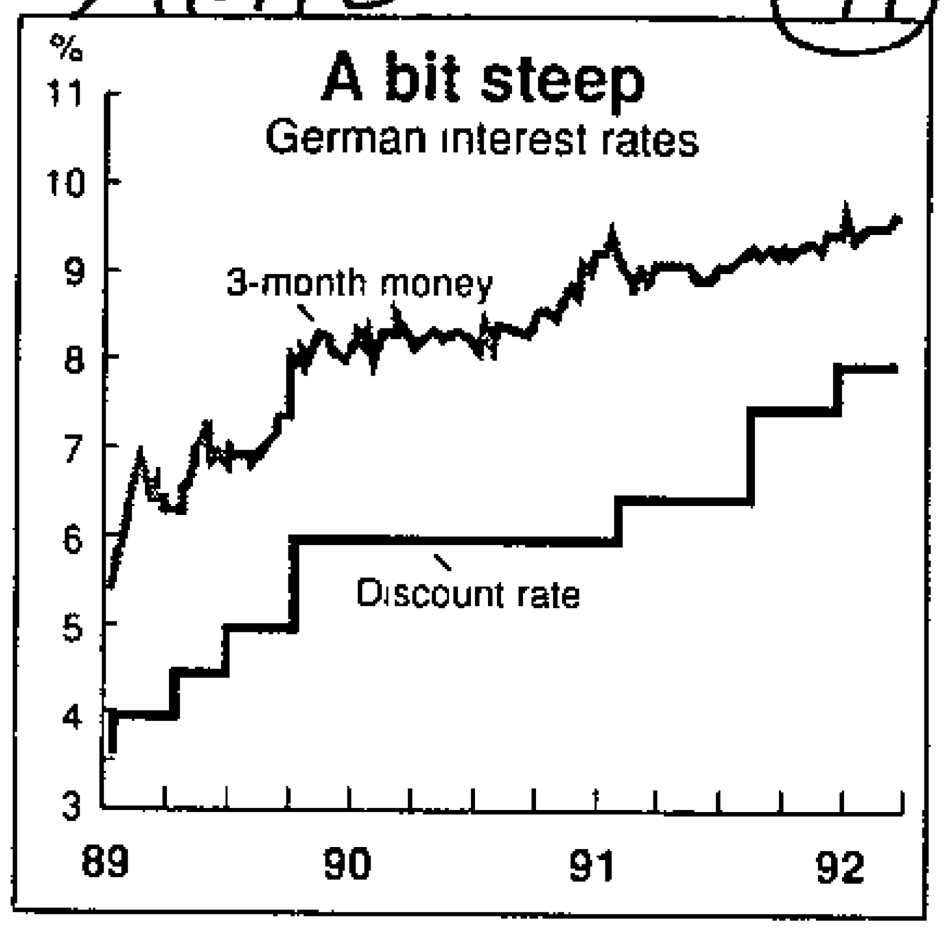
The R500m slide in reserves to R8,96bn in March from February's R9,46bn was accentuated by another fall in the Reserve Bank's gold valuation, which has been on an overall downtrend since June last year. The April valuation is likely to be similarly uninspiring and, like March's, will probably largely neutralise any increase in physical gold holdings.

Towards the end of April, the dollar gold price was languishing at its lowest levels since mid-1986. Gold has been steadily declining since it hit its high for the year to date on the threshold of $360 an ounce in mid-January. April, however, was a very bad month as bullion lost almost $10 over the four weeks.

There was little in the way of commercial rand weakness during April to support the rand gold price. Indeed, the rand was stronger on average last month than in March. March at least saw a couple of traded rand breaks below the R2,90 level to the dollar. In April the rand never broke R2,90, while the gold price just kept falling.

Where the rand did subside in the face of the occasional dollar advance, the Reserve Bank was reportedly active in selling dollars into the market to support the rand. This, together with whatever additional intervention the Bank carried out in the financial rand market, will have represented a drain on the foreign exchange component of the reserves and another drag on any appreciable advance in the April reserves total.

Attaining the R10bn level on total reserves, which government originally expected to occur by end-1991, now looks a stiff task even for end-1992 given a weak gold price, a steady rand and resuscitating domestic demand. The other objective on reserves, that of three months' import cover, only looks reachable over the medium term with the assistance of the multinational lending organisations — when their facilities come on stream.



Graphic RUBY GAY MARTIN Source GOLDMAN SACHS

Internationally, the labour problems in Germany are likely to be the markets' principal preoccupation this week. The policy-making council of the German central bank, the Bundesbank, meets on Thursday — if its members can get to the Bundesbank building through uncollected Frankfurt garbage on streets choked with traffic in the absence of the city's public transport.

As long as government does not give way on the unions' demand for roughly double the 4,8% pay increase on the table, the Bundesbank should stay its hand on another rise in nominal interest rates. But if, as it did in the last big public sector strike in 1974, government gives in and grants a double-digit pay award, the Bundesbank is likely to act

In 1974 government resisted the chaos of public sector labour strife for only three days before handing over an 11% increase, four points above the prevailing inflation rate.

In the US the key release of the week is the April employment report, due on Friday. The overall unemployment rate was steady at 7,3% in March, and non-agricultural recruitment levels rose. Employment data lag behind the rest of the real economy, but it should not be long before the effects of the US's preliminary, first-quarter GDP growth of 2% — a notable jump from the previous quarter's 0,4% — begin to feed through to the labour market.

Thursday sees the release of Japan's trade surplus for April. The figure comes out at a time of renewed concern about the level of Japan's external surpluses. February's current account surplus was a record $10,8bn which, together with the strong trade surpluses, prompted the country's international trade minister to call in executives from 177 top companies last month to urge them to boost imports.

Japan's March trade surplus widened to $10,99bn from $8,49bn in March 1991, as imports fell for the seventh consecutive month. Japan's current economic slowdown means imports are likely to decline further, unless those 177 companies take advantage of government tax credits available to corporate buyers of foreign goods.

Refinery 'can now pursue foreign deals'

Business Day Reporter

RAND Refinery Limited is now well positioned to go after foreign bullion refining contracts, reports the Chamber of Mines in its latest newsletter. BDay

Quoting the refinery's annual report, the chamber says the refinery is equipped to offer international bullion customers prompt service and a fast turnaround time since the plant is now able to handle peak bullion receipts well above current day to day requirements. 4/5/92

About R8,48m was spent in capital expenditure at the refinery during the financial year (ending September 30 1991), bringing the reconstruction programme to a close at a total cost of R93,97m.

Rand Refinery notes in its report that its attractiveness to foreign customers is enhanced by SA's renewal of international trading links, brought about by the easing of sanctions and favourable exchange rates available to foreign customers.

In addition to gearing itself to take advantage of foreign refining business, Rand Refinery hopes to continue development of its value-added operations in the coming year. In 1991 it started producing and selling gold granules as well as various alloys to the local jewellery manufacturing industry and it entered into gold chemical manufacturing via a joint venture.

The successful broadening of the company's product range has accelerated further investigations into the penetration of other potential markets, says the report. 79

Weak gold price ends the respite for marginal mines

B/Day 7/5/92. 79

MATTHEW CURTIN

THE inexorable decline in gold prices and increases in costs have hardened the distinction between SA's marginal and non-marginal gold producers. Older high-cost low-grade mines are reaping diminishing returns after a period of successful restructuring and cost-cutting programmes.

The implications for SA's gold output may not be as serious as might appear at first. Marginal mines produce a small proportion of current annual SA production of 600 tons. However, those mines employ tens of thousands of workers whose future, which looked relatively rosy in the last two quarters of 1991, is now rather more bleak.

In the March quarter, the gap between the gold mines was glaringly demonstrated by Gold Fields' producers. Marginal mines Doornfontein, Libanon and Venterspost turned in a combined after-tax loss of R13,4m — compared to R7m in the previous quarter — while the Driefontein, Deelkraal and Kloof mines posted marginally higher after-tax profit of R222m.

Three more mines are likely to close this year following Stilfontein's demise. Gengold's Bracken's fate is already sealed and sister mine West Rand Consolidated, and Anglovaal's Loraine are unlikely to survive into 1993.

However, Gold Fields' marginal mines — which have shied away from severe production cutbacks and retrenchments so far — and Rand Mines' Harmony have to take drastic action if they are to survive the current trough in gold prices.

E W Balderson analyst Nick Goodwin says the March quarter last year was a low point for the industry, from which it recovered thanks to the ingenuity of cost-saving programmes carried out by mine management, and the success of forward sales of gold at many mines.

Industry working costs stood at R25 817/kg in the 1992 March quarter, lower than a year ago when they were R26 364/kg, and only 0,37% higher than in 1990 — R25 721/kg — in spite of two years of 16% inflation.

Hedging remains a crucial aspect of profitability. Goodwin estimates the mines earned an extra R150m profit due to forward sales in the March quarter, 15% of the sector's R1,03bn after-tax profit, compared with R118m or 12% in the previous quarter, and R143m a year ago. In 1990 profit from forward sales was the equivalent of 20% of industry profit which had plunged to R790m.

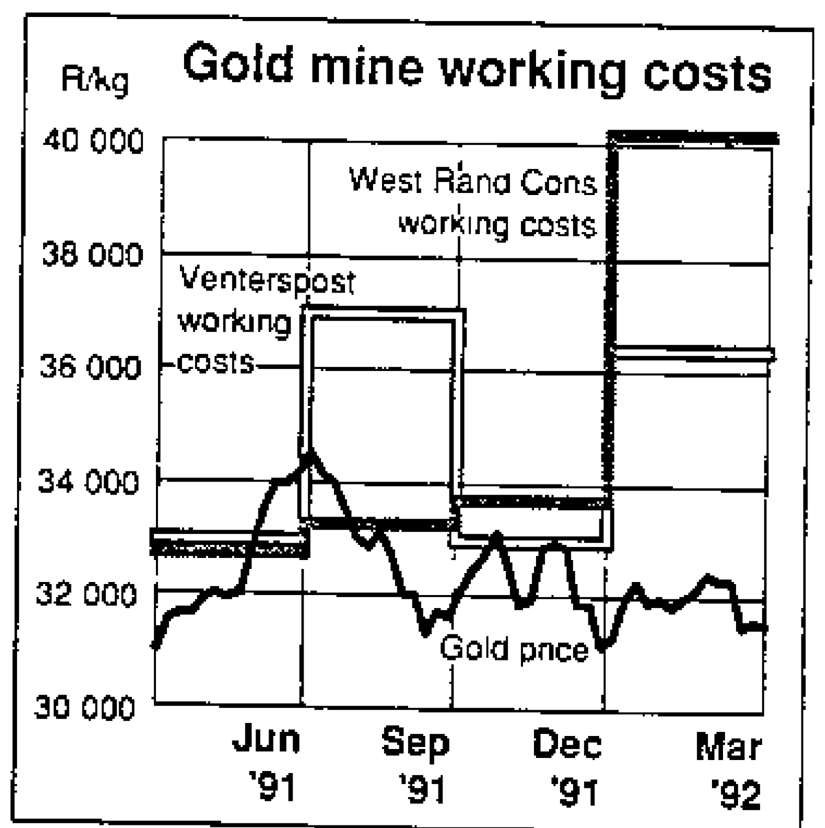
Capital spending has continued to fall, but Anglo American's preparedness to give the green light to the R1,7bn Moab gold mine in spite of the gloom in the industry suggests that gold mines are learning to spend money more efficiently.

Moab will be developed as an extension of Vaal Reefs, with Anglo able to set off the capital costs of the new mine against Vaal Reefs' profits for tax purposes.

Gengold and JCI mine managements have stressed that underground development work was going ahead to maintain proven ore reserves, in spite of the pressure to cut costs.

Marginal mines, however, are being strangled by weak gold prices, in spite of their cost-saving success. Low prices not only hit revenue, but ensure that pay limits — the lowest quality ore the mine can afford to mine at ruling prices — rise steadily.

Rand gold prices have remained flat in nominal terms in the past five years. In 1988, the average rand gold price was R31 920/kg, up 9% from 1987, but has since averaged R31 870/kg in 1990 and only R31 750/kg so far this year. Mines which have won better forward gold prices — most notably Anglo American and Anglovaal, Gengold and Rand Mines to a lesser extent — have been able, to some degree, to lock in lower pay limits.



Graphic FIONA KRISCH Source I NET

Marginal mines have large ore reserves left, much of which can be mined economically if gold prices rise. Selective mining has arrested the slide in underground grades, but marginal producers have paid a double penalty — losing both payable ore reserves and the flexibility to mine what payable reserves remain.

Any ore body contains good and bad patches of reef. As pay limits rise, underground mining teams find that areas which they have developed no longer contain ore they can mine, and have to be abandoned. Higher grade ore may not be accessible at all, or only by mining low grade areas first. Working costs rise, and by concentrating on the new areas above the pay limit, some development work vital for returning to lower grade areas should pay limits fall is inevitably neglected, further jeopardising a mine's long-term future. At Gengold, recognised as the group which has most persistently streamlined production, analysts fear the problem is becoming acute. West Rand Cons' future hangs in the balance because it is running out of payable reserves. The same problem led St Helena to close underground sections, with 1 500 retrenchments announced early last month.

Gengold has 10 mines currently in production, but operations at Bracken close in the second half of this year, and another four have working costs of more than R29 500/kg, compared with current gold prices of R31 000/kg.

Harmony is beleaguered because it has large low-grade reserves, but not the high grade material it can tap to weather the poor gold prices. Its only option is to beat costs down by cutting production, and may have soon have shed more than half its 30 000 workforce of three years ago.

At Gold Fields' marginals, management is striving not only to keep the existing operations going, but to keep them in business long enough to generate the working profit necessary to develop the mines' virgin reefs.

Gold Fields gold division executive director Alan Munro says the group is still confident gold prices will rise to save the group's marginal mines, but feels it is inappropriate to discuss contingency plans, should gold prices not rise, at this stage.

Anglo American gold and uranium division spokesman James Duncan says the group can withstand current low gold prices until 1993, when older and more marginal mines could be affected. Temporary and permanent cost reductions remain important objectives as well as focusing operations in order to keep gold output steady, he says.

Goodwin says that if gold prices do not recover in the medium term, production at marginal mines will shrink sharply. "Marginal mines have cut away the fat, and the meat, and are now down to the bone," he says. Labour, which accounts for about 50% of mines' costs, will remain most vulnerable to the next round of surgery.

International jewellery market's demand for gold at record level

By Neil Behrmann STAR 7/5/92

(79)

LONDON — The international jewellery industry's demand for gold reached a record 2010 tons last year, despite recession.

It exceeded annual Western mine production, currently at 1755 tons, for the third year running, says the World Gold Council, the international marketing organisation funded by mines.

Low prices undoubtedly boosted the jewellery market for gold, which accounted for 75 percent of total bullion consumption. But promotion also helped, say council officials.

Demand last year compared with offtake of 962 tons at the beginning of the Eighties.

The fundamentals of gold are thus sound, even though most dealers are gloomy.

Investors may be shunning gold, but consumers prefer cheap prices and are snapping up gold jewellery, says the council.

Bullion dealers agree with the policy.

US, Japanese, European and Middle Eastern investors are acutely pessimistic, following price declines and sales by Russia, Middle Eastern, East European, and South American commercial and central banks, according to dealers.

"Gold has lost its attractions as an investment, because there are so many alternatives," says Robert Guy, a director of NM Rothschild & Sons and chairman of the London Bullion Market Association.

The key to an improvement in market volumes and the price is growing demand from jewellery and fabrication, he says.

Swiss bankers note that demand from Hong Kong, Singapore, Korea, Vietnam and other Asian nations soared in the first quarter because buyers took advantage of low gold prices.

As reported, purchases of adornments are increasing rapidly in South East Asia and other developing nations.

Their gold jewellery demand soared to 1281 tons in 1991 from 649 tons in 1987 and now accounts for as much as 48 percent of total worldwide annual consumption, against 34 percent in 1987.

Meanwhile, jewellery demand, mainly in the US, Japan, France, Germany, Italy and UK managed to rise two percent to 729 tons last year, despite recession.

Following the worst year since 1973 for sales of bullion coins, the council recognises the "futility of promoting investment products in Western consumer markets".

Instead it is concentrating its efforts on jewellery markets around the world with an annual budget of $71 million. The funds are from its mine members in South Africa, North America, Australia and elsewhere and they contribute $2,50 for each ounce of gold that they produce.

Studies indicate that almost 80 percent of gold jewellery "is destined for women", so the council is targeting the rapidly growing numbers of younger, better educated and working females.

The council has has also launched Goldmark, an international promotion symbol similar to the Woolmark concept that will be used to enhance advertising, promotion and direct retail selling.

The council is promoting gold jewellery in free and open gold markets, notably Hong Kong (which also re-exports gold to South China), Taiwan, Thailand, Malaysia, Turkey, Saudi Arabia and United Arab Emirates.

Emphasising the importance of developing markets' interest in gold, the council intends relocating its Far Eastern head office from Tokyo to Singapore.

Gold coins have little appeal to investors so the World Gold Council is concentrating its marketing on jewellery.

Gold price cause for concern

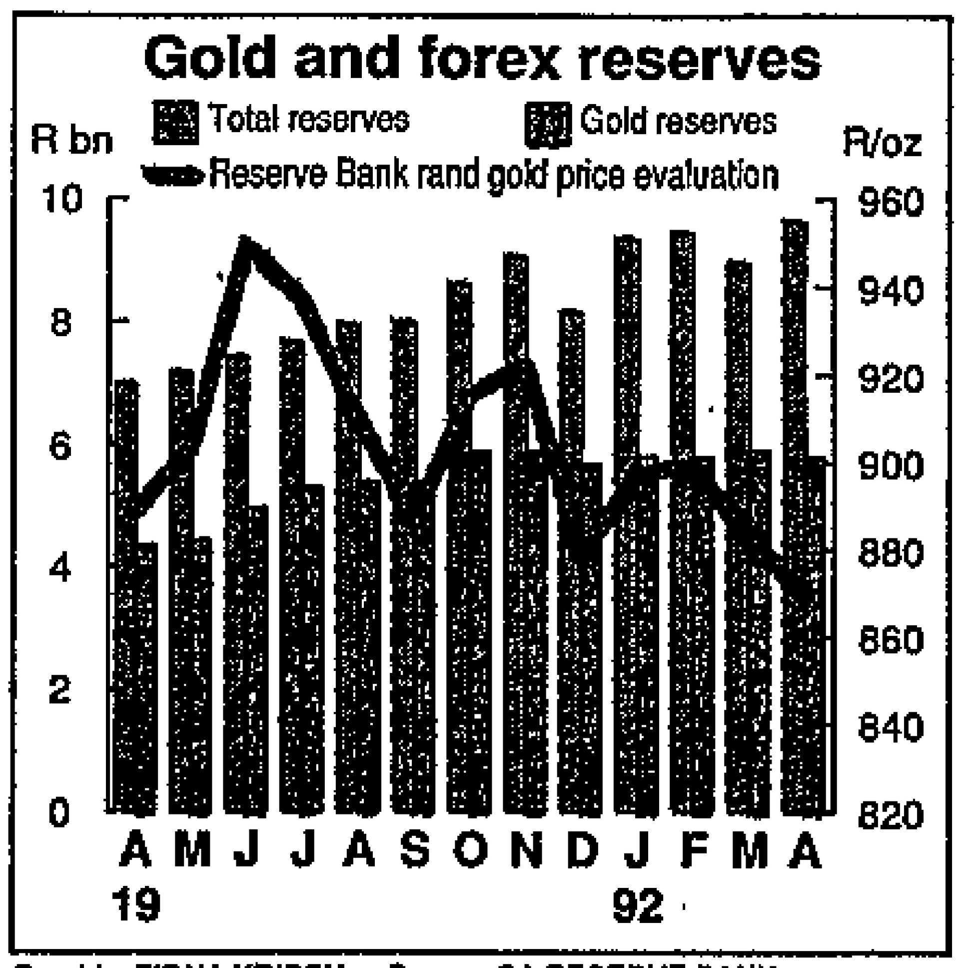
STAR 8/5/92.

The outlook for the immediate future of the gold mining industry would give cause for concern should the metal's price remain at the present level of below $340 an ounce, the Minister of Mineral and Energy Affairs, Mr George Bartlett, said yesterday.

(79)

This placed a number of mines in the marginal category which meant that many jobs in the industry were at risk, he said while introducing debate on his Vote.

The industry had been particularly hard hit last year. This was due to the combined effects of escalating working costs during a period when the average gold price declined by 5,6 per cent to $362,30 an ounce and production dropped by 0,9 percent. This was caused by curtailed mining activities and thousands of workers being retrenched.— Sapa.



Graphic FIONA KRISCH Source: SA RESERVE BANK

'Healthy growth' in forex reserves

79 SHERIDAN CONNOLLY

SA's gold and foreign exchange reserves resumed their upward trend in April despite fears that they would drop as a result of maize imports.

Reserve Bank figures released on Friday showed total reserves increased by R670m to R9,6bn in April from R8,9bn in March. B/Day 11/5/92

The value of the Bank's gold holdings was marginally lower in April at R5,8bn from R5,9bn in March. The quantity of gold held was almost unchanged at 6,67-million ounces in April from 6,69-million in March.

The average price of the metal was slightly lower at R870/oz in April from R883. Foreign assets were up R77m to R3,8bn in April from R3bn in March.

Notes in circulation were marginally lower at R10,71bn in April compared with March's R10,79bn.

Rand Merchant Bank chief economist Rudolf Gouws said the figures were excellent and the renewed uptrend was a healthy sign. He said there had been fears that the slowdown in the international economy would have had a more negative effect on SA's export levels.

Gouws said the figures were particularly good in view of the drought which had resulted in higher import levels. An increase in total reserves showed that the overall level on the balance of payments remained healthy.

Although the upward trend in gold and forex reserves might not be as strong in the next few months, an upward trend should nevertheless be maintained, Gouws said.

Reserves up sharply

By Sven Lünsche (79)

Gold and foreign exchange reserves rose sharply by R870 million to R9,83 billion in April, boosted by a favourable trade surplus and no foreign debt payments during the month. STAR 11/5/92

The sharp improvement was achieved despite a fall in the gold content of the reserves from R5,91 billion to R5,81 billion.

The physical volume of gold holdings showed a slight increase from 6,7 million ounces to 6,97 million, but the rand gold price slipped in April from R883,16 to R870,12 per ounce.

Foreign exchange reserves showed a sharp rise from R3,05 billion to R3,83 billion, despite the steady performance of the rand.

'Gloomy times ahead for gold'

B/Day 20/5/92 (79)

MATTHEW CURTIN

THE outlook for gold is gloomy, says Gold Fields Mineral Services in its Gold 1992 report.

"The fall in price to the lowest level in real terms since the early 1970s, raises the questions of whether the four-year bear market is coming to an end, or whether the downward momentum might generate additional sales by disillusioned holders of gold, thus continuing the period of depressed gold prices for some time yet," the report said.

With the prospects of only slow economic growth worldwide, physical demand for gold might not exceed supply fast enough to encourage current investors in gold to hold on to the metal.

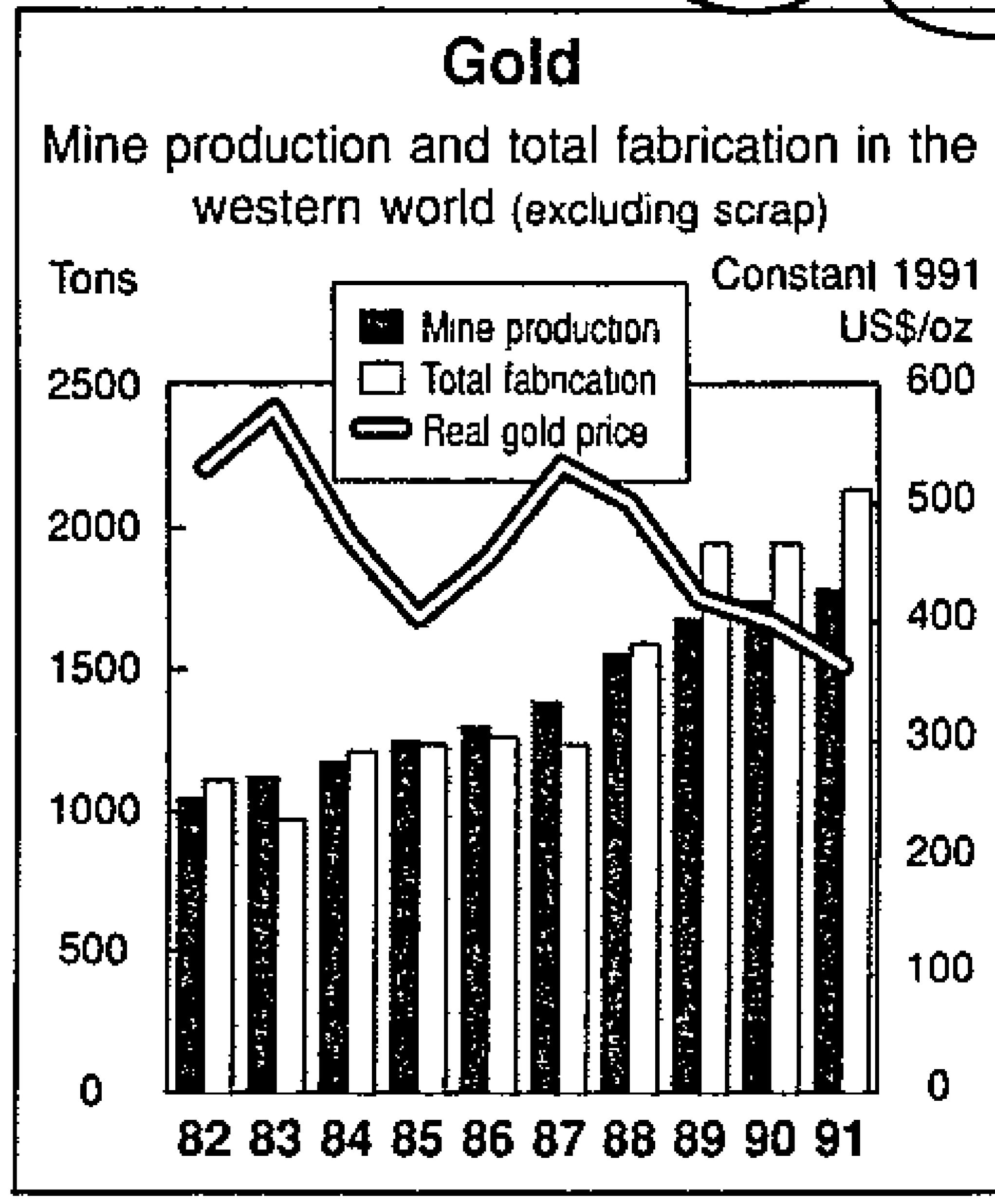
Western world mine production reached a record 1 782t in 1991, up from 1 744t in the previous year, but so did demand for gold from industry.

The 2% increase in mine production was the smallest in years, with output from SA (601t), the US (300t), Soviet Union (242t), Australia (234t) and Canada (167t) holding steady. Papua New Guinea joined the world's top 10 producers for the first time, with an 80% hike in gold output to 61t from 34t.

Net communist sales of gold fell sharply to 226t from 425t. Gold scrap supply also fell.

The gap between new gold output and fabrication demand widened for the fifth year running, standing at 761t in 1991 compared with only 280t in 1987.

Jewellery consumption rose 4% in spite of the global recession and accounted for 2 111t out of overall fabrication demand of 2 543t, compared with 2 037t out of 2 440t in 1990.



Graphic: FIONA KRISCH Source GOLD FIELDS MINERAL SERVICES

However, the gold market was hit in the year by "implied disinvestment" of 241t, and the sale of 105t by the "official sector", namely central banks. Brazil and Canada were regular sellers, Germany sold 22t of former East German reserves, with India selling another 20t to raise foreign exchange.

Gold 1992 is at pains to emphasise the complexity of the gold market, and the potential for prices to improve significantly.

It said a third of gold production was currently unprofitable, and if prices did not improve, "it is very likely that gold production will fall off sharply rather than reaching a plateau in the next few years". However, the issue was complicated by 55 000t of bullion stocks, mostly held by central banks, plus quantities of gold coins, all of which could add to future supply.

The report said one school of thought believed prices would improve only when gold regained its attraction as an investment as confidence in other financial assets started to ebb. "In the absence of rampant inflation or debt-induced implosion, or some other financial cataclysm, this might suggest that an increasing share of future supply could well derive from such disposals by disillusioned holders. But such an argument is probably too simplistic," it said.

It was likely potential investors would realise the price decline had gone far enough, especially if they saw a sharp drop in mine production.

The report said: "It seems safe to assume that the future gold price will be influenced by what happens to mine production and supply from the former Soviet Union on the one hand, and to the offtake for jewellery, industrial uses and investment products on the other."

There were two contrasting sets of developments which could see gold prices regain the ground lost in the past few years. One involved strong economic growth spurring jewellery demand. The other extreme was massive asset deflation which would cause a flight to gold, similar to that brought on by inflation in the 1970s.

Gold price sags despite high jewellery demand

8/10ey 21/5/92

(79)

MATTHEW CURTIN

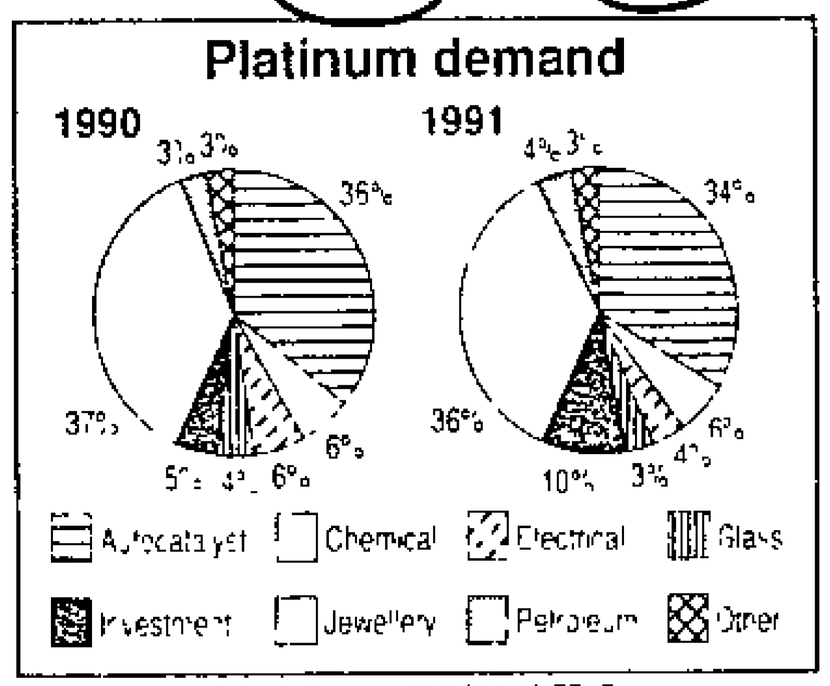
DESPITE solid jewellery demand exceeding increases in new mine production, the gold market needs another factor to trigger bullish sentiment and higher prices, says Gold Fields Mineral Services senior analyst Kevin Crisp.

He said one such trigger could be a sharp fall in mine production, noting SA gold mines were on average at the top end of the world production cost curve. One third of current global gold output was uneconomic.

Analysts say SA gold mines have maintained production tenaciously in face of rising costs and low prices, but as the most recent bout of retrenchments in the industry suggest, still further cutbacks are necessary to keep mines profitable.

Crisp, who presented Gold Fields' Gold 1992 report to SA mining industry leaders in Johannesburg last night, said tightening physical demand for gold might not happen fast enough to stem investor disillusionment with the metal.

Crisp noted that last year the gold market contracted overall for the first time since 1983, although there was record offtake by the jewellery sector.



Johnson Matthey has forecast a more overtly bullish future for platinum in its Platinum 92 survey, predicting prices could return to $400/oz because of impressive jewellery demand in Japan and increasing consumption in the car-making industry worldwide.

The platinum market is significantly smaller than the gold market, but platinum has a far wider range of applications, cushioning it against economic ups and downs, and the vagaries of investor sentiment.

An analyst said platinum's resilience derived in large part from its persistence as a precious metal and industrial commodity.

He said that particularly in the Far East platinum was considered a greater store of value than gold, a sentiment underscored by the strength of jewellery and industrial demand for the metal.

Johnson Matthey highlighted an increase in investor platinum purchases to 340 000oz from 200 000oz in 1990, equivalent in a jump to 10% from 5% of total platinum demand. Platinum prices fell to a 14-year low in yen terms in Japan in December last year, and "presented investors with irrestible bargains".

At the same time, jewellery demand in Japan reached a new high of 1,26-million ounces, "stimulated by the falling yen price and by the growing popularity of platinum in the mass market". Japan accounted for 85% of platinum jewellery demand, and despite a slowing economic growth rate, demand was sustained by more moderately priced platinum jewellery and a preference for platinum alone instead of in combination with gold.

The analyst said gold marketers such as the World Gold Council were turning their attention to the Far East to stimulate a more sophisticated market for gold, from hoarding to a wide range of jewellery.

Chinese among major buyers of gold jewellery

By Derek Tommey 79 (48)

A mildly bullish outlook for gold was predicted by Mr Kevin Crisp, one of the compilers of "Gold 1992", when he spoke in Johannesburg last night.

He predicted that China and other Chinese communities in the Far East were likely to be major buyers of gold jewellery in the coming years.

China had been a net buyer of gold to the extent of 80 tons last year, although it was a gold producer.

The net purchases reflected greater demand for jewellery, mainly as a result of the greatly increased prosperity in the southern provinces adjacent to Hong Kong.

Mr Crisp said that if imports of jewellery as opposed to bullion were taken into account, it was possible that China was a net importer of some 115 tons last year.

He said the 1 250 000 000 Chinese were accustomed to buying and wearing gold jewellery. As China became more prosper ous, demand for gold should improve.

The Japanese had been net sellers of gold as a result of the liquidity crisis arising from the collapse of share prices on the Tokyo Stock Exchange and the drop in property prices. But the sale of gold seemed a healthy development as the Japanese were using gold in the traditional way.

STAR 21/1/92

Forward sales

He believed that once the liquidity crisis in Japan ended, the Japanese would take advantage of the lower gold price and start buying the metal again.

At present there were about 100 tons of gold sold forward, which meant there were 100 tons less of gold to be absorbed. This could be a bullish factor for gold if the gold mining industry was to expect a rise in the gold price and stopped selling forward However, he did not believe the time for this had yet arrived.

Russian gold sales were less than expected and less than in 1990. The reason was the large demand for gold from the electronics industry, mainly for equipment for the military.

He believed that Russian gold sales could decline as rising costs started knocking out the marginal mines.

ARG 23/5/92 (79)

Gold at 60-year low, says report

Weekend Argus Foreign Service

LONDON. — The "real" gold price, adjusted for inflation, has slumped to levels last seen in the Thirties, says Gold Fields Mineral Services in its latest annual gold study.

Following a boom of the Seventies and early Eighties, there is still a widespread belief that the gold price is high, said Mr Stewart Murray, chief executive of Gold Fields Minerals Services Ltd (GFMS).

GFMS is a research company controlled by Newmont Mining Corp, Gold Fields of South Africa and Renison Goldfields Consolidated in Australia.

Yet in nominal terms the metal is well down on its peak of $850 (R2 400 at current exchange rates) in 1980.

Gold prices are depressed mainly because private investors, particularly in America, Europe and the Middle East are disenchanted. They offloaded as much as 241 tons last year, Mr Murray said.

Meanwhile central banks, notably those of Canada, Brazil and Germany (which sold 22 tons inherited from the former German Democratic Republic), Japan, (which sold 60 tons of coin inventories), India and Iraq were also sellers.

South Africa and the Phillipines, on the other hand were buyers, but net sales by central banks totalled 105 tons last year, compared with zero in 1990.

Adding to market pressures, the former Soviet Union shipped more than 1 000 tons in the past three years.

Last year alone, net sales of the Commonwealth of Independent States (CIS) were 300 tons.

About 200 metric tons of CIS gold were "swapped" for Western bank credits said Mr Murray.

About half of this gold was either sold by banks or the CIS, so the market is still concerned about the 100 tons of "swaps" that are outstanding, said the report.

GFMS conceded that a "sustained recovery in investment purchases of bullion or coin does not look likely at present".

But jewellers and other fabricators of gold are boosting purchases of the cheap metal.

Total fabrication demand, mainly for jewellery and electronics, soared to a record 2 543 tons last year from 2 440 tons in 1990 and are double to annual purchases of the early Eighties.

Fabrication demand, which continued to be buoyant in the first few months of this year, exceeded supplies from western and eastern bloc mines plus recycled gold scrap by 125 tons last year.

Jewellery demand in Asia and China was particularly strong.

In spite of the surge in manufacturing consumption of gold, the market is dependent on the sentiment of investors and central banks controlling a 55 000-ton stockpile of gold in bullion vaults.

Nevertheless, the shortfall between fabrication and production will eventually encourage investors to buy gold, GFMS predicted.

Especially since the average costs for Western producers at $308 (R865) an ounce are only nine percent below present gold prices. A third of the mines are unprofitable and if prices remain in the doldrums there will be production cuts.

Total average costs per ounce in dollars are $363 (R1 020) for the Phillipines, South Africa ($325 or R913), Australia ($314 or R882), Brazil ($308 or R865), US ($299 or R840), Canada ($290 or R815) and Papua New Guinea ($221 or R621).

So far Western mines have been reluctant to close down operations.

Production rose two percent to 1 782 tons. Nevertheless, the rate of increase is the lowest in a decade, says the report.

But mine production in the CIS declined to 242 metric tons in 1991 from 270 tons the previous year because of shortages of fuel, equipment and electricity.

Since the gold price is at its lowest level in real terms since the early Seventies, the four-year bear market may be "coming to an end", Mr Murray said.

■ In London, gold rose $2 to $340 (R955) an ounce because of the report, dealers said.

Gold coins have lost their allure

(79)

STAR 30/5/92

FIVE years ago, ordinary Krugerrands traded at R1 140 and proof coins at a considerable premium. Today, they trade at around R1 000, proof coins at much the same price and there is precious little demand even for the scarce versions, such as the 1968 frosted, at anything above that price.

So what went wrong?

When trying to answer this question, it is important to remember that anyone who ventures an opinion on the subject is guessing.

When it comes to gold we're in uncharted waters. Gold has always been a hedge against inflation, but now it is not even holding its own in nominal terms. In great demand in times of unrest and economic uncertainty, gold now remains in the doldrums despite wars, international terrorism and highly volatile international economical conditions.

Against the background of gold's historical performance, it could be argued that its current sorry state may be no more than a hiccup, a little bump that will be ironed out by future rises in the gold price.

This may be so, but then again, it may not. These days, everything happens much more quickly than it used to, and hiccups, technical corrections and other aberrations in trend lines tend to sort themselves out pretty swiftly.

Depleted

What seems to have happened is that gold has lost its mystique. It has become no more than a commodity, a relatively scarce mineral with certain characteristics that make it suitable for certain industrial applications and the manufacture of jewellery.

In line with this, the gold price now seems to be more a function of production costs and supply and demand than of uncertainties brought about by wars and the like.

Because of this, the determining factor of the price of gold — and gold coins — will in the near future probably be the state of the gold reserves of the former USSR. If, as some rumours would have it, the reserves are depleted, the gold price will rocket, taking the price of Krugerrands with it.

However, if there are still significant reserves, production costs become a factor. If the reserves can be profitably exploited with the gold price around $350/ounce — or lower — gold's future looks bleak. However, we could see the price rise if any possible reserves are viable only at a higher price.

Unfortunately for would-be investors in gold coins, Soviet reserves remain a matter of speculation and even the experts are loath to express opinions.

All of this makes an investment in gold coins — the only way in which individuals can invest directly in gold in South Africa) very much a gamble. There are a number of questions you have to ask yourself, and the answers will determine what you do.

Some of the questions are:

- What are the reserves of the former USSR?
- If there are reserves, can they be exploited at $350/ounce or less (bearing in mind that many South African mines struggle at this price)?
- Will gold regain its mystique if all else fails — and if so, when?

Irrespective of the state of the gold reserves, a puzzling factor is that scarce Krugerrands appear to have been tarnished by the poor performance of gold. After all, the value of rare stamps is not influenced by the price of paper and ink, nor is the cost of Persian rugs influenced by the price of wool. Why should the value of proof Krugerrands and scarcities, such as the 1968 frosted Krugerrand, be affected by the price of gold?

Certainly part of the answer lies in the way restrictions in the trade of Krugerrands during the boycott era allowed other gold coins into the market and removed the aura of exclusivity that Krugerrands enjoyed.

Beyond that, however, it seems that, with gold becoming a bit of an investment "no-no", gold of any description has lost its attraction as an investment. It is difficult to imagine the situation continuing in a world where virtually anything rare is prized, collected and traded.

Caution

Right now it seems that gold coins have reached a point where their value is in line with production costs and supply and demand, unless the former Soviet Union comes up with supplies of "cheap" gold. In the medium to long term, therefore, Krugerrand prices should move upwards — at least in line with production costs — and, in the longer term, one might reasonably expect that scarcer coins should acquire a value based on their scarcity as collectors' items independent of the gold price.

But the waters remain uncharted, and great care should be exercised before investing capital in gold coins.

THE use of gold for the fashioning of jewellery can be traced back to between 2000 and 3000 BC, around the time the Great Pyramids of Giza were constructed. In the thousands of years since then, gold firmly established itself as the noblest of metals — the yardstick by which wealth was measured. Then, no more than about 10 years ago, the historical trend of millennia was suddenly reversed. In this article, extracted from the latest issue of "You and Your Bank", published by the Standard Bank, we look at what happened and try to assess what future, if any, there is in an investment in gold coins.

Bullion price the major factor

BUSINESS

Enough to beat the best Au-gur

w\mail 22/5 - 28/5/92 (79)

With many mines on the brink of closure the gold price is vital to the South African mining industry. But even experts are hedging their bets, reports **REG RUMNEY**

GUESSING the direction of the gold price has been a mug's game — as many investors must attest. Who would have guessed in those heady days when gold seemed to be soaring above $800 an ounce where the gold price would have settled a decade later. The gold price now in the major currencies and adjusted for inflation is almost exactly the same as it was at the turn of the century.

So it's with trepidation that one repeats the conclusion of Gold Fields SA's annual gold report, *Gold 1992.*

However, like the gold mines themselves, the authors of the report hedge their bets: gold could do well in two separate scripts.

If economic growth rebounds strongly from its present doldrums, demand for among other uses gold jewellery should resume the rapid rise it saw in the 1980s, and move the gold price up.

"At the other extreme," note the authors, "a massive asset deflation would cause a flight to gold, perhaps even matching the inflation-induced investment seen in the 1970s." This would be prompted by the enormous political and financial instability that has emerged from the ruins of the Soviet Union and its satellites.

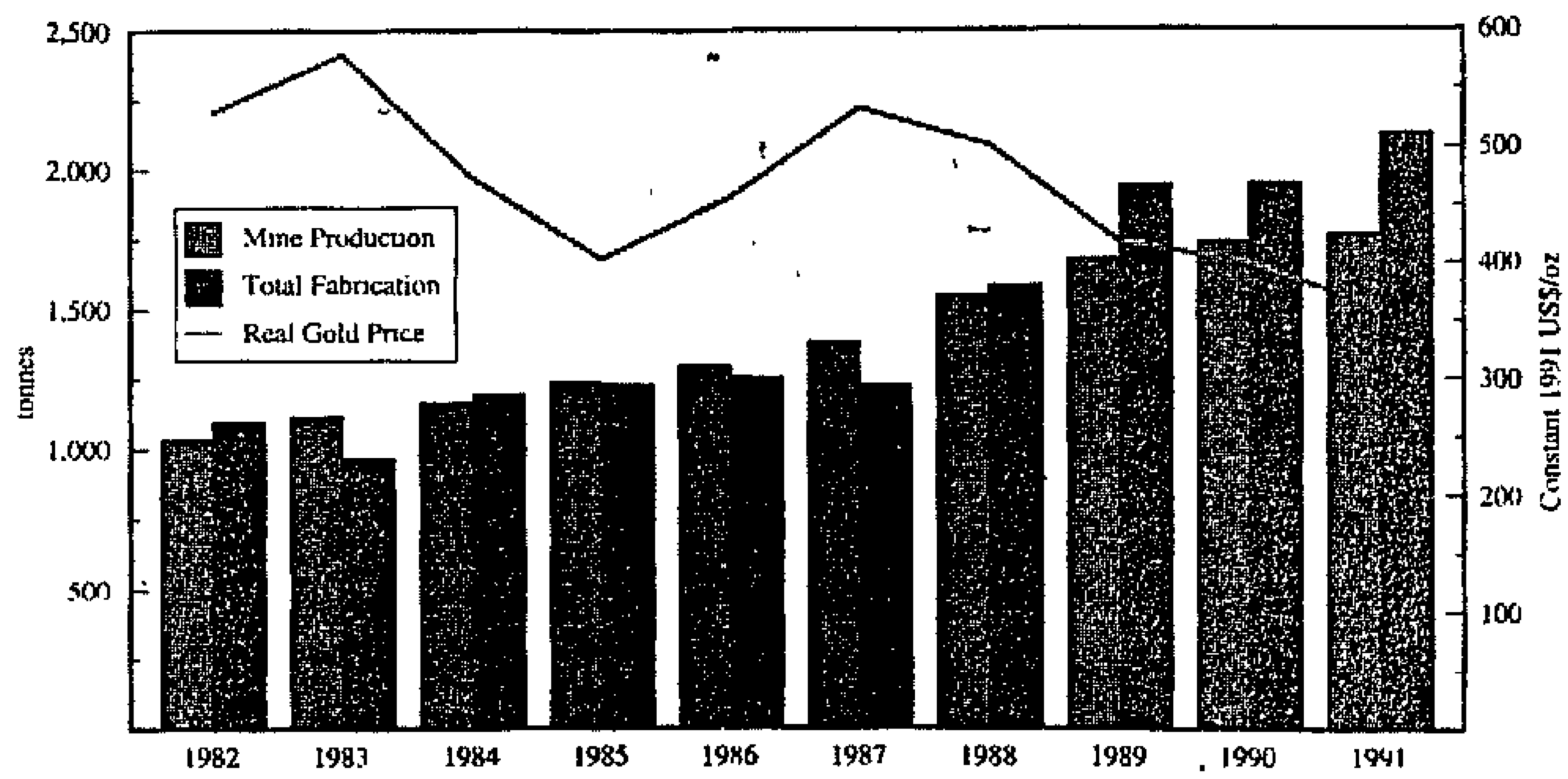
"Between these extremes, however, it is possible to imagine that, with a relatively mundane rate of economic growth, the physical market will not tighten fast enough to give much encouragement to gold holders who could thus continue as net sellers and maintain a depressed gold price for some time to come."

Gold 1992 admits the outlook for gold is far from as simple as the supply-demand equation supposes.

At the present levels around one third of the producing industry is unprofitable. Both consumer spending and inflation are near cyclical lows.

If there is no improvement in the gold price over the medium term it is likely that gold production will fall over the next few years.

Mine Production and Total Fabricaton in the Western World (excluding scrap)



No golden rule ... Despite mine production having outstripped fabrication — gold used in jewellery and industry — the gold price fell steadily **Source: Gold 1992**

"However, the issue is complicated considerably by the existence of some 55 000 tons of above-ground stocks of bullion, primarily held by central banks, plus additional quantities of coins, all of which could, in theory, add to future supply."

In the light of the above fact, some believe the mine production, gold fabrication equation doesn't much matter to the gold price.

For those who take this as axiomatic, the holders of the above-ground gold are all-important.

Hence the gold price will only improve when and if confidence in other financial assets begins to ebb.

Indeed, without rampant inflation, a debt-induced asset implosion, or some other financial disaster disillusioned holders of gold could start to offload it.

The graph shows that fabrication over the past three years has consistently outpaced mine production in the Western world. Despite this the gold price in real terms has steadily fallen.

The report argues potential investors will eventually — no one can know when or at what level — realise the price decline has gone far enough, particularly if mine output plunges.

Hence it seems safe to assume, says the report, that the gold price will be influenced by what happens to mine production and supply from the former Soviet Union on the one hand, and to the offtake for jewellery, industrial uses and investment products on the other.

Production in the West itself has not fallen much. It seem likely mine owners will face up to the necessity of closing mines, and this point is approaching in South Africa.

Production in the former Soviet Union will influence not just supply but investor attitudes.

In the short-term there may be more gold to export because local producers can't take up all that is produced. In the long-term the gold mining industry behind the now raised iron curtain will have to be revitalised by higher local prices or Western investment.

Other factors noted:

- Forward selling — "selling" gold that has not yet been produced — could increase, and accelerate supply.
- Jewellery demand held up well last year even in a time of world recession. So an upturn would probably pack people into the jewellery stores again.
- The outlook for the traditional investment in gold bars in Asia seems clouded.

Mideast uses more gold than SA mines

79

S Times (Buss) 31/5/92

ZILLA EFRAT, recently returned from a trip to Dubai, finds South African gold in the strangest of places

DUBAI is the thriving hub of the Middle Eastern and Indian gold jewellery market.

It is no secret that much of this gold comes from South Africa.

World Gold Council (WGC) Middle East manager Andre Bisang says the Middle East market, which includes Turkey and India, uses 37% of the Western world's annual production.

History

The region's gold demand is 650 tons a year — more than SA's output of 601 tons in 1991.

The WGC — to which SA is the major contributor and which was formed to promote gold use — regards the Middle East as its priority market, alongside South-East Asia.

Its Middle Eastern operations are controlled from Dubai, part of the United Arab Emirates, which has a long history in the gold trade. Indeed, many a Dubian fortune was made from gold in the early part of the century.

Dubai's gold souk (market) is a shopper's dream. Narrow streets are lined with shop windows glinting with bracelets, necklaces and earings in 18- and 22-carat gold. In the evening the souk is abuzz with bargain-hunting Arab women and tourists.

The gold is beaten, twisted and hammered to meet all preferences and cultural backgrounds. Prices are among the cheapest in the world. They are based on weight times the daily gold price. A small percentage is added for craftmanship.

The souk's role, however, is dwarfed by Dubai's outward gold trade. Mr Bisang, based in Dubai, says the Emirate imports about 170 tons of gold a year and re-exports about 150.

Its main market has traditionally been India where gold prices are fixed at a higher rate than the free market.

Dubai's advantages in the Middle East region include its free and competitive market and cheap labour, largely from India and Pakistan.

Gold bars arrive in Dubai with the stamp of Swiss or UK refiners and without the mark of the country of origin.

Mr Bisang says one reason for the forecast growth in Middle Eastern buying is the region's fascination with gold. Gold is part of its tradition and culture. It is mentioned in the Qur'an several times.

"Going to the gold souk is like going to a supermarket in SA. It's a way life," he says.

"Gold is seen as an adornment, an investment, a present and insurance for the future. When a girl marries she is given gold as a security for her future."

In addition, trends to liberalising the Turkish and Indian gold markets are set to boost the region's jewellery buying.

For years the Turkish and Indian markets were supplied by smugglers from several countries, including Dubai.

But in March 1989 the Turkish Government opened its borders and 145 tons of gold were imported in the first year.

Mr Bisang says India buys more than 250 tons of gold a year. In February this year, India changed its policy. Expatriates, who have lived abroad for more than six months, are allowed to bring back gold in any form up to 5kg.

Potential

The Indian Government imposed a 15% duty, but this has fallen to 7% and is expected to drop further.

Mr Bisang says that as markets liberalise it is possible that Dubai's role in the gold trade will change. Large markets like India could be supplied by traditional centres, such as London and Zurich

"But Dubia will quickly find new solutions to remain a part of the gold market because it is fast acting and aggressive."

Report says forward sales may boost gold

BDay 11/6/92

MATTHEW CURTIN '77 (Day)

FORWARD sales of gold carried out by gold producers worldwide could increase gold prices rather than depress them, says a report in the latest Journal of the SA Institute of Mining and Metallurgy.

The report by Industrial and Petrochemical Consultants director P Lloyd disputes claims by former Union Corporation consultant Hugh Monro that the gold price fell $2 for every ton of gold sold forward.

Monro argued forward sales of borrowed gold represented an additional supply to the market which lowered prices. Forward sales should be stopped at once to help revive gold prices, he said.

The report follows much industry scepticism about Monro's findings. Industry sources have noted that his analysis ignored the thousands of tons of gold traded on metal exchanges worldwide.

They said forward gold sales were comparable to the well-established practice of selling other commodities — such as coal and uranium — on the basis of long-term sales contracts. Prices were negotiated for sales throughout a trading year at the start of that year, much like a contract for forward selling of gold.

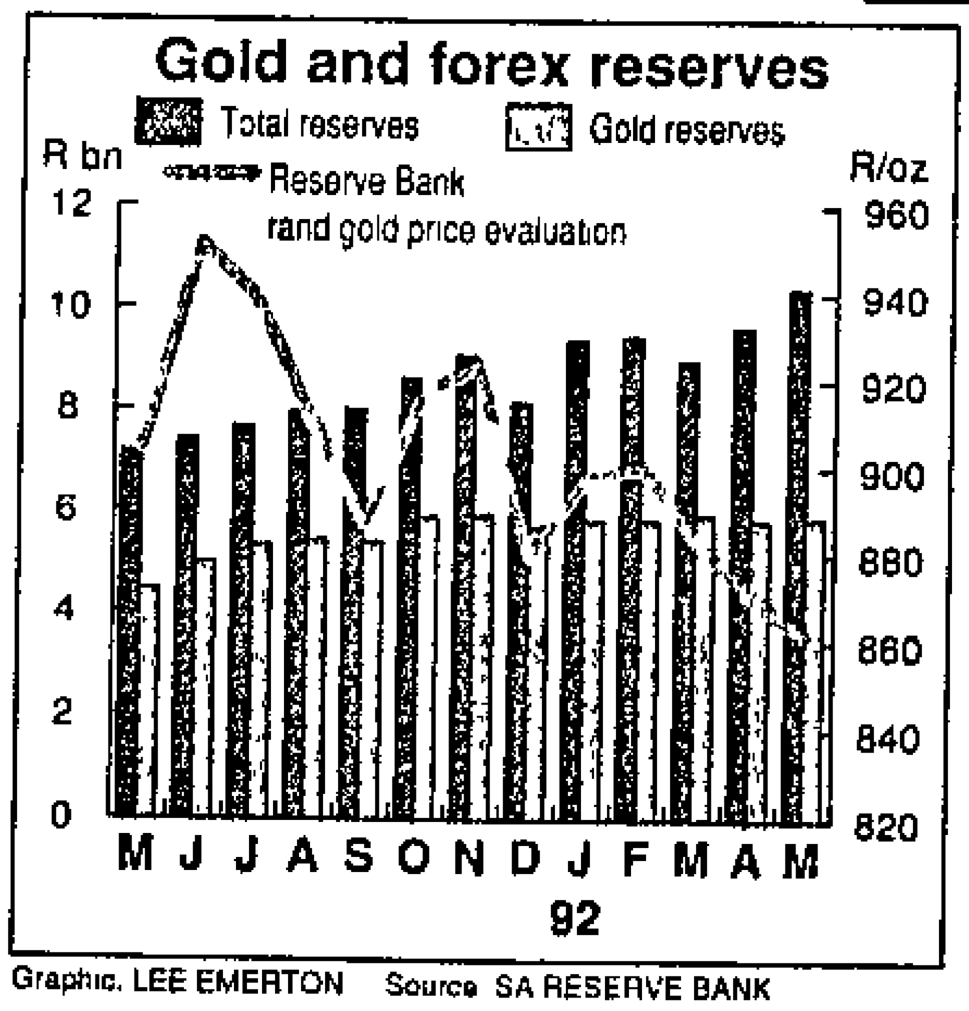
Lloyd said that by refining the mathematical formula Monro used to correlate gold prices to forward sales, it could be shown that prices rose nearly $1 for every ton sold forward.

The weakness in Monro's analysis was his assumption that current gold prices had no effect on current production, which went "totally counter to the whole spirit" of SA mining taxation, which made mines reduce grades as prices rose.

Lloyd noted that hedging could reflect gold producers' strategy for protecting themselves against falls in prices as well as capitalising on price rises, which again affected Monro's basic assumptions.

He said arguments similar to Monro's could be advanced against the selling forward of many other commodities, which "runs counter to the success of futures markets worldwide".

Monro was correct to draw attention to the possible effects of forward selling, but the values he assumed for important elasticities were not "exact or close estimates" but were of the wrong sign — positive when in fact they should be negative.



Graphic: LEE EMERTON Source SA RESERVE BANK

Reserves rise to record R10bn

B/Day 8/6/92 TIM MARSLAND (79)

SA's gold and foreign exchange reserves rose by R764m in May to top R10bn for the first time, although economists cautioned that a reversal was likely next month.

Reserve Bank figures released on Friday showed total reserves increased to R10,4bn in May from R9,6bn in April. The value of the bank's gold holdings rose to R5,9bn from R5,8bn.

The quantity of gold held increased to 6,804-million ounces in May from 6,672 previously. The metal was valued at an average price of R861,22/oz from R870,21/oz.

Foreign assets rose sharply to R4,5bn in May from R3,8bn in April. May's notes in circulation climbed to R11bn from April's R10,7bn.

Reserve Bank Governor Chris Stals said at the weekend the increase in reserves raised liquidity in the money market.

Nedcor Bank chief economist Edward Osborn said it appeared that in May the entire benefit of the trade surplus — and the current account surplus — had accrued to forex reserves.

Insignificant or nil payments on the capital account were likely to have been made.

It also appeared that payments for May's imports had not started yet.

The figures could also reflect a low level of imports because of the extremely depressed condition of the economy.

He said the figures were in line with the bank's continuing objective of building up reserves to equal three months' import cover.

Reserves surge to record level

STAR 8/6/92

By Sven Lünsche (79)

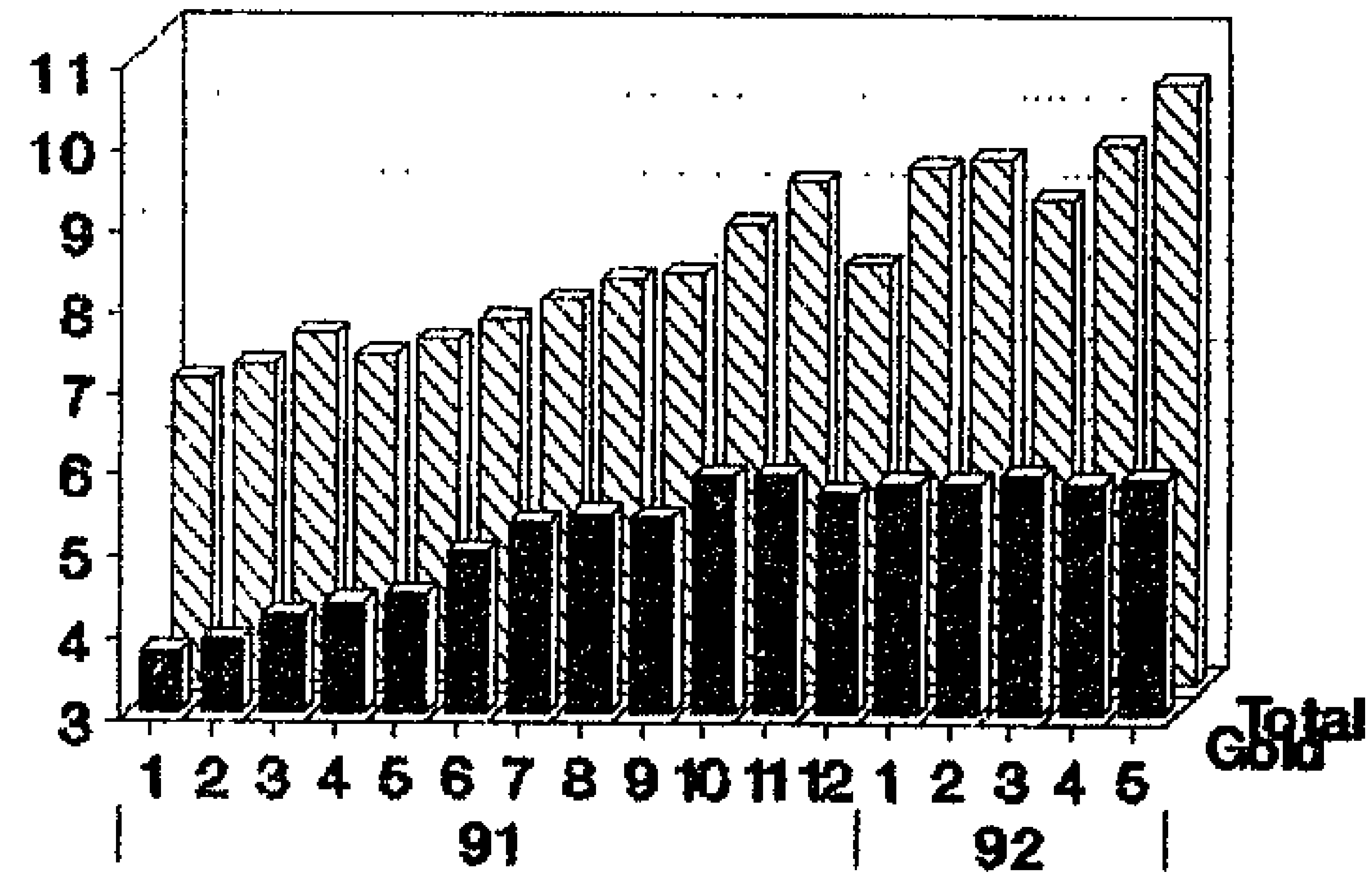
Gold and foreign exchange reserves surged to a record R10,4 billion in May, the first time they have been above the R10 billion level.

The Reserve Bank said on Friday that total reserves rose by almost R800 million last month, rising from R9,63 billion in April to R10,4 billion at the end of May.

The reserves are sufficient to cover just over two and a half months of imported goods and are rapidly approaching the internationally accepted level of three months of import cover.

One of the Bank's preconditions for easing monetary policy is a strong level of forex reserves to avoid pressure on the balance of payments when imports start picking up in the wake of an economic upswing.

So far this year the gold and foreign exchange reserves have increased by R2,5 billion, which also explains the higher level of liquidity in the money markets.



SA's gold and forex reserves (R billion).

The level of the gold reserves at the end of last month was R5,86 billion, a R53 million increase on the previous month, as the Bank increased the volume of gold held from 6,67 million ounces to 6,8 million ounces.

The gold was valued at R870,21 per ounce, compared with R861,22 in April.

The value of foreign assets over the month improved from R3,83 billion to R4,54 billion.

Other figures released show that government deposits with the Bank rose from R7 billion to R10,66 billion.

DP MPs slam 'inept and corrupt' NP government

B/Day 10/6/92

BILLY PADDOCK

CAPE TOWN — The euphoria of President F W de Klerk's reforms had been replaced by an air of despondency because of the poor state of the economy and the exposure of widespread government corruption, DP Finance spokesman Ken Andrew told Parliament yesterday.

He said democracy was unlikely to survive endemic violence and a lack of economic progress. But sustained economic growth and a reduction in violence were unlikely until there was significant progress towards a political settlement.

A successful, negotiated new constitution was the key to stability and certainty, Andrew said, adding that government had the prime responsibility in this regard. But the credibility of the NP's commitment to democracy was suspect, he said.

In another scathing attack on government, DP Justice spokesman Tony Leon said its ineptitude resembled that in a tragi-comic soap opera.

It had spent or committed R500m on three projects of spectacular folly, where the money could have been better spent elsewhere, Leon said.

"We now have no foreign enemies, but R205m is authorised on an underground bunker installation for the SA Air Force. While total strategy no longer features in government rhetoric, we spend R145m on a new headquarters for the National Intelligence Service — an overspend of R87m from the original estimate. We're committed to a lean bureaucracy, but R83m is to be spent on a new computer centre for the Commission for Administration," Leon said.

Meanwhile, back in the land of reality, famine, starvation, homelessness and despair stalked SA, he said.

Leon said if government's unnecessary expenditure was rechannelled, it could:

☐ Build 250 black primary schools at R2m each;

☐ Build 10 000 zinc houses with amenities for the homeless at R5 000 each; and

☐ Provide basic foodstuffs for 200 000 people for a year at an estimated R250 per person.

Leon said it appeared that government lacked the political will to bring violence under control.

Andrew said that a party which suspended an MP for more than seven months could hardly be said to have a commitment to or understanding of democracy.

He said the credibility of the NP's commitment to clean, honest and accountable public administration was shattered. "Its hands are covered in blood and gravy. The stench of corruption permeates public life in SA today," Andrew said.

He said if ministerial responsibility and accountability meant anything at all in SA, the three most senior members in the current NP Cabinet would not be there.

Many of the problems arose from undue secrecy and discretions granted to Ministers and officials.

But the underlying problem was the policy of economic patronage pursued by the NP since it came to power, Andrew said.

Gold coins VAT exempt

CAPE TOWN — Gold coins sold will not be subject to VAT but the tax would be added to coins made into jewellery, a memorandum on the Taxation Laws Amendment Bill said yesterday.

B/Day 10/6/92

Tabled in Parliament, it introduced amendments to the Marketable Securities Tax Act, the Transfer Duty Act, the Stamp Duties Act, the Self-Governing Territories Constitution Act, the Regional Services Councils Act, the KwaZulu and Natal Joint Services Act, and the Value-Added Tax Act.

Tax on the transfer of property to a water or an irrigation board was waived.

If a vendor acquired a business which carried on an exempt or non-taxable activity, no VAT would be charged. — Sapa.

Doctors protest against

B/Day 10/6/9

CAPE TOWN — About 120 doctors, dentists and other medical practitioners converged on Parliament yesterday to present a memorandum to National Health Minister Rina Venter opposing the amendments to the Medical Scheme Bill.

The group, marching under a banner calling for health care for all, handed the memorandum to Venter's administrative secretary Eric Cronjé at the gates of Parliament.

The memorandum objects to the Medical Scheme Amendment Bill on the grounds that it socio-economic and areas" to exploitatio men seeking to profit

Dispensing Famil Association (DFPA) c piti read the memo handing it to Cronjé.

"We further object the Bill dismally fail dire needs of health indigent, unemployed who reside in the per ral areas," he said.

RESERVES FM 12/6/92.

Forex gains 79

The gold price once again performed poorly in May and it was left to foreign exchange to lift SA's reserves, according to Reserve Bank figures. Foreign exchange reserves grew R710m, or 19%, to R4,5bn. Gold reserves performed marginally better than in April (when they fell R107m). They rose R54m (1%) to R5,9bn. The increase was because of a rise in total gold holdings from 6,7m oz in April to 6,8m oz in May. The valuation of gold holdings slipped once again, from R870,21/oz to R861,22/oz.

Total reserves rose R764m (8%) to R10,4bn. Foreign exchange reserves now make up 44% of total reserves.

In US dollar terms, reserves performed slightly better thanks to a firming of the rand against the US currency. Foreign exchange

79

reserves rose 20% to US$1,6bn, gold reserves 2,5% to $2,1bn and total reserves 10% to $3,7bn.

Other Reserve Bank figures show government deposits rose 52% to R10,7bn, deposits with deposit-taking institutions 10% to R1,17bn and notes in circulation 2,5% to R11bn. ■

Gold surge pushes through $341 level

GOLD surged $2,90 in New York on Friday, breaking through the $341 level to end at $343,20, a $5,30 rise since Wednesday.

It traded as high as $343,65, pulling up silver and platinum prices as well. Silver gained 2c to $4,1250 and platinum gained $1,50 to $372,50. (79)

The gold rally started on Thursday when the metal broke through the $340 level. It held its gains on European and Asian markets on Friday. BDay 15/6/92

The rally took gold shares higher on the JSE. But dealers in New York warned that gold's rally could end and it would probably face tough resistance at $345.

The JSE gold index closed at 1 113 after adding 37 points. The gold index rose by 3,2% over the past week, compared with a 0,7% drop in the overall index and a 1,6% drop in industrials.

Heavyweight Vaalreefs gained 250c to close on Friday at R181,50. Western Deep Levels closed at R99,65, an increase of 365c. Kinross, up 100c, closed at R33,50.

In London, gold closed $1,45 higher at $339,60 on Friday.

Financial markets in Hong Kong were closed on Saturday for the birthday of Britain's Queen Elizabeth. They will reopen tomorrow. — Sapa-Reuter, AP-DJ.

COMPANIES

Precious metals give gold a boost

BDay 16/6/92 (79)

JONO WATERS

ALTHOUGH gold prices held on to gains made late last week, analysts said yesterday that short-term technical indications showed the metal would struggle to break the $345 barrier. Gold closed in London yesterday at $342,90.

Mathison and Hollidge gold analyst Rob Gillan said the fundamental reasons for the surge above $340 were the weaker dollar and increase in other precious metal prices, especially platinum and rhodium. Platinum was fixed at $371, marginally down from Friday's mark of $372,25. Rhodium traded more than $100 higher than recent levels at $2 775.

Gillan said gold was helped by possible disruptions to production from the ANC's mass action campaign. Another factor was the prospect of falling Russian gold production through disarray in its mining industry.

At current prices, gold's rand value was R957/oz. Gillan said he expected a great deal of forward selling at R1 000/0z if the dollar/rand rate held steady. Fergusson Brothers gold analyst Trevor Pearton said the market had fairly often seen this type of gold price movement. However, he said it was likely producers would take advantage of small price rises by selling forward and depressing the market.

Pearton said rumours indicated that Serbia had stopped selling gold stocks used to fund its war effort. He said Serbian sales might have been responsible for gold falling through the $340 mark earlier this year.

Russian gold production, set to fall by 30% this year and 50% next year, would create a fall of 150 tons in supply over the next two years, creating better long-term market conditions.

Pearton said he saw nothing substantial in the latest price rise. He said the long-term feeling was that gold would climb back to $360 before the end of the year.

E W Balderson gold analyst Nick Goodwin said gold was made to look more attractive by the international monetary crisis, the Japanese dumping of US bonds, the weak Nikkei index and a 30% increase in the number of Japanese insolvencies. But gold would not take off quickly as traditional investors had become disappointed in the metal's performance in recent years. Goodwin said mass action was likely to have no effect on the mining industry.

Chamber of Mines president Tom Main expected the demand for gold to grow because the intrinsic value of the metal was still strong in the East for investment purposes. Gold demand was also due to blossom in the West because of the increase in the number of working women. Main said the chamber's research showed 85% of gold jewellery was bought by women.

The Bank for International Settlements said gold prices were unusually stable last year, resulting in a sharp decrease in turnover of gold futures and options to the lowest level since 1986. In its annual report, it said the day-to-day volatility was clearly smaller in 1991 than in previous years. The trend had continued this year, with day-to-day volatility exceeding 1% on only two days and not exceeding 2% in the first quarter.

The report said SA production declined by 0,7% to 601 tons (605) in 1991 — the lowest level in 30 years.

□ Gold output figures for May, released yesterday, showed that gold production decreased by 6,9% (3 563kg) over the April figure.

Gold production in May stood at 48 311kg (50 822) compared with 51 874kg (50 481) in April. The cumulative total for the year stood at 250 122kg, marginally higher than the 248 448kg for the same period last year.

492-3500

BUSINESS

Rising gold price is small comfort to mines

79

STAR 16/6/92.

By Derek Tommey

The gold price has come to life in the past few days, jumping more than $3 since Friday to $342,70 an ounce to trade at its best levels since March.

But South Africans should not take it as a signal to start buying gold shares.

One reason for caution is the weakness in the US dollar which has substantially contributed to the decline in the rand gold price.

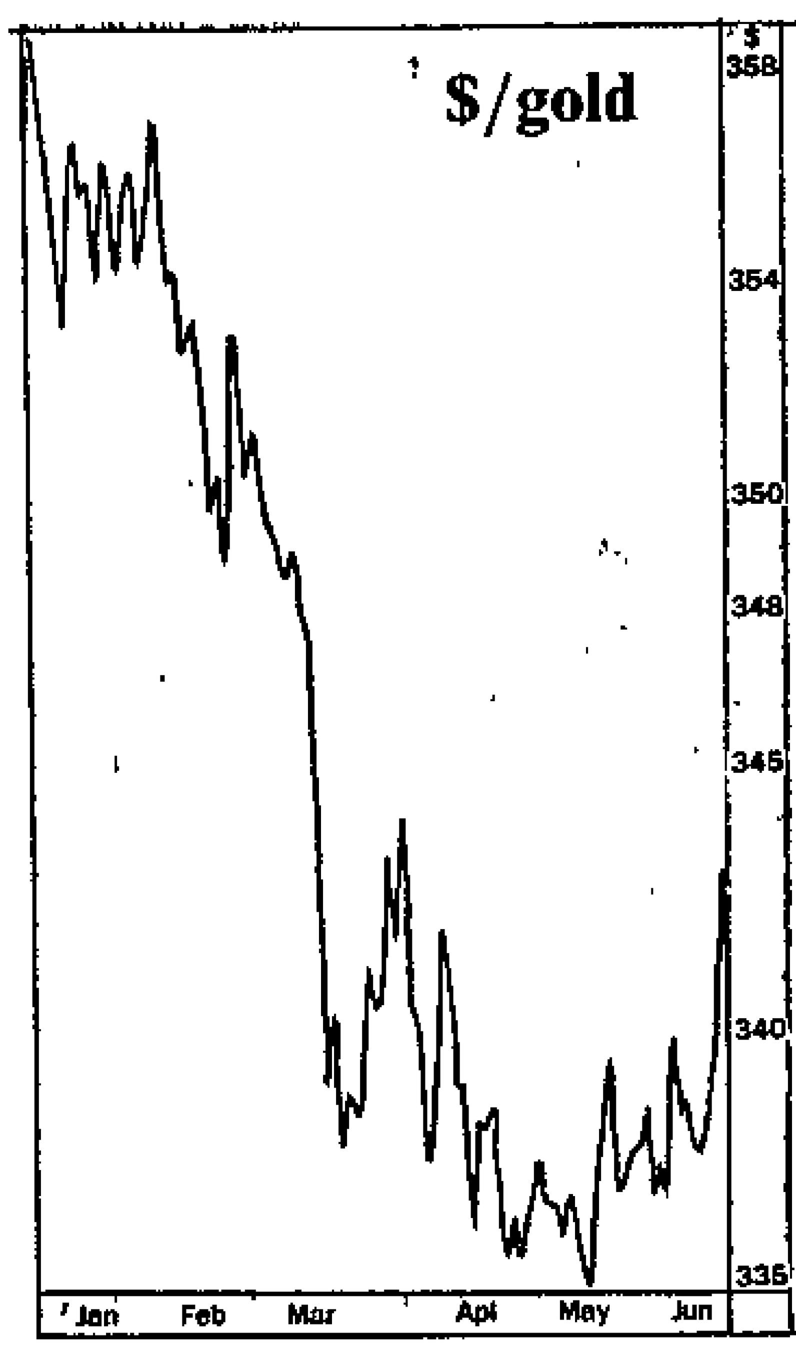
This is the price the mines get for their gold and is the one that determines profits.

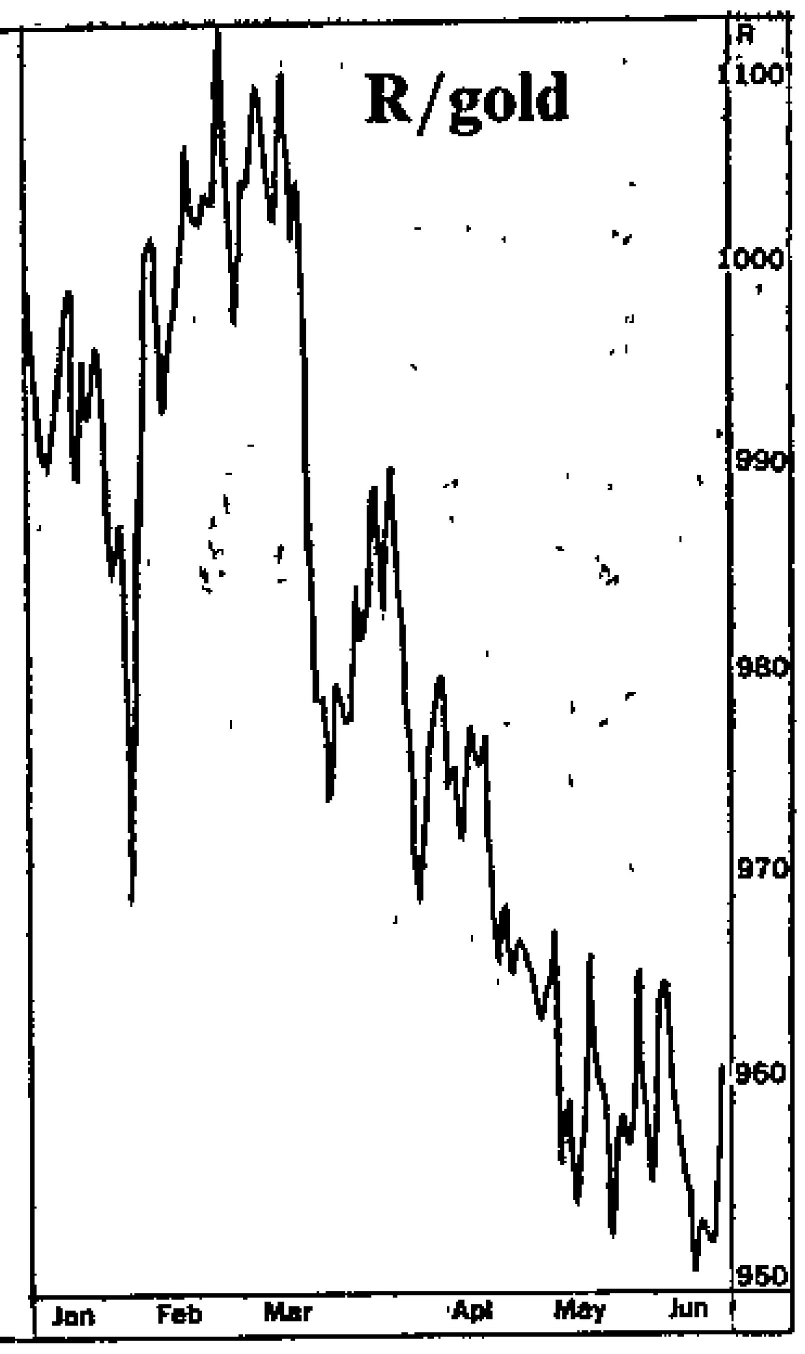
The weaker dollar and the low gold price together pushed down the rand price of gold last week to a 15-month low of R949,72. This spelt disaster formany in the mining industry who claim they need a minimum of R1 000 an ounce to break even.

The latest dollar rise in the gold price has only pushed the rand price to R960 an ounce. It is clear, therefore, that it still has a long way to go before the mines can breathe easier.

A second reason for treating the firmer price with caution is that it could be because of foreign concern about developments here, although a report last Thursday of a drop in Russian gold holdings may also have played a part.

News of the planned mass action and a possible general strike could easily have upset overseas markets.





Yesterday's sharp drop in the financial rand — often regarded as a barometer of foreign sentiment about South Africa — from R3,50 to the dollar to R3,60 could be a straw in the wind.

One of the factors tending to depress the gold price recently has been the fear that the CIS states might start dumping gold in the market to raise badly needed foreign exchange.

But according to the London Financial Times, Russia's gold reserves now stand at only 210 tons after the sale earlier this year of some 30 tons from the reserves.

This suggests that the Russians have little scope for disrupting the market through injudicious selling.

Yevgeny Bychkov, chief of the republic's co-ordinating body for precious stones and metals, says the reserves declined because little gold has been produced since the Soviet reserves were transferred to Russia.

The Russian gold mining season begins in May and ends in November.

Mr Bychkov refused to give figures for annual gold production, but he dismissed forecasts made by other Russian experts that production would fall by 30 percent this year.

He said the government had committed itself to exporting at least 25 percent of gold production so that it could pay producers some hard currency.

According to one Western estiamte, total gold production of the former Soviet Union last year was 220 tons and could fall to 200 tons in the next three years. (SA produces about 600 tons a year).

Mr Bychkov said a priority for the Russian gold mining industry was to attract investment.

Preliminary talks had been held with international mining companies, including RTZ and Newmont, on ways they could do business in Russia.

He said the Sukhoi Log mine, Russia's largest proven hardrock gold deposit, would most likely be put out to tender — a process that would take a long time.

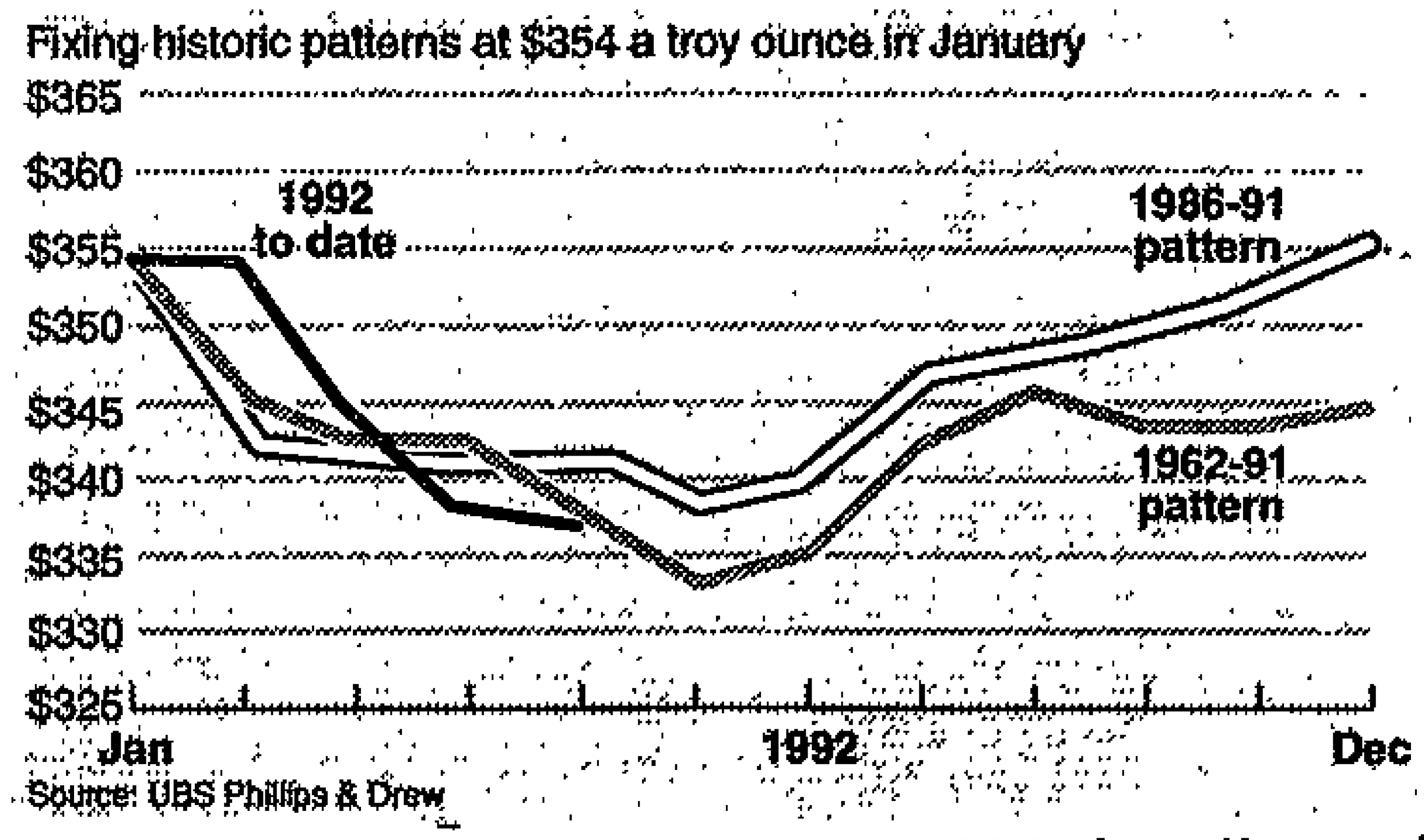
● Overall gold production in South Africa for the first five months of this year increased marginally by 0,67 percent to 250 122kg (8 041 569 ounces), compared with 248 448kg (7 987 778 ounces) in the same period last year.

According to figures released by the Chamber of Mines, gold production attributable to members of the chamber fell by 2,5 percent from 47 618kg (1 530 962 ounces) in April to 46 434kg (1 492 885 ounces) in May due to a cutback in mill production of 1,2 per cent.

The chamber said the balance of the decline was largely accounted for by the timing of the deposit of gold ore with the Rand refinery, in respect of non-chamber dump treatment operations.

Charting gold's seasonal hiccups

(79) STAR 18/6/92



'Seasonal' gold price forecasts: Fixing historic patterns at $354 an ounce in January.

LONDON — The gold market has become seasonal in recent years, peaking in the northern mid-winter and falling to a trough in mid-summer, says Andy Smith, analyst with Union Bank of Switzerland.

He suggests in the UBS Precious Metals Outlook that several factors have combined to bring about this trend.

In the west, jewellery sales are concentrated in the run-up to Christmas.

"Production lead times and capacity restraints mean jewellery manufacturers must obtain raw material three to six months ahead of this consumption cycle."

During the Muslim Ramadan, which will continue to be celebrated in spring on the western calendar until the end of the decade, the average gold price is usually lower and is traded in a narrower range.

"Reduced price volatility during Ramadan is consistent with less than full participation in the market by important Middle East players."

The Chinese New Year — another occasion for gifts of jewellery — falls in February.

In nine of the past 12 years the gold price has been lower in February than in January.

In addition the Indian wedding season runs from September to May, and takes a complete break during the June-August monsoon. More than half of India's annual demand for gold of 250 tons is wedding-related.

Seasonal movements in both oil and the dollar also reinforce the seasonal gold price swings.

In summer the oil price tends to be weak while the dollar, which helps to determine how much 95 percent of the population outside the US pay for gold, is usually strong.

Shocks to the gold market still count, but "positive surprises in the first half of the year simply have to work harder to have a sustained impact on price," Mr Smith says. — Financial Times.

Belgium unloads gold

BRUSSELS — The Belgian National Bank said yesterday it concluded the sale of 202 tons of gold on the world market two weeks ago without disturbing prices, netting the bank more than $2 billion in foreign exchange.

It said in a statement the sale increased its foreign currency reserves by almost 30 percent and reduced the proportion held in gold to about half its total reserves.

A central bank spokeswoman said the sale, the first by Belgium since 1989, reduced the nation's gold reserves to 973 tons.

At the close in Europe yesterday, gold was trading around $342 an ounce.

The central bank said the reduction in gold reserves and increase in foreign currency holdings would help Belgium participate in international monetary cooperation and in the process of European Community Economic and Monetary Union (EMU). — Sapa-Reuter.

Belgium announces massive gold sale

BDay 18/6/92.

(79)

MATTHEW CURTIN

BELGIUM surprised world bullion markets yesterday when it announced it had sold 202 tons of gold, but market sources were divided over who had bought the metal. The sale is almost as much as the former Soviet Union sold throughout 1991.

An industry source in Johannesburg said the deal amounted to a realignment of central bank reserves within the EC, with Spain's central bank being the most likely recipient of the bullion. EC members must have minimum amounts of gold in central bank reserves.

However, some of the gold could have been sold on the spot market, and he noted that the sale coincided with a period in which gold had languished well below the $340 mark.

He said bullion dealers were more surprised by the size of the deal than the sale itself.

It was Belgium's second major gold sale since early 1989 when it sold 127 tons of gold, thought to have gone mostly to the Spanish central bank, with some ending up in Portugal's coffers. Reuter reports that the Belgian National Bank said it concluded the sale two weeks ago, netting more than $2bn in foreign exchange.

London gold market prices rose after the announcement, but the news raised the prospect of further sales by central banks sitting on 35 000 tons of gold. The Belgian bank said the sale had not disturbed the market.

Belgium still has 973 tons of gold, stored at Fort Knox in the US.

The central bank said the move brought Belgium's traditionally high gold reserves into line with those of neighbouring countries and facilitated the bank's participation in the process of European monetary union.

The sales reduced the share of gold to about 50% of the central bank's total reserves — comprising mainly gold, foreign currency and ecus.

Gold forms 49% of the total reserves of the Netherlands, 46% of France's and 35% of Germany's reserves. Belgium, with a population of about 10-million, had 30,23-million oz of gold at the end of April. By comparison, France, with a population of about 56-million, had 81 85-million oz at the end of March.

Dealers said it was unlikely the gold had been sold on the market because this would have affected prices. "I am convinced it was a direct sale to another central bank," said Patrick Drogne, partner with Belgian brokerage Drogne.

Gold was fixed in London at $342, just 10c down on the morning setting.

Central bank reserves depressing gold price

STAR 22/6/92

(79)

By Neil Behrmann

LONDON — As gold struggles to stay above $340, it is becoming increasingly obvious that the vast reserves held by the world's central banks are a major reason for the slump in performance.

Gold touched $344 briefly last week, but fell back to close at just over $340 in Hong Kong on Saturday.

Belgium's National Bank (BNB) announced a sale of 202 tons of gold from its reserves last week, equal to about a third of SA's production.

It seems the market weathered the sale, which took place a week earlier.

However, analysts warn that the overhang of central banks' vast gold reserves is worrying investors, who fear that indebted countries could swamp the market when they needed to raise foreign exchange.

Leading Swiss and London dealers say the Belgian announcement took them by surprise.

A London manager said, however, that in recent months the volume of business appeared to be have been above average.

"We discussed the phenomenon of large business volume at the time. We wondered why the price hardly moved and traded on very narrow spreads."

The BNB did not say when it sold the gold, but the sale was completed two weeks ago.

International Monetary Fund statistics, however, show Belgium held 30,2 million ounces, or 939 tons, at the end of February.

So the transactions would have taken place between March and early June, a London manager surmises.

About half of the bank's monetary reserves are now in gold.

A BNB spokesman said Belgium needed more foreign exchange to settle transactions within the European Monetary System.

Between 1988 and the first quarter of 1989, Belgian gold reserves dropped to 30,2 million ounces from 33,67 million ounces. This gold was sold to the Bank of Spain.

The market is thus unsure whether at least a part of the gold was sold — directly or in directly — through the market to another central bank.

The Bank for International Settlements, the central banks' central bank, normally handles these transactions.

The Bank of Taiwan could be a possible buyer, because it reported a surge in gold imports recently.

The Bank of Taiwan was a big buyer in the 1980s, but is incurring a loss on that investment. Taiwan, however, has huge foreign exchange surpluses.

The most interesting facet of the transaction is that it has been absorbed with minimal impact on the price.

The average price of the transaction, taking into account currency fluctuations, was $335 to $340.

Andy Smith, precious metals analyst at Phillips & Drew, Union Bank of Switzerland's London stockbroking unit, says the sale raises questions about the role of central banks in the gold market.

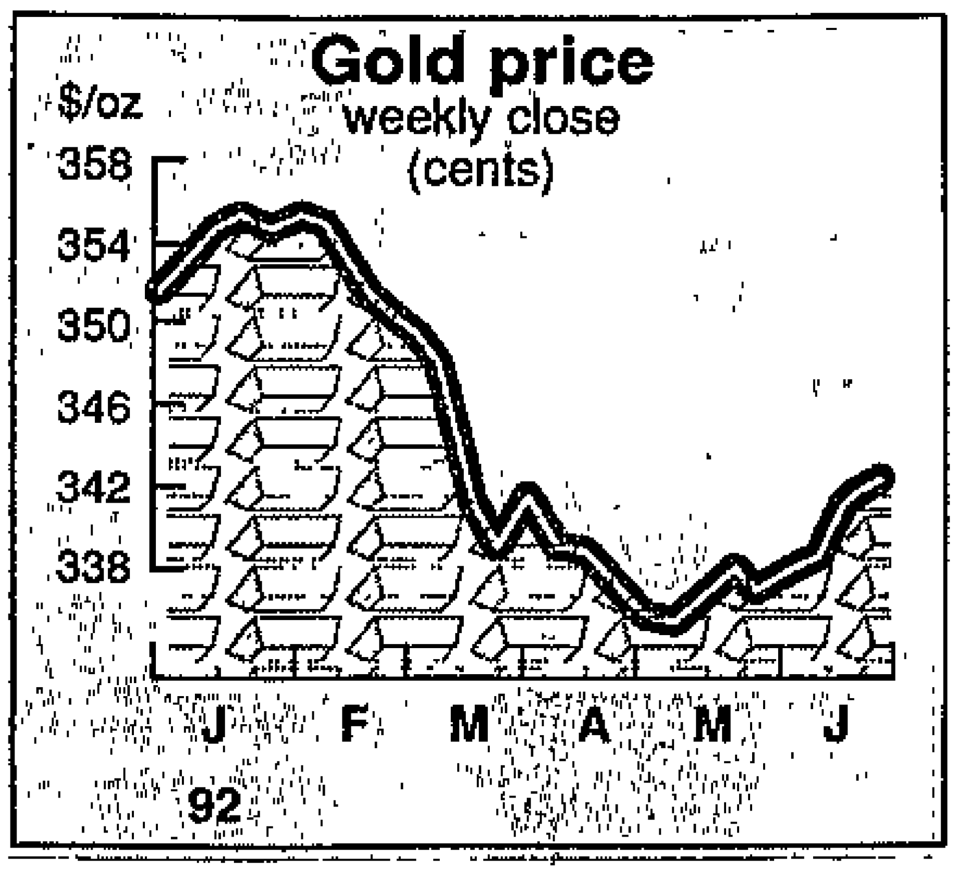
Bullion dealers say, however, that it is highly unlikely that there will be large-scale selling by central banks. Their actions would depress the very asset they hold.

In fact, the latest annual report of the Bank for International Settlements (BIS) says that last year central bank holdings outside the former Soviet Union fell by a paltry 75 tons.

"Holdings remained static in the great majority of countries," the BIS says.

Gold monetary reserves rose by 74 tons in SA and 18 tons in India.

After building up its gold reserves to a peak of 142 tons at the end of 1990, Brazil sold 79 tons. Canada also disposed of 56 tons in 1990, within the context of its continuing gold sales programme.



Gold price yo-yos on world markets

JONO WATERS (79)

GOLD opened $2 higher in London on Friday, fixing at $344,60 in the morning before slipping to $343,55 at the close.

In New York, the metal tested $345 during the day before bearish sentiment sent it tumbling to close at $340,70. Gold in Hong Kong dropped $1,80 at the weekend. After closing at $343,35 on Friday, it closed at $341,55 on Saturday. B'Day 22/6/92

Irish Menell Rosenberg gold analyst Duncan Ingram said optimism abroad about the future of gold in the run up to the Financial Times Gold Conference in Montreux today was responsible for the initial gains.

However, he said the metal was likely to fall again after the conference once the

☐ To Page 2

Gold

B'Day 22/6/92 (79)

☐ From Page 1

American buyers realised some of the 202 tons of gold released by the central bank in Belgium last week would find its way onto the market.

"It is understood the Spanish bought up most of the gold, but the worry is that some of the gold will come onto the market."

Fergusson Brothers gold analyst Trevor Pearton said the jump overnight could have been caused by some short-covering in the US.

He said the disposal by Belgium did not mean it was losing confidence in the metal. "The Belgians were forced into the position. Their sentiments about gold are very bullish, which is shown by the large stakes they hold in several SA mines."

Pearton said the Belgium central bank had disposed of the gold very carefully.

E W Balderson gold analyst Nick Goodwin said internationally, people were getting edgy.

"Stock markets are not doing as well. Investors are losing confidence in paper money, the US is technically bankrupt as a result of the budget deficit, and property companies are going under in the US and Japan," he said.

Banks urged to prop up gold price

MATTHEW CURTIN (79)

MONTREUX — The Financial Times World Gold Conference opened in Montreux, Switzerland, yesterday with renewed calls for central banks to act to bolster gold market confidence and sustain gold prices. BDay 23/6/92

N M Rothschild & Sons director and conference chairman Robert Guy told industry representatives Europe's central banks should create a mutual gold fund from which they could draw foreign currency based on their subscription to the fund.

It would avoid depressing the market through direct gold sales and end speculation of impending large-scale disinvestments of gold reserves which damaged market sentiment.

Guy said central bank sales had in the past invariably "been action of the last resort", an admission of failing economic policies. He said last week's Belgian sale represented as much a desire to realign gold reserves on the eve of European monetary union as the country's dire balance of payments position.

"The ball is in the central banks' court", and the sensitivity of gold bullion dealings should not be an excuse for inaction, he said. Banks might not openly create a mutual fund, but should state categorically they would not sell their gold reserves.

Bank of England foreign exchange division chief manager Terry Smeeton said that despite being painted "the villains of the piece", central banks were not con-

□ To Page 2

Gold

BDay 23/6/92 (79)

□ From Page 1

vinced that a fund was in the best interests of the market. Banks all had differing priorities, and the use of the fund might deprive the market of valuable business.

SA Reserve Bank gold and foreign exchange senior manager James Cross said countries' gold reserves remained an important tool by which they managed periods of economic difficulty. He noted that most of the Belgian gold sale was done on the market.

During a panel discussion on the mining industry's future Newmont Mining chairman Gordon Parker said the US industry was battling to improve its image under fierce attack by the environmental lobby.

Parker, Gengold chairman Gary Maude and Peter Walker, CE of Australian Producer Dominion Mining said the gold mining sector faced a triple problem of image, price and environment.

● See Page 8

Gold could hit $385 by year-end, analyst predicts

Bday 24/6/92 (99)

MATTHEW CURTIN

MONTREUX — Gold prices would reach $385/oz by the end of the year if a trigger, such as changing market perceptions of producer and central bank selling strategy, brought long-term bullish factors into play, Williams de Broe analyst Rhona O'Connell said yesterday.

At the Financial Times World Gold conference, O'Connell said the gold prices had bottomed. Long term influences would be far more important than short-term factors in lifting prices.

However, there would be no strong rally until the perception that gold producers were not selling forward took hold. "Whether (a rally) can be accelerated by resurgence of investor demand — on a physical basis as opposed to speculative elements, some of whom would be using the futures market — is still doubtful," she said.

Ignoring market sentiment and using only commodity analysis, gold was well-placed for an upswing, albeit gradual. On the basis that marginal production costs plus 5% represented a realistic price, gold was fairly set at current levels and, given one had to add the metal's risk-insurance value, gold prices had an extra upside worth of 10% to 15%.

Much higher gold prices would depend on strong economic growth or a financial crisis, but the scene was set for a gradual recovery.

An investment panel, comprising Sumitomo Corporation precious metals dealing GM Kentaro Ojima, World Gold Council chief economist Richard Scott-Ram, and Commerzbank International SA Luxembourg director Ralph Kriekenbaum, agreed gold had lost its attraction as a store of value in many parts of the world.

Popular

Ojima said Japanese investment was largely confined to small investors. Kreikenbaum said the 1980s had seen persistent disinvestment of gold holdings in Europe. About 40% of gold reserves accumulated in the 1980 to 1987 period had been sold, and although sales had dried up so far this year, he saw little chance that buying would pick up.

Scott-Ram said gold was not the pariah it was made out to be in the North-American investment community, with billions of dollars invested in gold equities, and growing availability of "high-tech investment products". Derivative instruments increased the chances that institutional investors would hold on to their bullion, he said.

Most importantly, there was a discernible gain in the metal's legitimacy as "inflation insurance". Scott-Ram said that before gold's speculative appeal soared amid the 80's gold boom, it was normally regarded as a form of insurance. With doubts about world economic recovery and US institutions planning ways to counter the risk of a return to high inflation in 20 years' time, gold was making a slow return to respectability.

Gold Fields mineral services consultant Tim Green said: "Jewellery fabrication will comfortably exceed the record level of last year (more than 2 000 tons and in excess of new mine supply)" although the sector would support prices rather than driving them higher. It was crucial to understand that 22-carat gold jewellery in the Middle East and far East (Excluding Japan) was regarded as both decorative and an investment.

Robert Stitt, MD of Hong Kong-based Mase Westpac, said jewellery consumption was maintaining if not increasing its record levels of the past three years in Taiwan, South Korea, Hong Kong, Thailand and Malaysia. Demand was growing in Indonesia and in China.

Gold hits 3-month high

LONDON. — The price of gold rose to a three-month high to close at $344,10/344,50 an ounce yesterday, compared to Monday's $342,50 close, supported by concern about tension in SA and sentiment that the price trend is now set to rise.

In New York gold closed at $344,25/344,65 an ounce.

At the end of April the price had fallen to a six-year low of $334 an ounce.

In London, the price of platinum also rose in response to unrest in SA and was fixed at $366,50 dollars an ounce compared with $363,75 on Monday.

Last year SA supplied more than one-third of all gold mined in the world, producing 601,1 tons.

It accounted for two-thirds of world platinum output, producing 2,77 million ounces, figures published by Gold Fields Mineral Services and Johnson Matthey in London estimated.

The surge of violence in SA is seen as posing a major threat to world supplies of these two metals, analysts here warned.

Closing gold prices

(In $ an ounce)
LONDON:
344,10/344,50
Fixing am: 344,10
Fixing pm: 343,80

ZURICH: 342,50/345,50

NEW YORK:
344,25/344,65
— Reuter

(19) CT 24/6/92

Some analysts also said that prices were rising in response to fighting in Moldova and in Georgia.

This unrest might disrupt gold production by the Commonwealth of Independent States, which last year sold 300 tons of gold and 1,1 million ounces of platinum to Western countries, on the basis of figures provided by Gold Fields and Matthey.

Gold production in the former Soviet Union, 240 tons last year, might fall by 20% to 30% this year, he forecast.

In addition, gold was subject to seasonal fluctuations of demand. The price tended to strengthen from June because this was the period of pay negotiations in SA mines and there was a possibility of strikes.

Silver stuck around the 405c an ounce level, uninspired by a firmer comex opening. — Sapa-Reuter-AFP

Gold now seen as just another commodity

79

STAR 25/6/92

Star Foreign Service

MONTREUX — The demand for gold remains substantial, even though it has given up its role as a long-term store of value and is now a commodity, says David Pryde, managing director of J P Morgan.

He told the Financial Times World Gold Conference in Montreux that its role as a commodity would continue to shape general perceptions about the precious metal, its price potential and associated trading ranges and volatility.

Oil and other energy-related products were now being used by investors wanting to hedge against inflation or to counter negative market developments.

Whereas 10 years ago gold would have represented 80 to 100 percent of a hedge against inflation, today it accounted for only five to 30 percent.

However, the amounts of money under management today were greater than ever before, so the quantities of gold required were still substantial.

"Even as a commodity gold remains a large and diverse market with many significantly differentiated participants and this diversity of interest and need will continue to create opportunity as long as we recognise and accept changing realities," he said.

Reasons for gold's relative loss of appeal in the Middle East were supplied by Marwan Shakarchi, president of MKS Finance. He said some investors had discovered during the Gulf war gold holdings proved useless for protecting wealth.

After the war Saudi people dis-hoarded most of their gold and bought US dollar notes or travellers' cheques instead.

Barclay Leib, a vice-president of Aron-Goldman Sachs, said gold as an "asset class" was clearly in disrepute.

The price performance had been poor in the past 10 years, mainly because investors had given it up in favour of the high interest rates offered by federal governments and financial institutions that in essence are guaranteed by these governments against default.

Ralf Kreikenbum, a director of Commerzbank International, Luxembourg, said that in Europe a new generation of investors had never learned to look on gold as a crisis- and inflation-proof store of value and means of payment.

Richard Scott-Ram, chief economist and strategist for the World Gold Council, said small investors in the US were bearish about gold's price prospects so demand for gold coins and investment in gold-oriented mutual funds was low.

Kentaro Ojima, general manager of Sumitomo Corporation's precious metals dealing department, said in Japan investors and speculators, disappointed by the gold price performance, were fading from the market.

However, a new type of relatively young investor was emerging in Japan who was not as rich as the traditional investor but was supporting the growth of gold accumulation plans.

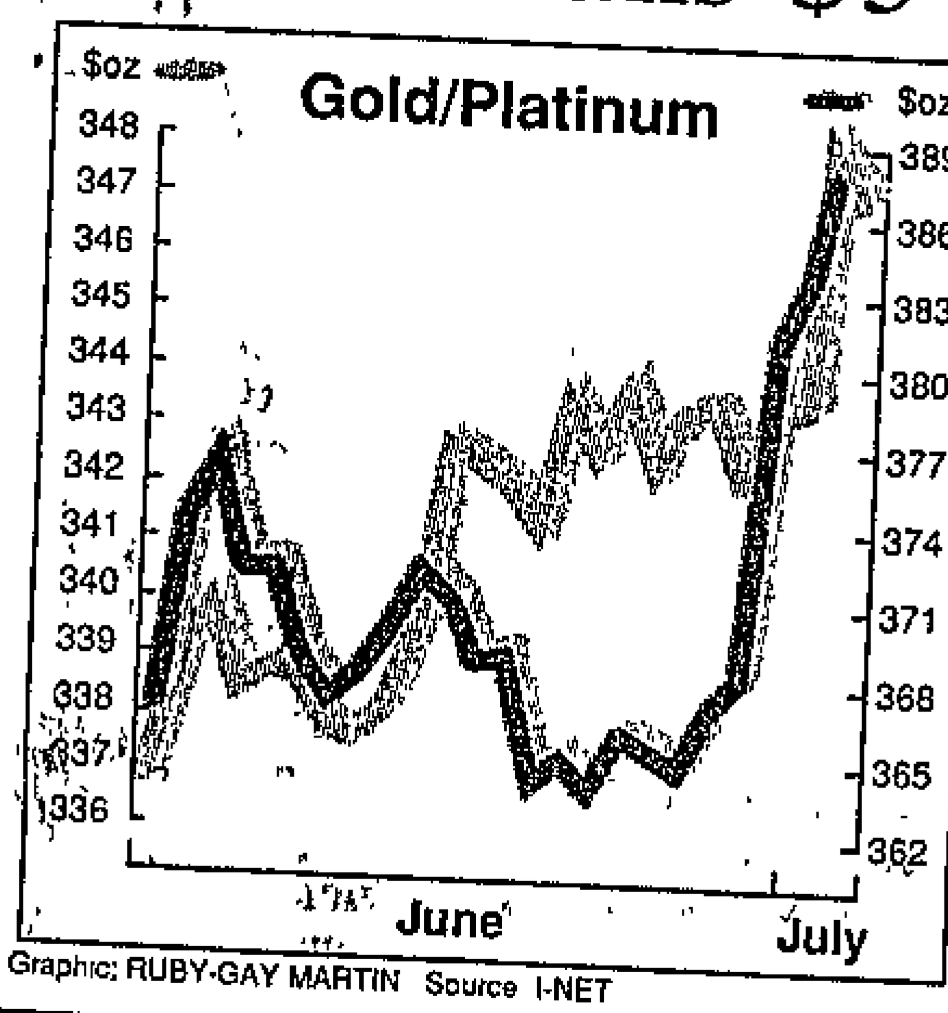
These involved a regular monthly payment to buy gold at the present market price.

About 300 000 people bought 30 tons of gold — about half of Japan's total investment demand for the metal — last year.

Most of the speakers pointed out that China held the key to future gold demand.

Robert Sitt, managing director of Mase Westpac Hong Kong, said the Chinese government projected GNP growth of eight percent yearly and on a compound basis, gold consumption in China could double to reach 800 tons by the year 2000.

Gold breaks $345 resistance mark



Graphic: RUBY-GAY MARTIN Source I-NET

Bday 3/7/92

MERVYN HARRIS 19

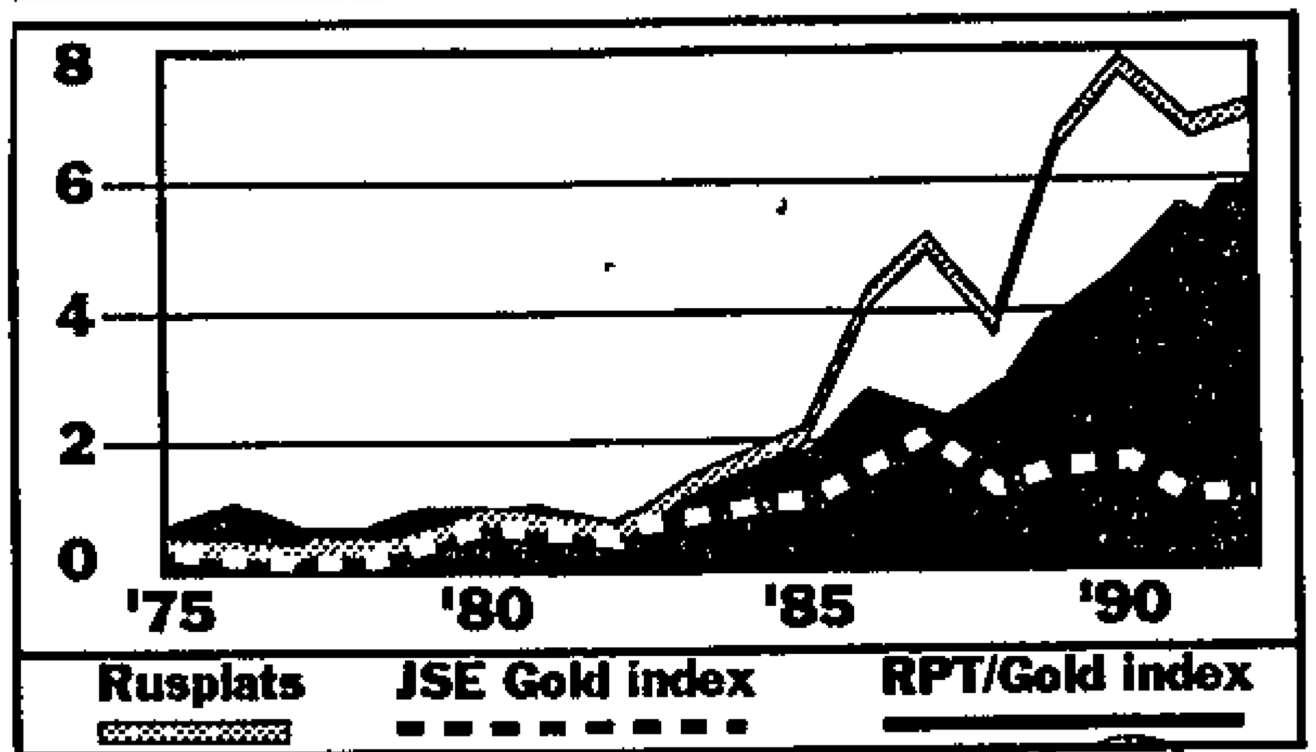
GOLD breached key resistance at $345 yesterday as precious metals extended recent gains on concern over labour unrest in the wake of Cosatu's planned general strike.

Gold touched $348,25 before slipping back to close in London at $346,25, its highest level since March. In New York it rose $2,10 to close at $346,30 while platinum rose about $3 to $388.

Platinum's rise of nearly $7 to a London fix of $387,90, its highest level since May 1991, lifted its premium over gold to more than $40, the biggest since March 1991.

Edey Rogers analyst Keith Bright said: "Events probably seem a lot worse to overseas investors who may not be getting the full picture."

RUSPLATS VS GOLDS



Platinum brighter than gold

PLATINUM'S $20-an-ounce rise to above $380 a week ago is timeous endorsement for a paper presented at May's Boston Gold Show.

Three people, all British incidentally, spoke about South African precious metals and equity, highlighting the opportunities opening up for foreign investors now that economic sanctions are on the wane.

Mike Bedford of stockbroker Silvis Barnard Jacobs Mellet presented Platinum — a portfolio perspective. Mr Bedford's aim was to show that even when gold and platinum are similarly priced, the performance of shares in the mines can be dissimilar.

His research shows that leading producer Rustenburg Platinum has outperformed the gold index sixfold since 1983. The relative price performance of the metals has not been as dramatic. The reason behind Rusplat's run from 1988 is in part increased contributions from co-products, mainly nickel and rhodium, and from increased production.

Historical performance provides two conclusions: platinum shares should outperform golds in an environment of high growth and low inflation; and platinum shares benefit from a bull run in the gold price.

Relative to golds, platinum shares offer diversity, says Mr Bedford. Their investment merits are independent of the state of the economy because of the fundamental supply and demand advantages. They have relatively limited downside and considerable upside.

Mr Bedford says that in the longer term there is no good reason to invest in golds as opposed to platinums.

He says the oligopoly JCI, Gencor and Lonrho, is more able to keep platinum supply and demand matched than can producers do for gold. This should ensure platinum's long-term profitability.

Platinum outperformed gold in the last big bull run from mid-1979. Current profit margins in platinum are similar to those of 1983 — the start of a major bull run for the shares.

Another plus factor is potential secondary supply. Central banks hold the equivalent of 25 years of gold production. But only 3,5-million ounces — less than a year's total supply — of platinum is in investors' hands.

Poor grades force Sallies to cease operations

BDay 6/7/92

EDWARD WEST

OPERATIONS at Anglo American's 29,5%-held SA Land & Exploration Company (Sallies) dump retreatment plant would cease on August 6, its directors announced at the weekend.

Disappointing grades and low gold prices meant gold extraction could no longer be treated profitably. To minimise retrenchments, efforts were being made to relocate Sallies' 261 employees.

However, the directors said the company's cash reserves were expected to be adequate to meet closure and clean-up costs.

Depending on environmental liabilities — which were limited to environs surrounding the plant as most of its dumps had been sold — a modest dividend could be declared.

Its London stock exchange listing would cease from the close of trading on August 7. Sallies would, however, continue to be listed on the JSE. Results for the quarter to June 30 1992 would be published on July 17.

Sallies' 1991 annual review warned of the possibility of closure. The review said that in spite of hedging a portion of production, the company's remaining life would depend on an improved rand-gold price and grades.

Dump grades had proved disappointing and with the gold price drifting lower, the company was incurring operating losses.

Optimism over mines despite low gold price

B/Day 7/7/92

(659) 179

MADDEN COLE

IMPROVED performances could be expected from a number of gold mines in the forthcoming quarterlies, in spite of the low gold price, Fergusson Bros, Hall, Stewart and Co gold analyst Trevor Pearton said yesterday.

In the JCI group a significant turnaround could be expected in the results by Western Areas due to new management.

"The mine has improved under the new management, and it even considered paying a dividend for the past six months. If this performance is maintained, it is likely a dividend will be declared for the next half year."

However, costs were tied in by mechanised mining and the mine's ability to cut costs drastically was limited.

Randfontein Estates, having achieved its goal of R70m capital reserve, would now be able to revert to a full declaration policy which should yield an increase in dividends.

"As things are, management is running a tight ship."

HJ Joel's results should continue in the improving trend.

The full effect of its cost-cutting improvements should become evident in the September quarter after the August commissioning of the new underground rail system.

The mine has potential to show further improvements, but grade still had to go up another half gram to 7g/t.

Western Deep Levels should comer back this quarter after severe seismic activities hampering production in the April quarter.

"So it should come up with a better set of figures."

Gold Fields' results generally were expected to be flat.

No big change was foreseen for the Anglo mines.

Vaal Reefs' tight operation should produce slightly better figures.

Freegold's cost-cutting programme and forward gold sales had improved the mine's performance considerably.

The mine should be well positioned when the gold price starts rising again.

Anglovaal's Harties, on the other hand, would be hard-pressed to maintain figures at the present gold price.

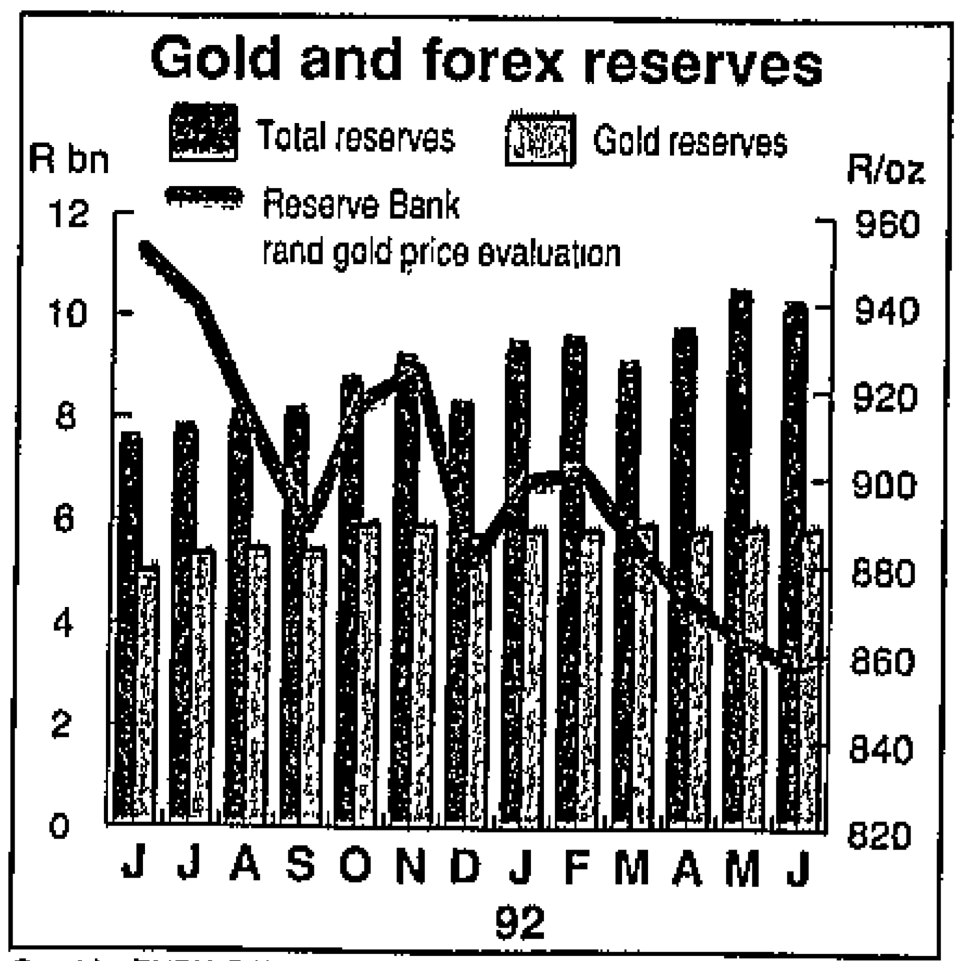
In the Genmin stable, Winkelhaak's results should look better on paper, but Pearton cautioned that the mine still had to take a decision on the No 6 shaft.

Performances of both Beatrix and Kinross should be steady, but Leslie should record better than the previous quarter's results.

Harmony's problem was its huge low-grade reserves.

The geography of the mine made it impossible to mine selectively.

While the gold price remained low the mine had a short life, but this would change with a rise in the gold price, Pearton said.



Graphic: RUBY-GAY MARTIN Source SA RESERVE BANK

'Typical' drop in SA's reserves

B/Day 8/7/92 HILARY GUSH

END-quarter interest and dividend payments nudged gold and foreign exchange reserves R200m lower in June to R10,2bn from May's R10,4bn, Reserve Bank figures released yesterday showed.

Total reserves fell on the back of a R193m drop in foreign assets to R4,3bn while gold holdings were steady at 6,8-million ounces. A lower gold valuation, at R856/oz from May's R861, lowered the value of gold holdings to R5,84bn from the previous R5,86bn.

AHI chief economist-designate Nick Barnardt said the slight fall in total reserves at the end of a quarter was typical, due to increased foreign exchange transactions including interest and dividend remittances abroad.

Nedcor Bank chief economist Edward Osborn considered the figures to be satisfactory as they held above the R10bn mark, suggesting little capital outflow and debt repayment. There were no debt transactions in terms of affected debt, he said, while some debt repayment outside the net had probably occurred.

The Bank said in its latest quarterly bulletin that at the end of the March quarter SA's total gross foreign reserves exceeded the value of two months' goods and services imports for the first time since the first quarter of 1988.

However, the current net reserve position was much healthier than in 1988 when the Bank had borrowed extensively to support the level of foreign exchange holdings.

Reserves maintain high level

STAR 8/7/92

By Sven Lünsche

79

The Reserve Bank's gold and foreign exchange reserves maintained a level of more than R10 billion last month despite seasonal interest and dividend payments to non-residents.

The bank reports its total gross gold and foreign assets fell slightly by R208 million to R10,19 billion in June from its record level of R10,4 billion in May.

June and December are traditionally months during which South Africa remits large amounts in dividends and interest payments to foreign investors.

Economists believe, however, that these foreign exchange transactions last month were partly offset by limited outflows on the capital account as no debts were due in terms of the debt standstill agreement.

Gold content

The gold content of the reserves was steady in June at R5,85 billion (May: R5,86 billion) as the bank maintained its gold holdings at just over 6,8 million ounces.

The rand value placed on the gold reserves, however, declined by R5,09 to R856,13 an ounce.

Foreign assets fell by R193,3 million to R4,34 billion during the month.

The small outflow of capital, coupled with the surplus on the current account of the balance of payments, lifted net gold and foreign exchange reserves by R2 billion in the first quarter.

In the December quarter net reserves fell R1,6 billion.

RESERVES (79) (ER)

Dollar boost

FM 10/7/92

In spite of a slight decline in gold and foreign exchange reserves in rand terms in June, the value of total reserves rose in US dollar terms.

This was largely because of an appreciation of the rand against the US currency from $/R2,831 at the end of May to $/R2,771 at end-June.

Gold holdings rose to 6,83m oz in June from 6,8m oz at the end of May. However, because of a drop in the valuation of gold holdings to R856,13/oz from R861,22/oz, the value of gold reserves declined to R5,85bn from R5,86bn.

In dollar terms it rose to $2,11bn from $2,07bn in May.

Foreign exchange reserves decreased to

FM 10/7/92 (79) (ER)

R4,34bn ($1,57bn) from R4,54bn ($1,6bn) in May. Total reserves were at R10,19bn ($3,68bn) from R10,4bn ($3,67bn) in May. ■

Major mine merger for Gold Fields

(79) CT 14/7/92

From MADDEN COLE

JOHANNESBURG. — Gold Fields of SA yesterday announced the terms of the merger of Kloof, Libanon and Venterspost gold mines, a move which it expected would generate significant tax and operating benefits.

Kloof was threatened by the possible closure of its two marginal neighbours, Venterspost running at a loss and Libanon hit by rising costs and a falling gold price. Had the other two closed, Kloof management would have been faced with major pumping expenses.

GFSA said yesterday that integrating the operations of the three far West Rand mines was the most viable and cost effective solution to the problems facing these companies. Mining would continue at Libanon, and to a limited extent at Venterspost, Kloof's pumping problems would be resolved and disruption of its operations would be avoided.

Announcing terms for the merger yesterday, GFSA director Alan Munro said:

- Libanon shareholders would receive nine Kloof shares for every 100 Libanon shares held.
- Venterspost shareholders would receive six Kloof shares for every 100 Venterspost shares held.
- Venterspost option holders could subscribe for six Kloof shares at R108,33 a share in November 1992 for every 100 Venterspost options held.

Capex saving

Munro explained that these exchange ratios represented a premium of 32% and 37% for Libanon and Venterspost respectively over the ratios prevailing at the close of business on the day preceding the cautionary announcement.

Munro said the merged operation would be taxed as one unit and that capital expenditure savings would be possible through the use of common facilities. It would also operate with fewer employees.

Venterspost's production would be sharply curtailed, and the focus would be on Kloof and its Leeudoorn section.

Munro warned of "ghastly" consequences if shareholders did not agree to the merger terms. He said Venterspost would be in danger of closing, water from Venterspost would overflow into Libanon and increased pumping costs would "push Libanon over the edge".

Analysts point out that favourable terms for Venterspost and Libanon meant Kloof's shareholders might be short-changed. Overseas investors who had invested in Kloof because of its high-grade attractions had expressed disappointment that the two marginals were to be merged with it.

In terms of the merger arrangement Kloof's 121,1-million shares in issue would increase by 6,6-million. To maintain last year's dividend after this dilution, Kloof would have to show a corresponding increase of 5% in profits, Munro said.

Integration

Munro added that the boards of Kloof, Libanon and Venterspost had agreed to recommend that shareholders accept the merger proposals and GFSA had indicated it would accept the terms for shares held by it and its subsidiaries in Libanon and Venterspost.

The integrated operation would be managed as three divisions — the existing Kloof and Leeudoorn divisions, and a third division based largely at Libanon, which would include limited mining at Venterspost operating at the Libanon plant capacity.

Total tonnage was expected to be about 445 000 tons a month, with Kloof and Leeudoorn divisions each contributing about 150 000 tons, and Libanon/Venterspost division about 145 000 tons.

Munro believed integration held benefits for all three mines. "Cross-utilisation" of existing infrastructure would be possible and capital expenditure could be contained. Mining would be allowed to continue at Libanon, and to a limited extent at Venterspost. Both mines, on their own, did not have the financial resources to survive present conditions, he added.

Gold Fields revenue up despite falling gold price

BDAY 14/7/92.

79

JONO WATERS

AN increase in the overall recovery grade achieved by gold mines in the Gold Fields stable produced an increase in revenue for the June quarter despite the fall in the average gold price.

Total revenue increased to R952m (R946m) although the average price of gold received fell to R31 911 a kilogram from R31 086.

Executive director Alan Munro said the highlight of the quarter was the increase in the average grade to 8,6g/t from 8,4g/t, producing an extra ton of gold. Total gold production rose to 30 576kg from 29 594kg.

The average working cost a kilogram rose R100 to R21 346 from R21 246, but Munro said this was characteristic of the last quarter.

Capital expenditure was double that of the previous quarter, rising to R201m from R101m. Munro said this was mainly as a result of Deelkraal's capex increasing sixfold to R38,5m from R7m.

As a result of the increased capex, the group's overall profit after tax was significantly higher at R287m (R208m).

Munro said East Driefontein was the best performer with yield increasing to 9,4g/t from 8,9g/t and working costs falling to R17 807 (R18 546).

East Driefontein's yield had been climbing steadily over the last few quarters, but Munro said the present grade was better than anticipated. He did not expect the yield to stay up.

Munro said West Driefontein maintained its position as the lowest cost producer even though the cost a kilogram rose by nearly R500 to R16 824. The yield at the mine decreased marginally to 11,4g/t from 11,5g/t

Gold Fields' high grade producer, Kloof, was a "disappointment" as the yield dropped to 13,7g/t from 14,2g/t, he said. Working profit at the mine fell to R91,4m from R111m as a result of working costs rising by 7% to R138m (R129m) for "no real reason", said Munro.

Leeudorn continued to make a working loss, although much reduced at R2,9m (R9,3m). However, the consolidated profit after tax for the two mines increased to R96,3m from R72,6m.

At Deelkraal, a decrease in working profit to R17,4m (R21,3m) resulted in a fall in pre-tax profit to R21,5m from R24,4m.

Turning to the performance of the group's marginal mines, Munro said working losses of R5,7m at Doornfontein were "unacceptably high". Munro said grade remained poor and the mine required an "urgent improvement".

Doornfontein slipped into the red in late 1991 after a series of wild-cat strikes. It had been expected to make a profit in the June quarter, but this had not come about, Munro said.

Management hoped to improve the production performance at Doornfontein by building up the tonnage underground.

Doornfontein had a debt of about R20m at the year end.

The effects of rationalisation in the milling rate at Libanon had realised an improved yield, he said. Libanon milled 25 000 tons of ore less than the previous quarter at a yield of 5,8g/t (from 4,6g/t).

While there had been an improvement in the yield of 0,2g/t at Venterspost to 3,8g/t, the working loss of R7,8m was "intolerable," he said.

This brought the loss after tax for the year to R8,7m and Munro said it was clear that the mine could not go on like this.

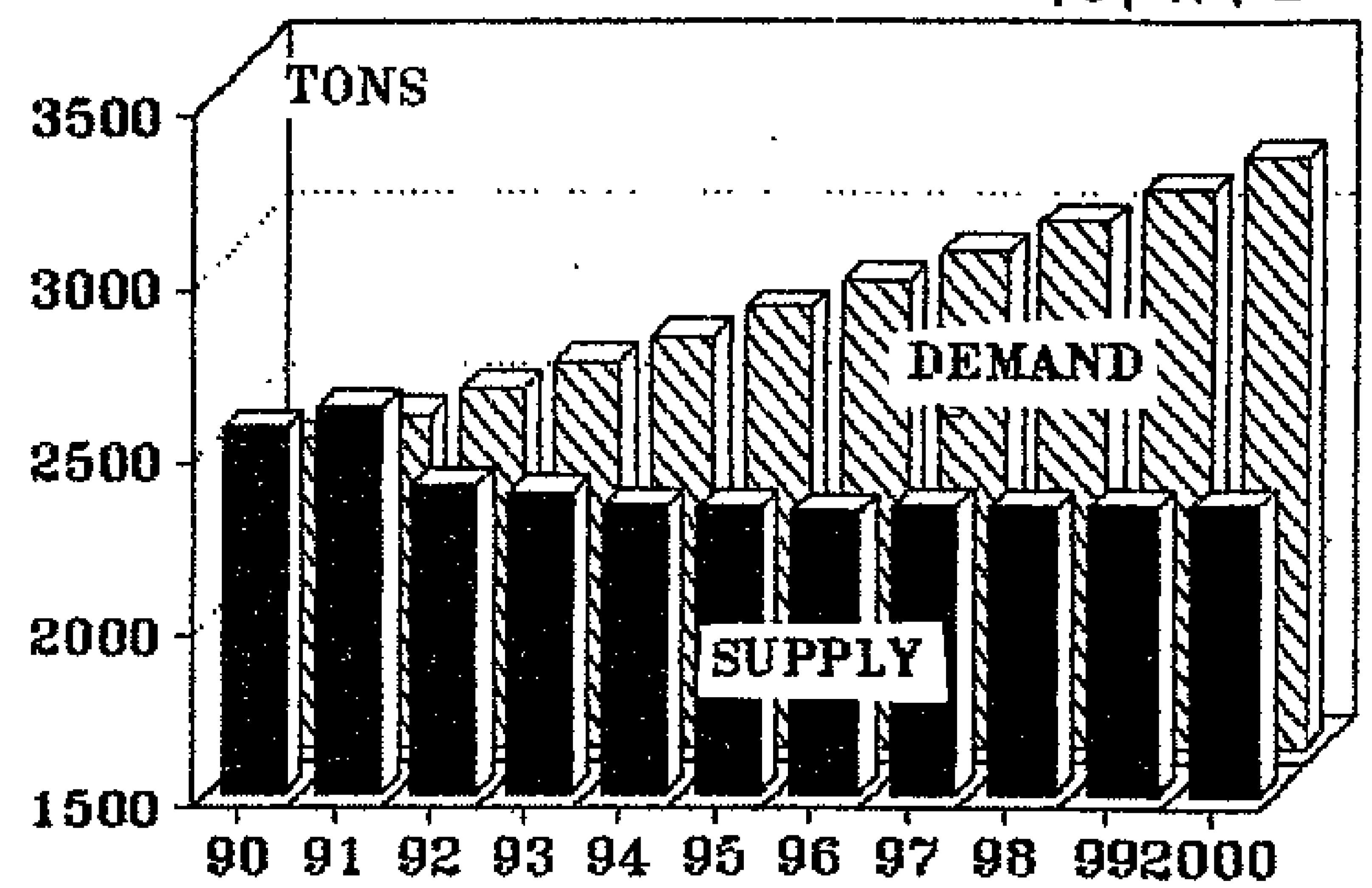
GOLD FIELDS OF SA June Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
East Drie	705	9,4	6 627,1	167,39	17 807	31 212	—	—	—
March	705	8,9	6 286,0	165,36	18 546	31 878	—	—	—
West Drie	706	11,4	8 046,5	191,75	16 824	31 087	161 545*	96 544*	47,1*
March	700	11,5	8 077,8	188,56	16 340	31 944	132 151*	92 055*	45,1*
Kloof	540	13,7	7 375,2	255,58	18 713	31 105	—	—	—
March	528	14,2	7 520,7	244,19	17 143	31 968	—	—	—
Leeudoorn	235	6,9	1 616,7	224,74	32 668	30 872	96 330*	10 211*	8,4*
March	200	6,5	1 303,2	253,89	38 963	31 856	72 640*	30 306*	25,0*
Venterspost	235	3,8	899,2	150,59	39 356	30 737	(6 056)	(15 520)	(76,8)
March	315	3,6	1 146,2	132,33	36 366	31 945	(3 258)	(13 595)	(67,3)
Libanon	350	5,8	2 027,1	171,83	29 668	31 131	6 077	4 026	1,0
March	375	4,6	1 718,3	156,58	34 172	31 965	(3 184)	(4 790)	(12,0)
Doornfontein	299	4,0	1 534,2	179,54	34 992	31 277	(4 916)	(5 105)	(12,7)
March	187	3,9	1 098,2	153,44	39 122	32 199	(7 010)	(7 064)	(17,7)
Deelkraal	396	6,2	2 449,9	149,58	24 178	31 297	33 714	(4 781)	(4,8)
March	405	6,0	2 443,5	141,03	23 375	32 079	16 675	9 688	9,7

* Consolidated results.

Gold price gets boost as output slows down

STAR 15/7/92

By Sven Lünsche (79)



Estimates of gold supply and demand.

The gold price firmed above the critical $350 level yesterday on the back of a platinum price which rose to its highest level in 14 months.

But analysts say the gold price is increasingly being supported by forecasts showing world production will slow down significantly this year.

Kaplan and Steward geological consultant John Handley predicts that gold production could fall from 2 612 tons last year to 2 385 tons this year.

Against this, industrial and jewellery demand is expected to surge from 2 451 tons to 2 525 tons, leaving a shortfall of 140 tons.

In an article in the latest International Gold Mining Newsletter, Mr Handley forecasts that this shortfall will widen sharply over the next few years. (see graph)

Gold closed in London yesterday at $350,75, a gain of $1,90 for the day.

Uncertainty about political developments in South Africa also pushed the platinum price to an afternoon fix of $391,75 ($387,25 on Monday).

Platinum has now gained seven percent since the end of June, when the Boipatong massacre set off the latest political crisis in South Africa.

Sapa-AFP reports that the likelihood of a week-long general strike starting on August 3 has aroused fear of mine paralysis in a country supplying two-thirds of world platinum output.

Andrew Smith, an analyst at brokerage UBS Phillips and Drew, says that technical factors and higher prices for palladium contributed to platinum's rise.

Palladium was fixed yesterday at $88,65 an ounce, against $86,25 on Monday.

Mr Smith warns, however, that platinum is now vulnerable to a big correction in view of its strong rise over the last few weeks — mainly on speculative factors.

Gold is not as strongly influenced as platinum by unrest in SA, as SA accounts for only about a quarter of world gold output.

Worldwide production is expected to fall significantly over the next few years, starting in 1992, on a combination of factors including the closure of marginal mines and a sharp drop in sales from CIS states.

In his analysis, Mr Handley predicts that this year alone technical problems experienced by Russian mines will see gold supplies from that source falling from 400 to 200 tons.

In the West, the low gold price has led to closures of marginal operations, while a significant number of mines are producing at a loss and could founder if the gold price shows no short-term improvements.

Mr Handley provides the following breakdown of percentages of national gold production mined at a loss in the four major mining nations: Australia 8,9 percent, Canada 17,1 percent, US 11,7 percent and South Africa 11,7 percent.

"World gold production is peaking and will flatten and start to fall before 1995," Mr Handley says, adding that a shortage of gold is likely as de mand for jewellery alone will outstrip production increases.

"The impending shortage of gold has yet to be felt as political and economic turmoil in developed countries has resulted in forced selling, while the creation of numerous gold instruments has mobilised gold from some central banks.

"However, the scene is becoming set for a rapid deterioration of the gold supply position which will be satisfied, by either an increase in the gold price to stimulate production, or by the release of gold by banks and hoarders," Mr Handley says.

Bullion pierces key level of $350

BDAY 15/7/92 (79)

DUMA GQUBULE

WORLD bullion prices broke through the key $350 psychological resistance level yesterday on the back of fears of possible supply disruptions during Cosatu's planned general strike next month.

Gold rose $1,75 to close at $350,70 in London yesterday and went on to trade above $350 in New York.

Platinum prices, more sensitive to possible SA supply disruptions, went above $390, their highest level in 14 months.

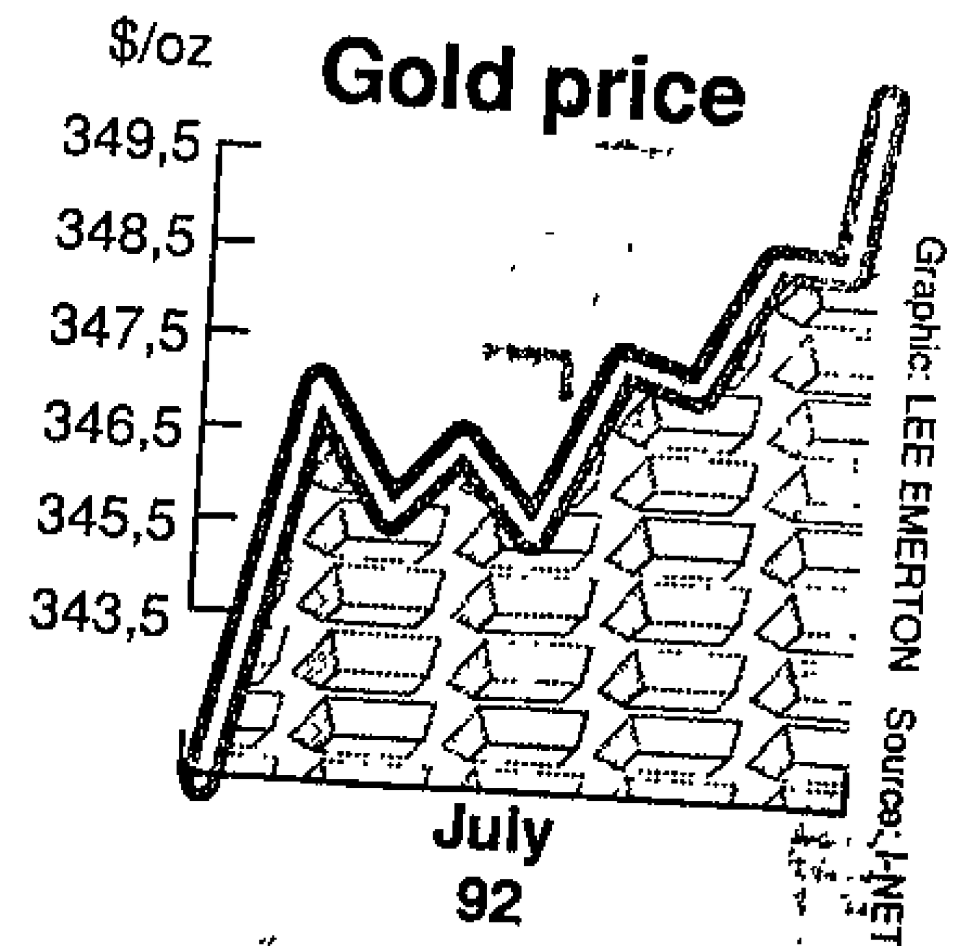
Shearson Lehman Bros gold analyst George Milling-Stanley said the speculative interest in platinum had spilled into the gold market.

Analysts said the gold market appeared to be comfortable at its new levels. A feature of the market over the past few weeks had been a drying up of forward sales from North American and Australian producers because of interest rate cuts.

Milling-Stanley said another reason for optimism on gold was the fact that the market had absorbed large amounts of bullion during the first half of the year.

Another analyst said it was encouraging that the market could absorb a few hundred tons of gold and show resilience. In the absence of more sales, the price could move into a higher range, she said.

James Capel analyst Jon Bergtheil said the market had also taken comfort in a statement from Russian gold industry



head Valery Rudakov two days ago. He resigned saying the industry had become "unmanageable" and forecast a sharp fall in Russian gold production.

Despite the encouraging signs, analysts agreed that the gold price would be locked into a narrow, but slightly firmer, trading range for the rest of the year.

Milling-Stanley said he was concerned about how long it would be before forward sellers returned to the market and put a cap on the price. He said news of a possible deal between Cosatu and employer organisations to limit the planned mass action campaign's effect on the economy, could take some of the speculative froth out of the platinum and gold markets.

Gold continues strong run as dollar weakens

STAR 17/7/92

By Neil Behrmann (79)

LONDON — A weak dollar and worries about potential strikes on South Africa's mines have helped pull gold decisively above $350.

US commodity funds have also been buying platinum.

Gold swiftly rose to $354 in New York yesterday as professionals and options traders covered bear positions. These traders had short positions in gold because they hoped to profit from a price decline.

In London gold closed $2,10 up at $353,00 from Wednesday's close.

Swiss dealers say there is solid physical demand. Buyers absorb the gold whenever the price dips, they say.

In Europe, gold is cheap because the price has fallen considerably in German marks, lira, pounds, Swiss and French francs.

There is continual demand from the Far East, particularly China.

Gold is also in demand because of a threat of a financial crisis.

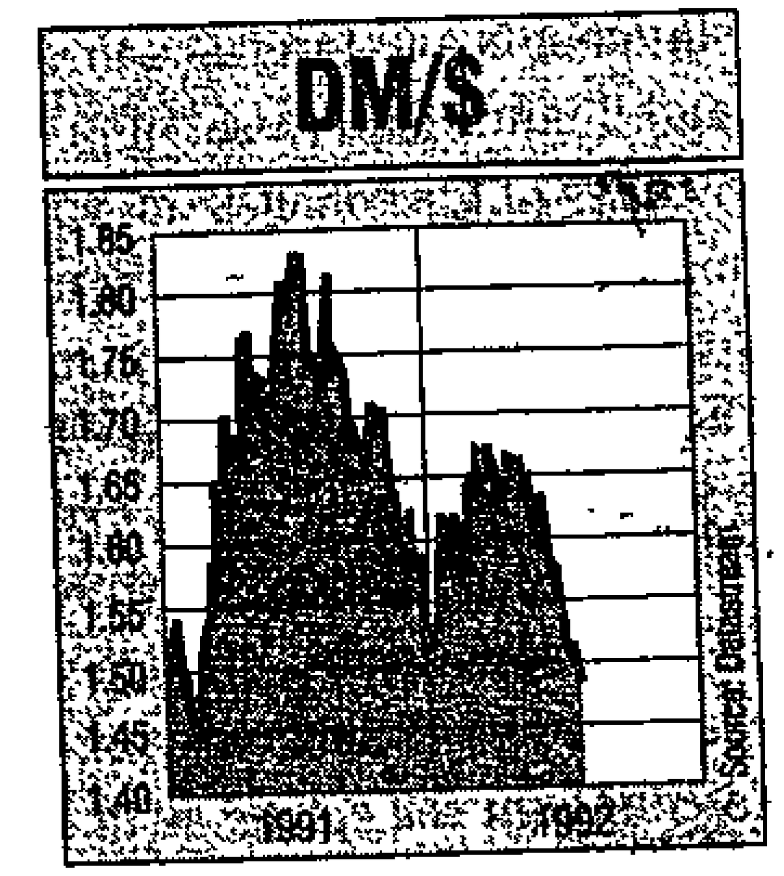
If the mark continues to surge against the dollar, France, Britain, Italy and other European countries will be under pressure either to raise interest rates or devalue.

Since economic contraction is deepening in these countries, governments cannot afford to raise interest rates.

Adding further to the woes of these countries, Germany's fiercely independent central bank, yesterday defied international pressure and raised its key discount lending rate to 8,75 percent from 8 percent.

"With this measure the Bundesbank aims to stem price pressures, monetary growth and excessive growth in credit volume and also to strengthen confidence in maintaining the stability of the mark under the currently difficult situation in unified Germany," it said.

Britain's central bank signalled it was not seeking an immediate change in commercial bank lending rates following the German increase.



CT 17/7/92 (79)

Nibbles as gold returns to favour

JOHANNESBURG. — A strong gold price saw gold shares up by almost 4% in value yesterday, but profit taking later saw the shares come off highs.

Dealers said local institutions, which have been neglecting gold for some time, cautiously returned to the market and were nibbling at selected quality golds.

The Gold Index closed 39 points up at 1 129, off a 1 131 high. Boosted by the strong gains in golds, mining financials and a few index-linked industrials, the Overall Index gained 28 points to close at 3 496. The Industrial Index was at 4 278 from 4 263.

Mathison & Hollidge Inc mining analyst Rob Gillan said the rise in golds was mainly due to investor realisation that the mass action campaign due to begin next month was likely to have a limited impact on the gold mining industry.

He said Beatrix, ET Cons and Sovaal were offering good value and could rise 5% in the short-term.

Among the star performers were Kloof which rose R1,50, or 5,5% to R28,75 and Dries which added R1,75 to R43,75. Vaal Reefs, Sovaal, Deelkraal, ET Cons and Randfontein firmed.

Western Deep Level, which touched R89, dropped R1 to R86 following its quarterly results showing an interim dividend fall to R1 from R1,80 a share.

● Meanwhile, **Standard Bank Investment Corp Ltd** was involved in negotiations concerning a possible takeover of Zimbabwe's ANZ Grindlays Bank, a Standard spokesman said. — Reuter

Gold surges while dollar takes a dive

TOM HOOD (79)
Business Editor ARG 18/7/92

GOLD surged by almost six dollars to hit $358,50 an ounce in London late yuesterday — the highest price this year. The price has jumped by $28,50 since June 29.

If the latest increase is sustained for 12 months, it could add about R1,5 billion to the value of the country's gold reserves, according to Reserve Bank calculations.

The bonanza would boost export earnings by the gold mines and help to save thousands of jobs by rescuing several loss-making mines facing closure. Hundreds of businesses supplying the mines would also benefit.

The collapse of the US dollar this week, fresh fears about the US and German economies and a plunge on world stock markets yesterday were key factors in bolstering gold.

London gold traders also attributed the market firmness to the United Nations' resolution urging all parties in South Africa to resume democracy talks.

In Johannesburg, analysts predicted gold demand would outstrip supply for the rest of the decade, renewing optimism regarding the further strengthening of the gold price.

Mr Clem Sunter, chairman of Anglo American's gold and uranium division, said he was bullish about gold prospects and expected the price to reach $370 by the year-end.

However, the higher acquisitiveness of the Far East and Pacific Rim countries, excluding Japan, of gold jewellery could push demand up further.

Gold cracked a key resistance level of $355 yesterday afternoon and helped South African gold shares. The weakening in the financial rand also aided golds.

The dollar fell against most currencies after the German central bank raised the key lending rate a dramatic 0,75 percent to a record 8,75 percent.

Gold's looking good on the charts

S Times [B4557] 19/7/92 79

By JOHN CAVILL: London

NUMSA's deal with the mining industry and profit-taking by speculative investors on New York's Commodity Exchange (Comex) may blunt the gold price in the coming week, say analysts.

But none expects gold to retreat to the year's low of $335 in spite of the lack of any significant increase in offtake of physical metal during its 5% rally and diminishing worries about a disruption of platinum production.

US commodity fund managers stepped up their buying of gold futures on Comex this week as the price rose through its one-year moving average.

Profit-taking in platinum — it eased by $10 from its year's high of $393/oz — took the edge off gold but a late rally pushed the price towards $357 in London on Friday.

Gold was also affected by unexpected resilience in the dollar exchange rate in the wake of the Bundesbank's 0,75-point rise in the German discount rate to 8,75%, the highest since 1931.

But the fall was muted.

Chart analyst Stephen Raphael at Brian Marber & Associates, says platinum, which pierced its long-term moving average two months ago, is technically strong.

"It could go up another $40-$50," he says. "Gold has come out of a base area and if it can hold above $353 for a few days the next stop on the charts is $358 and then $370. It needs a run, but technically there is more upside potential than we've seen for a long time."

At brokers Williams de Broe, analyst Rhona O'Connell says: "The physical market is not doing much. But the American professionals began buying when the US Federal Reserve cut its discount rate and the dollar remains under pressure after the Bundesbank's move.

"Gold's steady performance has left the sceptics less sceptical and currency uncertainties will continue."

She predicts a gold price of $385 by the year-end.

Punt

Andrew Smith of the Union Bank of Switzerland says that although the gold price is "technically more robust" it is vulnerable.

"The American funds have taken a punt — as they did last year when the fall in Russian gold reserves was disclosed — and the question is: when will they take their profits.

"The NUMSA settlement suggests to me that the August 3 mass action in South Africa will turn out a damp squib and the momentum for disruption is subsiding."

STAR 20/7/92

Gold price rise 'solid'

Finance Staff (79)

The gold price rose to a five-month high on Friday, discounting news of the wage agreement between the Chamber of Mines and the National Union of Mineworkers.

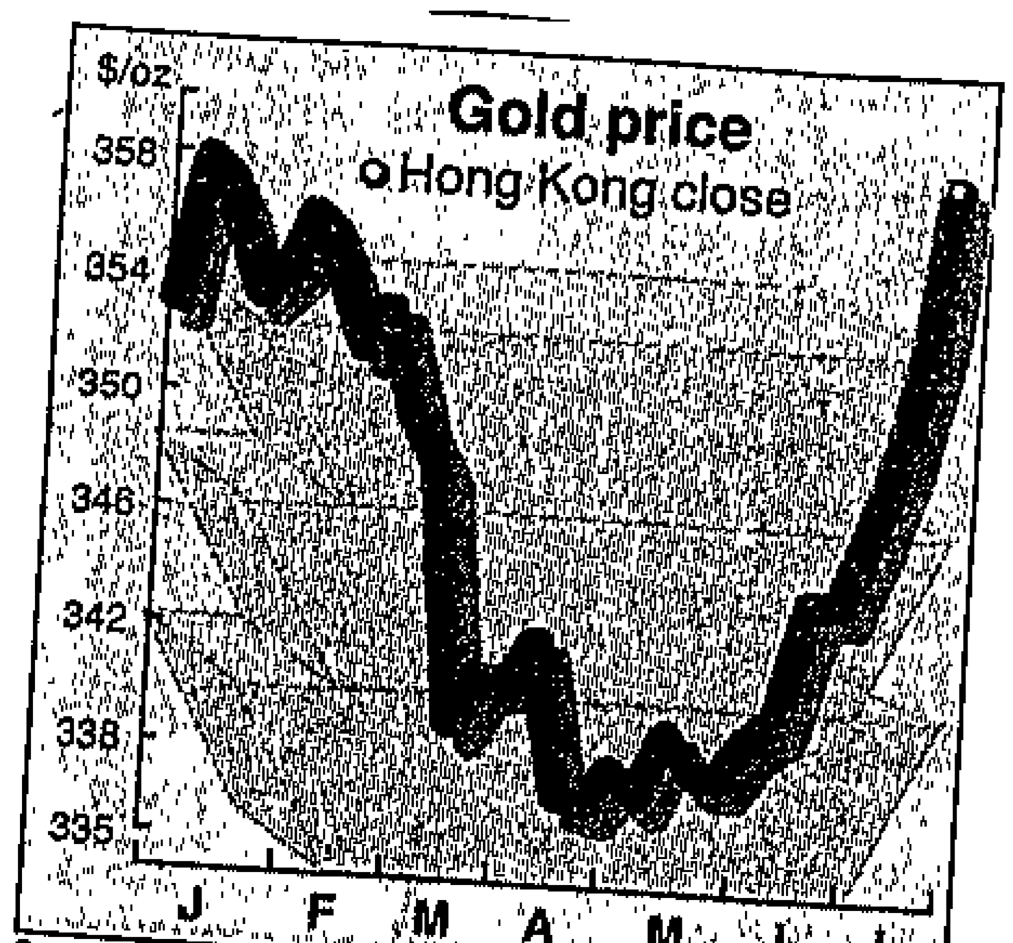
The gold price closed in London at $358,25 a ton, up $5,70 on the day and almost $10 ahead on the week. It maintained this level at the close in Hong Kong on Saturday.

Gold's initial jump last week was precipitated by a rise in the platinum price but experts have generally become more confident on fundamentals, predicting that gold demand would outstrip supply for the remainder of the decade.

There has been much speculation on the value of hedgingwhich has helped a number of mines in the past to get a good price for their gold. But in a rising market this could rebound to their disadvantage.

The head of Anglo American's gold division Clem Sunter said although the mining house had not withdrawn from the forward selling market, its involvement was considerably less.

He believed the gold market had achieved some balance this year at around 2 500 tons in production and consumption.



Graphics. RUBY-GAY MARTIN Source I-NET

Gold price hits five-month high

79

DUMA GQUBULE

THE gold price hit a five-month high of $358,25 in Hong Kong on Saturday, as a weak dollar, sliding equity markets and the possibility of a Democratic victory in the US presidential election triggered buying orders for the metal.

Key resistance levels melted as the gold price advanced to a late fix of $358,50 in London on Friday from the morning fix of $352,65, later ending up at $358,55. Gold held these gains in New York and Hong Kong.

BDay 20/7/92.

Thursday's 0,75% increase in the German discount rate to 8,75% sent world equity markets into a tailspin on Friday and share prices in Frankfurt, London, Paris and Tokyo plunged by more than 2%.

In New York, a weak set of trade data and polls showing Democratic presidential contender Bill Clinton 20 points ahead of President George Bush added to the worries about German interest rates and the dollar shed more than 2 pfennings to DM1,4589. The Dow-Jones index shed 30 points, or 0,9%, to close at 3 332. Gold ended up $4,80 at $357,30.

Sapa-Reuter reports that the possibility of victory for the big-spending Democrats had resulted in renewed fears of inflation. This, together with the weak equity markets and dollar improved gold sentiment.

Shearson Lehman analyst George Milling-Stanley said in New York that the market had been looking for an improvement in the gold price on the basis of good underlying fundamentals. But he said stop-loss buying orders from major commodity funds had been the main reason for the jump in the gold price.

JSE's non-resident gilt sales rocket

BIOAM 20/7/92

HILARY GUSH

NON-RESIDENT gilt sales executed through the JSE last week were more than six times the previous week's figure amid continued political uncertainty.

Substantial foreign selling of government bonds characterised the early part of the week with JSE gilt sales from abroad reaching R276,3m compared with R45,6m recorded the week before.

Foreign gilt purchases were also down on the previous week to R70,3m from R84,9m.

In the week ended July 10, non-resident transactions netted R206m in sales against the previous week's net gilt purchases of R38,9m.

These figures are not comprehensive as they represent only those transactions by foreigners which are executed through the JSE.

Meanwhile the capital market remained steady with quiet trade on Friday.

The yield on the benchmark R150 stock was little changed at the session's close at 15,29% from its opening of 15,3%.

Similarly the yield on the Eskom 168 — the bellwether semi-gilt — remained stable through the day from an opening of 15,175% to a 15,18% close.

Markets in turmoil but gold still shines

BIDAY 21/7/92. (79)

MERVYN HARRIS
and HILARY GUSH

GLOBAL financial markets were in turmoil yesterday as stockmarkets tumbled and the US dollar tested new lows against major currencies before central bank intervention injected some stability to stop the rot.

The dollar came within a whisker of its historical low of DM1,44430 before the intervention lifted it back to DM1,4848 in Europe.

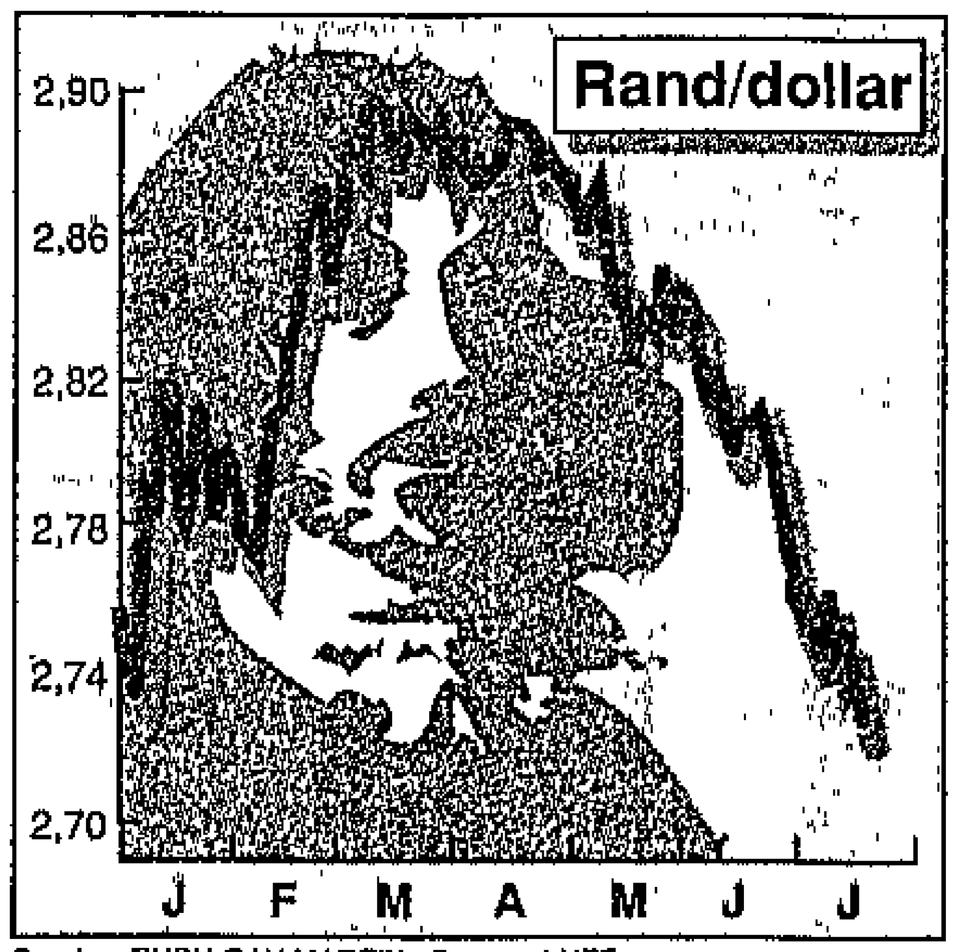
Dollar support helped equities in London and New York claw back part of sharp losses on deepening pessimism over a world economic recovery.

The heavy falls on the Tokyo, London and Wall Street stock markets spilled over to the JSE, where only gold shares defied the softer trend on the back of a rising gold price.

A switch to gold as a safe haven by some fund managers lifted the metal to a seven-month high of $360,15 before easing back slightly on the dollar intervention. Gold closed $1,60 higher in London at $358,30.

The JSE all gold index rose 1,6% to 1 149 as the overall index fell 1,7% to 3 437 with the industrial index sliding 1,7% to 4 214 and bellwether De Beers slumping 4,5% to R78,25 on concern over diamond sales.

Reuters reports that dealers pointed out that gold had not rallied in non-dollar terms as the US currency declined. This was buoying underlying physical demand.



Graphic RUBY-GAY MARTIN Source I-NET

Dealers said the rise in gold shares was overshadowed by the downturn on the rest of the market. While most blue chips were marked down in nervous trading, there was sufficient selling for prices to end sharply lower, they added.

The commercial rand hit a record low against the Deutschmark but traded at a 15-month high against the dollar before the US currency recovered its losses in late afternoon trade.

The commercial rand recorded an all-

☐ To Page 2

Markets

BIDAY 21/7/92. (79)

☐ From Page 1

time low against the mark, closing the session at DM0.5329. A weaker dollar saw the rand reach an intra-day peak of R2,7100, its best dollar level since April 1991. By the close it was at R2,7227.

Dealers said the dollar had initially weakened on rumour that a large Far Eastern institution had to unwind a long dollar/Swiss franc position of about $5bn yesterday morning.

Early in the session dealers predicted a further strengthening of the rand over the week — to at least R2,70 — as the dollar was expected to continue to weaken on international currency markets.

Traders said there was no fundamental reason for the dollar to firm. Bearish sentiment on the US economy and the political uncertainty surrounding the lead-up to the presidential election did not bode well for the currency either, they said.

However in late afternoon trade the dollar showed some recovery as central banks intervened and bought the currency. Traders labelled the move as a "smoothing operation" which would not change the dollar's downward trend.

Jewellery complex may earn extra R3,6bn in forex

BDAY 22/7/92 (79)

JONO WATERS

A NEW multimillion-rand jewellery fabrication complex with a planned annual production of 100 tons of gold jewellery would bring in another R3,6bn on top of the gold value in foreign exchange, Mineral and Energy Affairs Minister George Bartlett said yesterday.

Speaking at the Mintek presentation for the planned jewellery manufacturers' complex — Jewelpark — Bartlett said the industry was capable of "creating employment and generating wealth through adding value to SA's mineral resources".

Bartlett said that a number of factors had to be addressed for success to be achieved on a competitive basis for a major export drive, including:

- ☐ Dropping interest on gold loans to manufacturers from the current 4,5% to a figure lower than the world average of between 2,5% and 3,5%;
- ☐ The development of a "SA jewellery style";
- ☐ A talented and highly trained workforce and,
- ☐ The technological backup of research and development organisations such as Mintek and the CSIR to assist in competing in world markets.

The project was planned by Mintek, the Jewellery Council of SA and the IDC.

Mintek vice-president Henry James said there was nothing in principal to stop existing producers or Jewelpark from applying for incentives under Section 37E of the Income Tax Act.

An arch supporter of value-added gold products, Anglo American gold and uranium division chairman Clem Sunter, said last night it was an interesting development and he looked forward to learning more of the details in due course.

Jewelpark is expected to cost about R35m, employ over 600 people when completed and have the facilities to train about 300 apprentices.

Gold mining houses weather price decline

(79)

STAR 23/7/92.

By Sven Lünsche

	GOLD PRODUCTION (kg)		TAXED PROFIT (Rm)		PROFIT AFTER TAX & CAPEX (Rm)	
	MARCH	JUNE	MARCH	JUNE	MARCH	JUNE
JCI	12 361	12 236	59,6	70,9	9,6	22,3
ANGLO AMERICAN	63 490	63 799	408,1	369	167	137,4
GENCOR	18 037	18 091	67,1	70,6	32,6	58
ANGLOVAAL	9 592	9 777	42,3	48,6	33,6	22,9
GFSA	29 594	30 576	208	287	107	86
RAND MINES	11 699	11 243	7,3	(40,9)	(0,7)	(50,5)
TOTAL	144 773	145 722	792,4	805,2	349,1	276,1

The six major gold mining houses have generally succeeded in dealing with the lower gold price and high inflation, lifting combined taxed profits slightly in the June quarter.

However, the situation is becoming more critical for marginal mines because the price premium available for forward sales has all but evaporated.

Ten of the 34 mines reported a loss after tax and capital expenditure in the June quarter (seven in the March quarter). Eight of these mines were in a loss situation even before deducting capex.

The loss of sparkle in forward selling is particularly bad for marginal producers because hedging had previously helped them to higher prices than those available on the spot market.

At the end of the first quarter the Chamber of Mines classified 12 mines as marginal and estimated that 12 percent of SA gold production was at a loss.

The mines received an average price of R31 890/kg in the first quarter. A preliminary analysis of the June quarter results shows this price fell slightly in the three months, in line with the drop in the gold price.

It is likely that the percentage of gold mined at a loss increased marginally in the June quarter, although this situation could improve if the gold price maintains its current level of just under $360.

Apart from the marginal mines, producers seem to have achieved stricter cost controls and improved productivity.

"In their fight against the lower gold price and rising working costs, the mines have had to step up productivity and have by and large succeeded," says Chamber of Mines senior economist Francois Viruly.

He attributes the rise in productivity to profit-sharing and productivity agreements and better grades.

Mr Viruly adds that while individual mines could possibly reduce costs even further, it is up to the monetary and fiscal authorities to assist the mines by controlling inflation.

Working costs in the first quarter of this year were 0,2 percent lower than in the same quarter in 1991. On balance, most mines limited working-cost increases to about one percent in the June quarter.

The quantity of ore milled remained largely the same in June but a slight rise in grade from the March quarterly average of 5,33 g/t ensured that output rose from 144 733 kg to 145 722 kg.

The combined taxed profits of the six producers — JCI, Anglo American, Anglovaal, Gencor, Rand Mines and Gold Fields — showed a marginal rise to R805,21 million from R792,43 million in the March quarter.

The star performer in June was GFSA, which lifted its profits by almost R80 million to R287 million.

Total capital expenditure rose sharply in June from R443,3 million to R529,1 million. Anglo and GFSA accounted for the bulk of this amount, committing R231,7 million and R201 million.

Gold must show $360 a clean pair of heels

STAR 24/7/92

Finance Staff (79)

The gold price failed to hold above the crucial $360 level yesterday amid profit-taking from investors in late afternoon trading.

Gold was fixed at $359,50 in London yesterday afternoon, a net gain of 75 US cents, but below an intra-day high of $361.

Gold rose on the back of the weakness of the US dollar.

Gold shares on the JSE rose by about three percent, but also gave up some gains in late afternoon trading.

The higher dollar gold price has pushed the rand gold price received by SA's major producers back to the crucial R1 000 per ounce level. (see graph)

Local analysts are convinced that the metal could test the $400 level quickly if it breaks firmly through its five-year resistance level of $360.

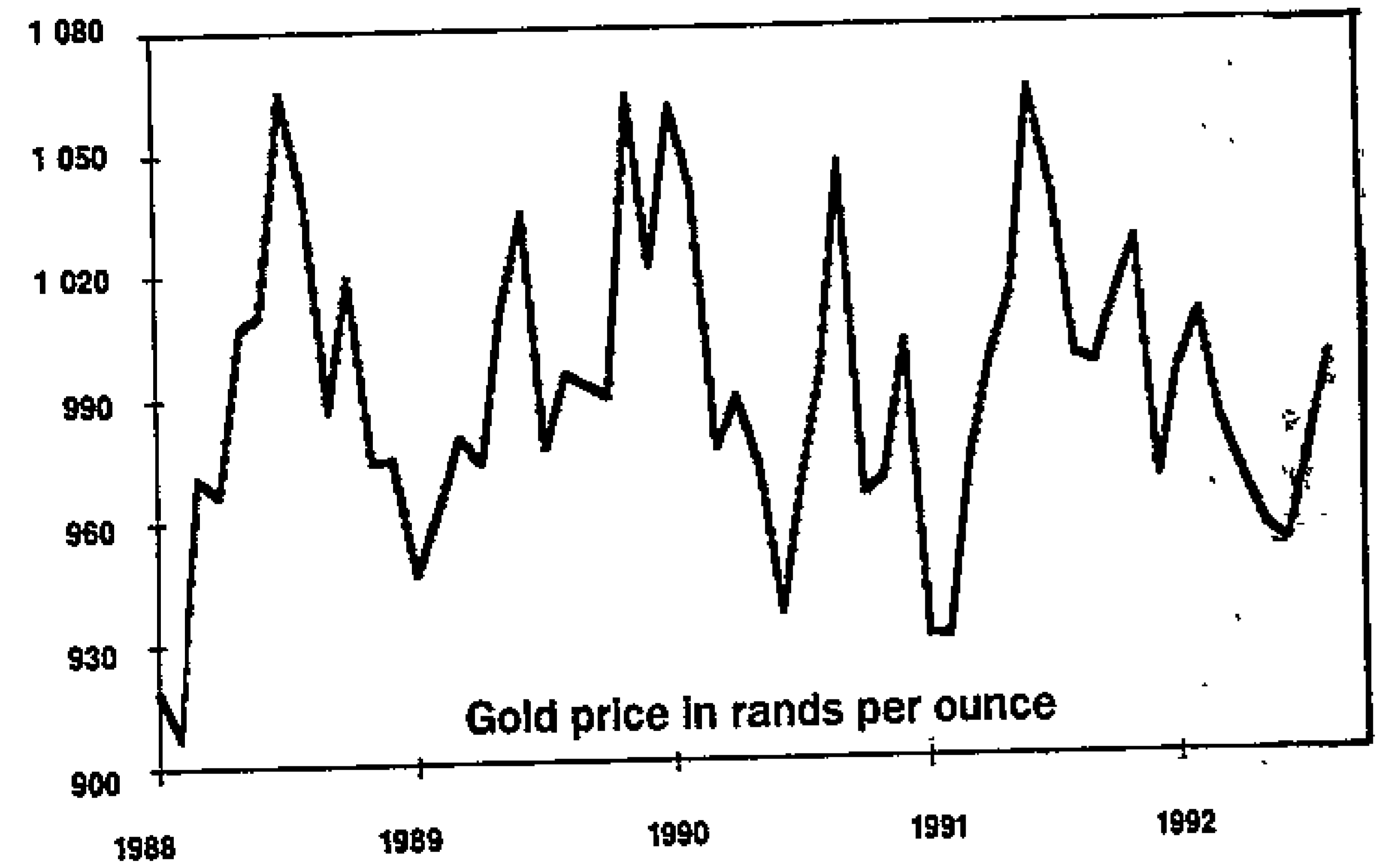
"It's important for gold to break through this level," says Econometrix director Dr Azar Jammine.

"It would help enormously in getting the economy going again if the gold price went to $400 or $450.

"The low gold price has meant little gold mining industry investment, which has adversely affected the economy," Dr Jammine says.

But a higher gold price was dependent on an improvement in world economies, as inflation would remain low if growth remained at current low levels.

For several years the gold price has also been depressed by forward selling and this process could start reversing and prompt additional buying.



● Gold production in the first half of 1992 has shown a marginal rise to 302,4 tons from 297 tons in the same period last year, the Chamber of Mines reported yesterday.

Gold production in June at 52,2 tons was also significantly higher than the 48,3 tons produced in May this year.

Gold looks positive as markets stabilise

BIDAY 24/7/92 (79)

MERVYN HARRIS

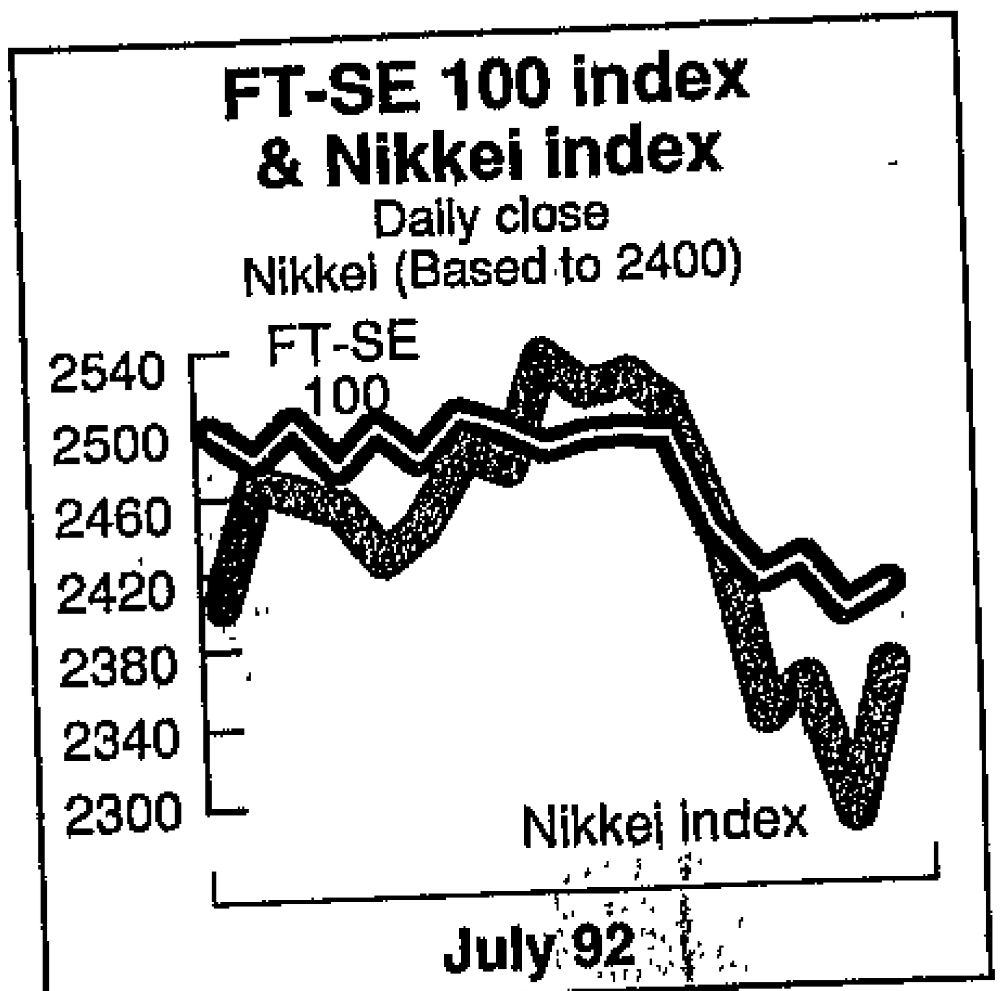
OVERSEAS share markets stabilised yesterday as buyers sought scrip at their lower levels after recent sharp losses, but the uncertain global financial situation supported precious metals.

Although gold came off a high of $361,10 in London to close 50c lower at $358,50, analysts said the outlook for the metal remained positive on the back of the weak dollar, falling stock markets, Gulf tensions and the likelihood of a general strike in SA.

The firm gold price overshadowed negative concern over the strike on the JSE yesterday but trading was thin as nervous investors adopted a cautious stance.

"The market was looking for a reason to go better after this week's shakeout and gold's rise in the morning made it a day that belonged to gold shares," a dealer said. The JSE all gold index rose 2,5% to 1 139 to help lift the overall index 19 points to 3 404.

Currency-linked shares were supported by a sharply weaker finrand which shed more than 1% to R3,94 to the dollar on news that talks between labour and business to avert the general strike had failed.



Graphic. LEE EMERTON Source: I-NET

The news helped lift platinum $6,50 to a London afternoon fix of $383,40 while palladium rose to its highest level in more than a year on Nymex to $90,75/oz.

The JSE industrial index firmed four points to 4 160 as the market took its cue from gold, a sharp rebound on Tokyo's Nikkei index and London's FTSE index clawing back to the 2 400 level.

Taxman will want slice of Krugerrand profits

THE only known case in which the sale of gold coins evaded the Receiver's clutches was one based on religion. LEIGH HASSALL reports.

STAR 25/7/92 79

TWO recent court cases have once again thrown the spotlight on the income tax status of Krugerrands. In both cases, the Special Court for Income Tax Appeals found that the profits made on the sale of Krugerrands were fully taxable.

This is likely to further undermine the attraction of Krugerrands as an investment.

Intention

The effect of the two rulings is that the taxpayer faces an almost impossible task in proving that profits from the sale of the gold coins are of a capital nature and thus not taxable.

A fundamental principle of tax law is that the profit arising from assets which are purchased with the intention to resell will be taxable. The reason for this is that one is considered to be carrying on a trade and the assets are classified as trading stock, with the resulting revenue being taxable income.

The benefit of holding Krugerrands is their proven capacity to increase in value over time. However, the taxpayer only realises this value when he sells the coins.

In other words, the taxpayer purchased the Krugerrands with the intention to resell. Unless the taxpayer can prove otherwise, the gold coins will be considered his trading stock and the resulting profit taxable in his hands.

A common analogy of the capital versus revenue scenario, and one which is revered by the tax pundits, is of the fruit-bearing tree. The sale of the fruit is considered taxable. However, the eventual sale of the tree will not be taxable as it is capital. For instance, the rentals from a second property will be taxable income but the eventual sale of the house will not.

Whereas other forms of investment assets earn regular income (the fruits), Krugerrands do not produce income on a regular basis.

Two recent cases heard in the Special Court for Income Tax Appeals confirm the laws regarding profits on Krugerrand sales.

In the first case, the taxpayer held Krugerrands for 12 years before selling them and injecting the proceeds into his ailing business. He had acquired the coins on the advice of his accountant for what he termed a "rainy day".

The court decided that savings in the form of coins would eventually be realised to make a profit. The taxpayer lost his case and paid the Receiver his share of the profits.

In the second case, a wealthy taxpayer sold his lucrative business and invested R2 million in gold coins.

His avowed intention was to hedge his capital and to provide a store of wealth for his children.

However, 18 months after buying he sold off his assets at regular intervals during a period of nine years.

The proceeds were injected into new business ventures, holiday homes for his daughters and university fees.

The court decided that although the original intention was to retain the coins indefinitely as a store of wealth, the taxpayer changed his intention, as evidenced by his systematic selling.

In the long history of taxpayers' battles to beat the Receiver, a leading tax consultant can remember only one case where the taxpayer proved that the income was capital.

Distrust

The taxpayer, a Muslim, proved that the distrust of currencies and concomitant holding of commodities was an integral part of his religion.

The Krugerrands he was forced to sell because of a family illness were not acquired for the purpose of resale but as a store of wealth for his children.

The court held he did not change his intention by the sale of the coins, and accordingly was not taxed.

STAR 25/7/92

Gold breakthrough?

FINANCE STAFF

79

THE gold price could speedily test the $400-an-ounce barrier if it breaks through its five-year resistance level of $360 an ounce, says economist Dr Azar Jammine.

Gold has been hovering just below $360 an ounce after recently breaking through its two-year downward trend of $350 an ounce.

"It's important for gold to break through this level," said Jammine, chief economist of Econometrix (Pty) Ltd.

"I've been optimistic about gold for a long time and can foresee the price increasing from now onwards. It won't be a mammoth rise although it could rise quite fast to $400 an ounce if it breaks through $360.

Jammine said a higher gold price would be one of the factors that would help the South African economy recover. "It would help enormously in getting the economy going again if the gold price went to $400 or $450. The low gold price has meant little gold mining industry investment, which has adversely affected the economy," he said.

Factors contributing to the rise in the gold price, he added, were:

- The gold supply and demand picture, which was looking more favourable, largely because the low gold price had stimulated jewellery demand;
- Gold production by the former Soviet Union was falling quite drastically, which together with a perception that production could slump further because of economic problems, could contribute to a drop in gold supply;
- Investors were scared of the lower interest rates in the US, which might ignite inflation;
- Doubts about the outcome of the America presidential elections, which because of a perception that a victory for the Democrats would lead to large budget deficits and inflationary policies, was helping support a higher gold price; and
- The fact that stock markets worldwide were jittery and in America the cost of holding gold - and not getting any interest — was low.

After three years of low prices, commodity prices generally were tending to bottom out and move upwards.

Jammine said these were all reasons why the gold price was looking more promising.

But he said a higher gold price was dependent on the world economies improving because inflation would remain low if the world economies remained depressed.

For a number of years, the gold price was also depressed by forward selling and this process could start reversing itself and prompt additional buying, he said.

Bullion could soon crack $400 barrier, says expert

ARG 25/7/92 (79)

ROY COKAYNE
Weekend Argus Correspondent

PRETORIA. — The gold price could speedily test the $400 an ounce barrier if it breaks through its five-year resistance level of $360 an ounce, says economist Dr Azar Jammine.

Gold has been hovering just below $360 an ounce after recently breaking through its two-year downward trend line of $350 an ounce.

"It's important for gold to break through this level," said Dr Jammine, chief economist of Econometrix (Pty) Ltd.

"I've been optimistic about gold for a long time and can foresee the price increasing from now onwards. It won't be a mammoth rise although it could rise quite fast to $400 an ounce if it breaks through $360.

"In previous years, $425 an ounce was a big resistance point but this was so long ago that I don't know if it still applies," he said.

Dr Jammine said a higher gold price would be one of the factors that would help the South African economy recover once the country got out of the current political logjam.

"It would help enormously in getting the economy going again if the gold price went to $400 or $450. The low gold price has meant little gold mining industry investment, which has adversely affected the economy," he said.

Factors contributing to the rise in the gold price, he added, were:

■ The gold supply and demand picture, which was looking more favourable, largely because the low gold price had stimulated jewellery demand;

■ Gold production by the former Soviet Union was falling quite drastically, which together with a perception that production could slump further because of economic problems, could contribute to a drop in gold supply;

■ The value of the American dollar, which had fallen and helped to support a higher gold price although the rand gold price had not moved much. However, for the first time in about five months, the gold price had in the past few days started rising against all currencies;

■ Investors were scared of the lower interest rates in the US, which might ignite inflation;

■ Doubts about the outcome of the American presidential elections, which because of a perception that a victory for the Democrats would lead to large budget deficits and inflationary policies, was helping support a higher gold price; and

■ The fact that stock markets worldwide were jittery and in America the cost of holding gold — and not getting any interest — was low.

After three years of low prices, commodity prices generally were tending to bottom out and move upwards.

Dr Jammine said these were all reasons why the gold price was looking more promising.

But he said a higher gold price was dependent on the world economies improving because inflation would remain low if the world economies remained dep[illegible]ed.

For a number of years, the gold price was also depressed by forward selling and this process could start reversing itself and prompt additional buying, he said.

Gold appears to be coming in from cold

STAR 27/7/92

By Neil Behrmann (79)

LONDON — After being in the wilderness for a long time, gold is becoming fashionable again.

Roger Murphy, a London manager at the World Gold Council, believes that poorly performing equity markets are encouraging international investors to examine gold again.

It is a portfolio hedge, he says, noting that in the crash of 1987 and the Gulf war, gold rose when share prices fell.

"For the first time in ages, fund managers are impressed with gold's resilience," says a London bullion manager.

He recalls that when gold traded between $335 and $340, turnover was well above average.

Since the price held at that level, the above average turnover indicated that the price had bottomed.

Then the market managed to absorb large-scale selling by Middle Eastern, East European and South American central banks in the second quarter.

Moreover in the first half of this year, the Commonwealth of Independent States (CIS) sold 3,3 million ounces of gold held as collateral with Western banks, says Stewart Murray, chief executive of Gold Fields Minerals Services, a consultancy.

There is thus a good chance that gold has bottomed, say Swiss dealers, particularly since the gold market shrugged off a 6,5 million-ounce sale by Belgium's central bank in June and a mammoth sale of silver in recent weeks.

Underpinning the market were extensive purchases by Italian and Far Eastern jewellers, including some in China, while lower exports from the CIS also helped.

Market sentiment is improving. Previously pessimistic bullion banks appear to be advising mines and customers to wait for higher prices.

Commodity funds are also buying because chart signals are more positive.

A weak dollar, expectations of declining international interest rates in coming months and worries about the potential of strikes at SA's mines have pulled gold up by seven percent from its lows of around $335 in April.

"Gold is regaining its safe-haven status," says a Swiss bullion manager.

While the mood is much more optimistic, European bullion dealers do not expect a surge in gold prices this year.

"Recent market action is more a reflection of dollar weakness than gold strength," says a German bullion manager.

He believes that gold will continue to be stuck in a trading band of $340 to $380.

To be sure, while gold in dollars is down by 10 percent from its peak of $400 early 1991, the price has slumped by 20 percent in Deutschemarks.

Gold outperformed the Deutschemark and Swiss franc after central banks entered the market last week, but previously it paid fund managers to buy Deutschemarks and keep them in deposits earning an interest rate of 9,75 percent.

"Present buying levels cannot sustain prices of more than $370 for long," says Edwin Arnold, metals analyst at Merrill Lynch in London. "There is simply too much potential supply from producers, central banks and consumers."

According to market estimates, central banks have written call options estimated at five to eight million ounces at prices of $350 to $370. If the price surges, central banks may decide to sell the gold if the options are exercised. That would be negative for the market.

On the other hand, if central banks decide to cover the options, the gold price will be boosted.

Mass action 'not likely to affect price of gold'

(79)

B|DAY 29|7|92

MATTHEW CURTIN

NEXT week's mass action campaign is likely to leave gold prices unaffected, with analysts confident SA's gold mines will not be hit by widespread labour unrest.

Gold prices teetered on the brink of the $360-mark, but fell short in afternoon trading, fixed nearly a dollar up at $359,60 from yesterday's $358,40 afternoon fix.

However, prices remain depressed in other currencies. At R31 802 a kilogram, gold is no higher than the average local price for the past year.

Gold has been trading near DM532 an ounce, which is well below average prices of more than DM570 in the German currency in the past year.

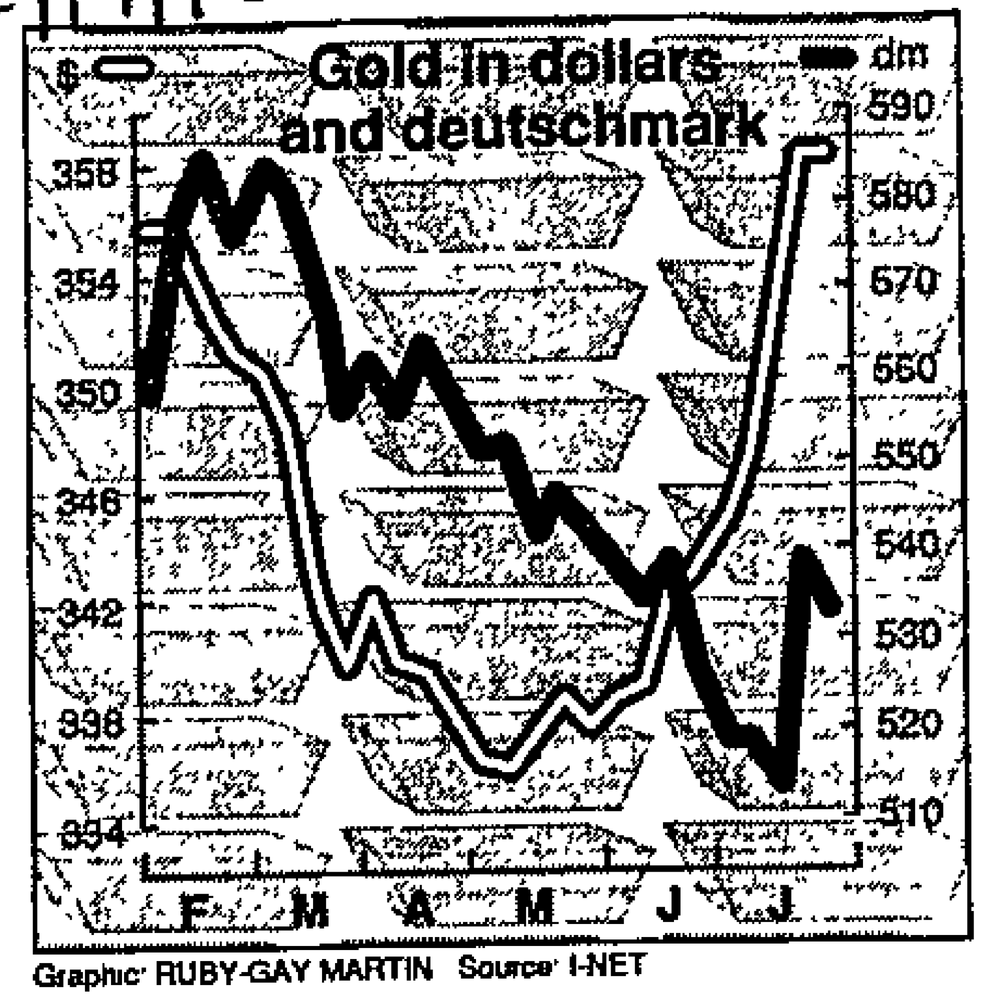
Whereas gold in dollar terms is only 4,5% lower than it was two years ago, when reflected against a basket of non-dollar currencies the metal is trading at levels 20% lower than this time in 1990.

Senekal Mouton & Kitshoff analyst Hilton Ashton said yesterday that with much of the protest campaign designed to be held in the guise of pay disputes, and wage negotiations all but settled on the gold mines, the sector was not likely to be affected by work stoppages.

He said foreign observers would soon realise "it was business as usual on the mines". Ashton said the key reason for the recent rally in gold prices was the dollar's weakness against other major currencies.

Davis Borkum Hare analyst David Giese said that with the mines isolated from cities, and the cordial tone of this year's wage negotiations, only the possibility of violence would draw particular attention to them during the protest campaign.

There were no grounds for the concern which lifted platinum prices last month, after a brief strike at Impala Platinum's mines in Bophuthatswana and the threat of more unrest with the prospect of a general strike. Gold mines would recover quickly from minor disruptions if they occurred, flexible enough to make up for lost production easily.



Graphic: RUBY-GAY MARTIN Source: I-NET

The strength of platinum prices, rising tension in the Persian Gulf, and economic malaise in the US had added to the weak dollar to push gold prices higher.

Edey Rogers analyst Dean Cunningham said there was a chance that market watchers overseas might not be aware of the subtleties of the mass action campaign and the news of strikes might push gold prices up anyway.

However, he said the pressure on management and unions to preserve jobs, especially at marginal mines, militated against workers going out on strike.

FM 31/7/92 (79)

GOLD QUARTERLIES

Rising hopes

After another grinding set of quarterly results the burning issue for the gold industry is whether gold's recent strength, bringing the price up to around $360/oz, is the start of the long-awaited recovery in the market.

If it is, then some of SA's marginal gold mines stand to score handsomely through the gearing of their earnings to the price. If it turns out to be yet another false start, several more of the marginals look destined for closure.

Trouble is, analysts point out the definition of a marginal gold mine has changed over the past few years and Western Deep Levels, for example, is now considered marginal.

General feeling remains one of caution. Some analysts are prepared to recommend dabbling in Freegold, Randfontein and Kinross but they point out ultra-marginal mines like Blyvooruitzicht, Loraine and West Rand Cons are effectively in closure mode.

Such mines could need about a 30% rise in the ruling rand gold price before it is worth their while to expand and re-open closed areas. "They could well close down before they get such a price increase," says one analyst.

The worrying aspect is that gold's strength has so far been in terms of the US dollar and could be almost wholly the result of the weakness in this currency. The price has done nothing in the other hard currencies such as Swiss francs or Deutschemarks and, until it does, analysts are adamant a turn in the market cannot be called conclusively.

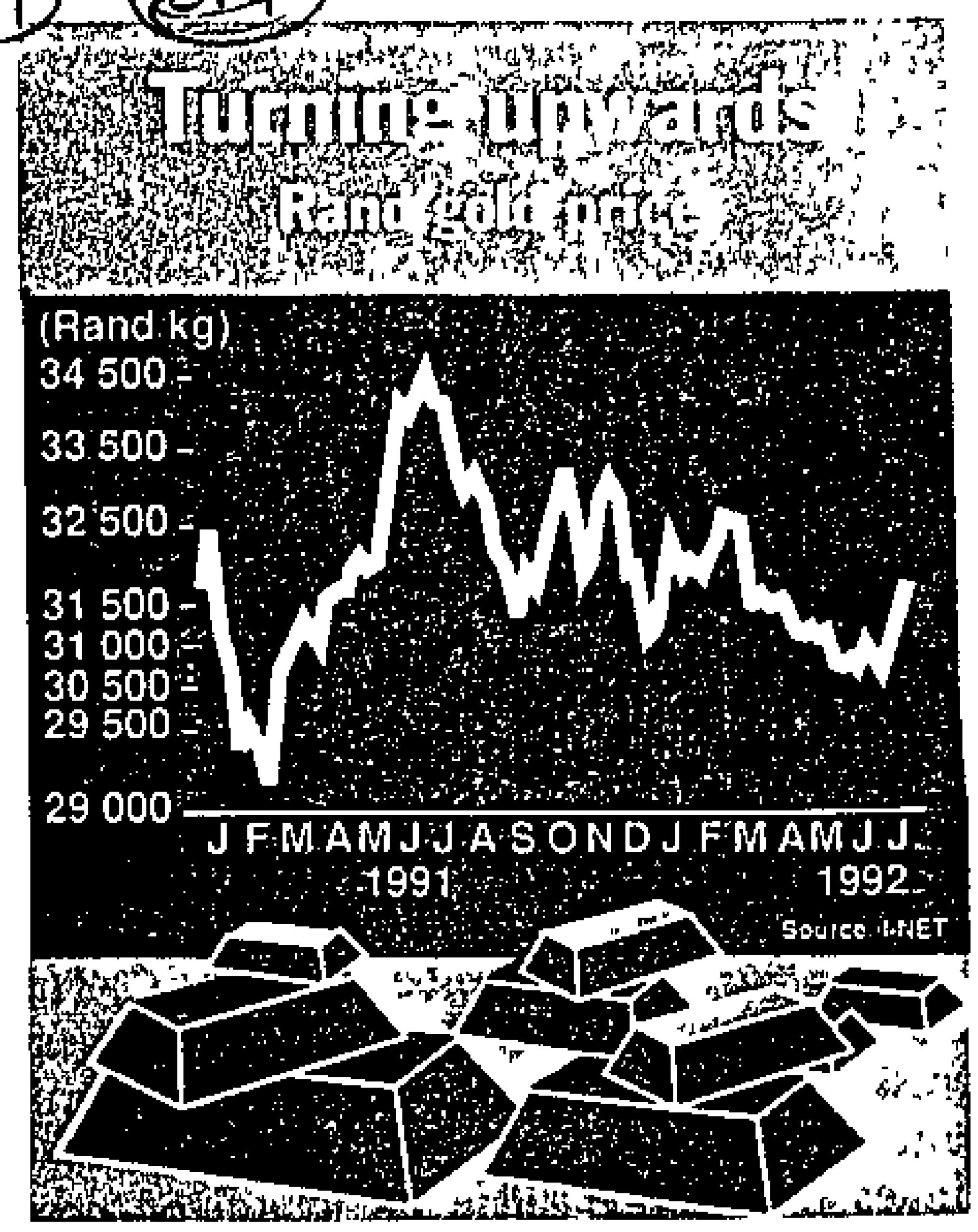
Still, there are some hopeful signs. Frankel Kruger Vinderine economist Mike Brown points out that, so far, there has been no sign of increased forward selling of gold by producers. Instead, some of the gold mining companies that had sold forward continue to buy back gold to close out their contracts.

"There seems to be a feeling among producers and central banks that they are happy to let the price run," says Brown.

Ken Maxwell, executive director in charge of JCI's gold division, acknowledges the currency factor, but feels the rising gold price signals more than just a hiccup in the market caused by the weakness of the dollar.

"Overall sentiment towards the future of gold seems to be more positive," he says. "The supply/demand fundamentals for gold are changing, and the annual demand by the jewellery and industrial sectors could well exceed the supply of new gold and recovered scrap gold in the foreseeable future."

Nominal price to the industry has risen 3,4% in 10 days, from about R960/oz to about R992/oz, which has been enough to set some share prices moving, and H J Joel in particular. Joel has shot up 75% to current levels around 315c, from a 12-month low of 180c on July 7, despite a rather disappointing June quarter which saw yield dip to



5,98 g/t (previous quarter — 6,45 g/t).

Reason is the steady improvement in performance shown by Joel and the fact that, after four terrible years, the survivors in the industry stand ready to reap the benefits that higher revenues would bring for their leaner, more cost-efficient operations.

Figures compiled by Ed Hern, Rudolph gold analyst Grahame Graham-Parker show how well the underground mines managed by the major mining houses have coped. Their average cost, including capex, to produce one ounce of gold rose just 1,1% to R924,75/oz in 1991, from R914,50/oz in 1990. The 1990 figure was 5,6% up on the 1989 average of R866/oz which in turn was 7,3% up on the 1988 average of R807,50/oz.

Average cost of R127,62/t milled for the June quarter is just 20% up on the average of R106,4/t milled recorded in the September quarter of 1987. Graham-Parker calculates if the mines had not acted and instead let their costs run at prevailing inflation rates, then the average cost for the June quarter would have been around R218/t milled.

The June quarter was marked by another series of good cost performances by the heavyweight producers, among them Driefontein, Hartebeestfontein and Vaal Reefs. Average working cost for Gold Fields' mines rose only 0,5% to R21 346/kg (R21 246) despite the increased losses from marginals Libanon, Venterspost and Doornfontein.

Gengold's mines dropped their working costs on average by 0,4% to R27 508/kg (R27 626/kg), while Anglo American Corp's gold and uranium division fared badly by comparison with average unit costs rising 2,1% to R26 925/kg (R26 367/kg).

Anglo gold division chairman Clem Sunter views this as a blip in an otherwise good performance since the beginning of 1991, and he sticks to his view that the rise in his division's costs will be close to zero for the two-year period ending December.

Such comforting overall statistics cannot hide the fact that a number of marginals are on the point of no return if the gold price does

Prosperity likely to curb CIS gold exports

STAR 3/8/92

By Neil Behrmann (79)

LONDON — Western producers can look forward to lower gold exports from the Commonwealth of Independent States (CIS) in coming years.

But the reason will not be a sharp fall in production. Instead, exports will decline because domestic consumption is likely to increase.

This is the surprising conclusion of Stewart Murray, chief executive of Gold Fields Mineral Services, in an in-depth study on the CIS.

He says that in the short run, CIS exports will be lower because output will decline further this year. Local sources estimate a decline of about 20 percent, or about 50 tons, from last year's 242 tons.

Most of the remaining stock of gold collateral with Western banks has also been sold. About 100 tons were offloaded in the first half of 1992.

In subsequent years, however, CIS gold output is likely to rise, provided the price paid to miners matches international levels.

"But in the long term, there seems no reason why Russia and the other republics which form the CIS should forever be net exporters of gold," says Mr Murray.

If free market reforms are successful, the middle and working classes will become more prosperous. In those circumstances, local jewellery demand may well exceed the amount of gold the CIS now produces.

Moreover, as industrial output in the populous regions increases and as tertiary industries are established, it will become more difficult to attract workers to the desolate gold regions of Siberia and northeast Russia.

So even if Western capital and technology aid exploitation of gold reserves, it is not impossible that Russia and the Asian republics become net consumers rather than suppliers of gold.

In the next few years, however, the deep economic crisis will force the CIS to export as much gold as possible.

CIS gold production of 242 tons last year compares with 601 tons in South Africa, 300 tons in the US, 234 tons in Australia and 177 tons in Canada.

About 250 operating companies, known as "artels", mine alluvial deposits throughout the CIS and each employs 30 to 1 000 workers. The artels are considered to be the most productive in the CIS.

There is also deep-level mining, notably of the Muruntau deposit in Uzbekistan.

At least two-thirds of CIS gold is produced in Russia and the industry there is in such crisis that some locals are forecasting a 30 percent fall in output.

There is a shortage of simple drilling rigs, bulldozers and other earth-moving equipment. Workers are leaving the mines because wages have fallen.

Mines will also experience a sharp rise in energy costs.

Under the old Soviet system, government payment to mines was well below the international gold price.

The Russian government now appreciates that the miners should receive much higher wages and in May doubled the price it pays.

A new Russian mining law has altered the framework for licensing all mineral deposits. There will now be a level playing field for local and foreign applications for exploration and development licences.

Ten major Western mining companies have seriously considered investment in the CIS. They would pay a premium for the licence and a royalty of 10 percent once production started. Foreign companies tend to favour hard-rock deposits.

Uzbekistan and Kazakhstan are so far not as progressive as Russia. International companies must thus negotiate with the still all-powerful geological committees.

Internal CIS consumption was around 90 tons last year, but most of the gold was bought by the army for electronics.

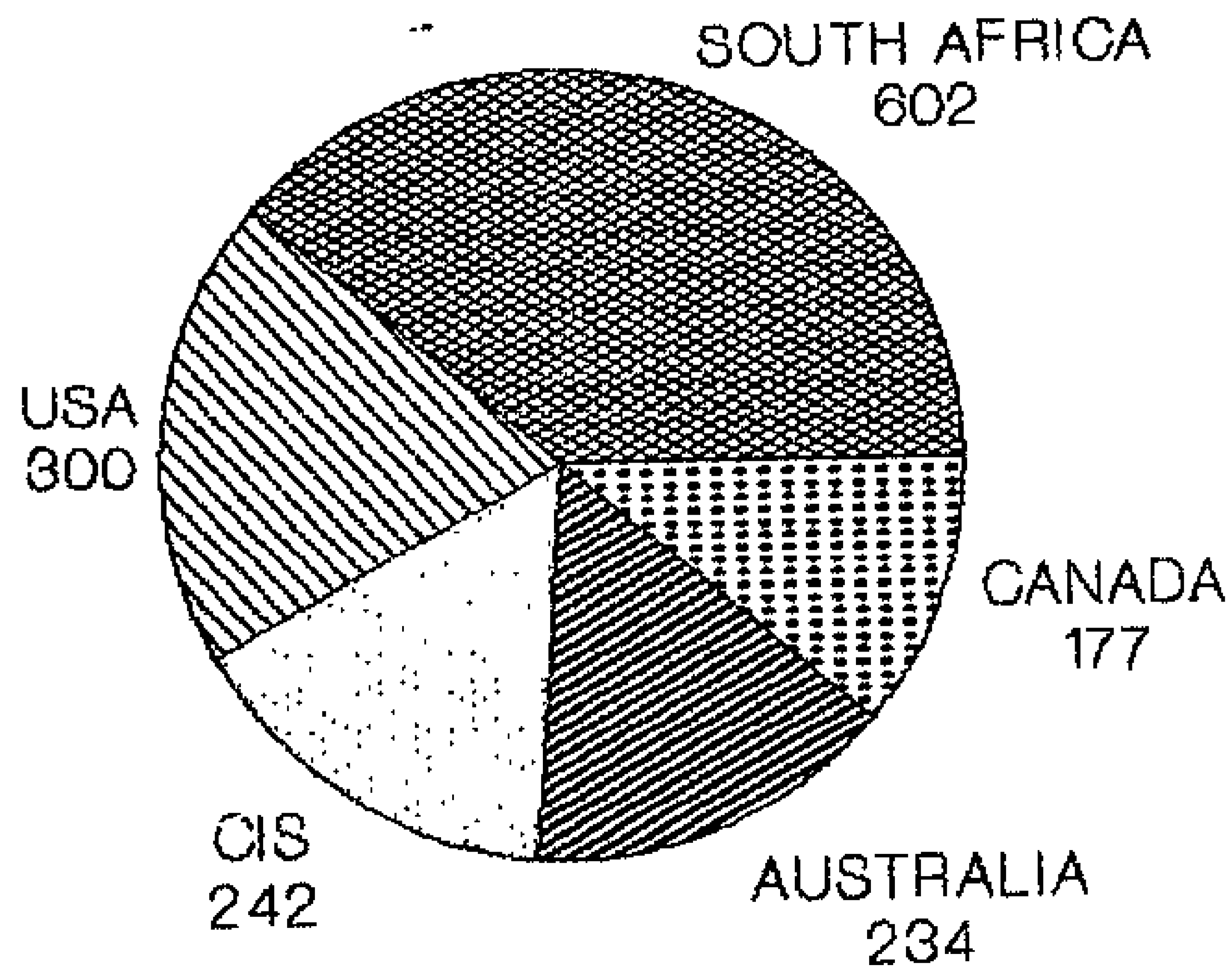
Mr Murray estimates that per capita jewellery consumption was only 0,13 grams last year, a quarter of Portugal's and a 20th of the amount consumed in Italy.

Investment demand is virtually zero. But if future CIS republics were to ban individuals from holding foreign currency, gold jewellery and other forms of gold would be held as a store of value.

Recently, workers and managers discussed the possibility of payment in gold coins rather than fast depreciating roubles.

Considering the hyper-inflation in the CIS, it is hardly surprising that gold is preferred to paper.

Hardly surprising, some workers are smuggling gold. On an internal flight to St Petersburg, Mr Murray was approached by a young man offering to sell 3 kg for $30 000.



Gold production — tons a year

THE WEEK AHEAD by Simon Willson

Better gold valuations should bolster reserves

BIDAY 3/8/92 (79)

NOW THAT the end of the second quarter is past, gold and foreign exchange reserves should look a little healthier when the July level is released at the end of the week.

Reserves took a knock in June, when they dropped R200m, but the total stayed above the psychological R10bn mark at R10,2bn against May's R10,4bn. End-quarter interest and dividend remittances were probably responsible for the dip, extending a pattern that also saw matching falls in total reserves at the end of the December and March quarters.

July reserves could also be supported by a rise in the rand gold price valuation, which has fallen consistently for the past four months.

Concerted central bank dollar-buying in the third week of July dragged the commercial rand back from fresh 1992 dollar highs around R2,72 to its current R2,75-R2,77 range.

But, at the same time, bullion continued to test $360, and this combination of a weaker rand and steady bullion should haul the Reserve Bank's gold price valuation for July back from the R856 low in June.

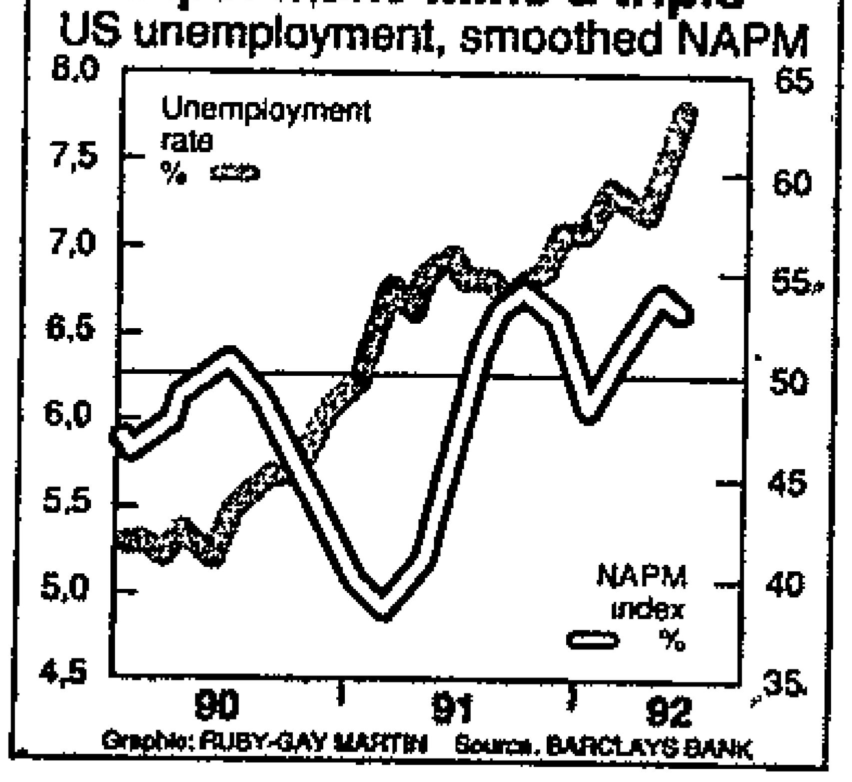
Internationally, Western central banks' itchy trigger fingers could be tested again this week with the next spate of US economic indicators.

There are several that could still depict weak US growth, increasing downward pressure on the dollar and probing the central banks' resolve to defend the DM1,45 level again.

As the chart shows, the fear now is that US economic activity — represented here by the National Association of Purchasing Management (NAPM) survey — is about to make a third dip.

The July NAPM is out later today, and is poised to trace a third dip to follow in sequence after the 1990-91 and 1991-92 slides on the chart.

Dips: make mine a triple



The NAPM survey, which measures activities such as orders, employment, production and deliveries in the manufacturing sector, is one of several US indicators that has begun to etch a triple dip recession.

The NAPM line's "U" on the chart has become a "W" and threatens to become an "UM" as each rally stalls. The index ducked to 52,8% in June from 56,3% in May.

Tomorrow, the index of US leading indicators for June is released. Its 0,6% uptick in May was a fifth consecutive monthly rise, but the index is thought to lead the real economy by about nine months.

On Friday the July US employment report is published. US discount rate was cut after the poor June report showed the jump in unemployment, shown on the chart, to 7,8%. While the overall rate may be steady for July, there may be a turnaround in the 117 000 drop in non-farm recruitment for the month.

The Bundesbank council meets again on Thursday after its summer break, but bank spokesmen have already ruled out any easing in credit conditions despite the fall in German inflation announced last week.

MONEY MARKETS by Hilary Gush

Equities slump helps ease rates

BIDAY 3/8/92

ALTHOUGH the capital market has been the main beneficiary of the recent slump in equities, it has not been the sole heir to institutional funds looking for rosier returns. Money market instruments have also found favour with organisations — resulting in a gradual decline in rates.

The 90-day liquid BA rate continued to ease last week falling slightly to trade at 13,5% from 13,6% and 13,8% respectively at the end of the previous two weeks.

A softening of rates usually indicates an expected improvement in market liquidity.

The money market shortage see-sawed to reach R4,319bn on Wednesday, prompting the Reserve Bank's Corporation for Public Deposits to offer twice to buy back R500m worth of gilts and semi-gilts.

Liquidity should pick up this week as the month's government spending reaches the market.

The Treasury's decision not to roll over R3,5bn in RSA loans maturing at mid-month should also ease tight liquidity.

Profit-taking by institutions and foreign gilt-selling saw rates on the capital market edge up over the week.

On Friday the yield on the bellwether Eskom 168 bond was up slightly at 14,70% from 14,59% at the of the week.

The yield on government R150 stock followed a similar pattern, hardening to 14,83% towards the weekend after trading 10 points lower at 14,73% on Monday.

Medium-dated gilts remained strong and rates stable, however, as few sellers came into the market.

The move out of equities and into gilts which started in the first quarter has maintained its momentum despite a small recovery in the stock market last week.

Planned mass action this week is likely to boost the capital market further.

An expected easing of consumer inflation also bodes well for gilts, but yields on capital market instruments should stay around their current levels this week before resuming a downward trend.

Ban on gold exports lifted

BIDAY 3/8/92

TAIPEI — Taiwan has lifted a 44-year-old ban on the export of gold in line with the end of the period of communist rebellion or state of emergency.

Deputy Finance Minister Lee Chung-ying said the legal force of the period of communist rebellion ended on Friday. During the period, Taiwan allowed the import of gold but forbade its export.

Under the long-awaited liberalisation move, Taiwan banks could be allowed to operate private gold accounts for individuals seeking gold investment. The move is expected to help the island become one of financial hubs in the Asian Pacific region, boost the gold market and pave the way for the futures market. — Sapa-AFP.

Gold, platinum prices slip on full production

(79) CT 5/8/92

UNINTERRUPTED gold and platinum production on SA's mines helped knock precious metals prices yesterday, as the mining industry remained largely unaffected by strikes.

Gold fell further from the $360 mark and closed at $352,85 in London yesterday, down $1,20 from Monday's close. Platinum lost ground too, shedding more than $3 to $376,25 from $379,50.

Closing gold

(In $ an ounce)
NEW YORK:
352,80/353,30

LONDON:
352,60/353,10
Fixing am: 352,75
Fixing pm: 352,70

ZURICH:
351,50/354,50
— Reuter

On the JSE, investors returned in active afternoon trade to pick up shares at the lower levels.

Market sources are divided about whether precious metals prices can maintain their upward momentum of the past two months. Prices could stagnate, waiting for more convincing signs of economic recovery in the US, Japan and Europe first.

International Investment bulletin FullerMoney reported in its latest edition that "it would take only a small increase in speculative demand for precious metals to rebound sharply".

Commodity price indices are encouraging. The Economist magazine's industrial commodities index has risen nearly 12% this year, to its highest level since mid-'91. The base metals index collated by German trading company Metallgesellschaft has risen more than 15% since January, to its highest mark since early last year.

However, Genmin senior planning and strategy manager Almorie Maule said yesterday the recent increases in base metal prices were not driven by fundamental market conditions. With the exception of copper prices, rising as inventories fall, higher prices reflected the growing activity of commodity funds.

On the **Johannesburg Stock Exchange**, dealers said market activity was hamstrung by a lack of sellers on the market and most buyers had to pay premiums to get any stock. Trading volumes were still low after Monday's turnover of R33m worth of shares traded.

The Industrial Index bounced off a 4 205 to close one point weaker at 4 214. The Overall Index was 14 points weaker at 3 394, off a 3 389 low. The Gold Index was at 1 028 from 1 041.

In leading industrials SA Breweries, which earlier dropped 25c to R54,25 recovered to close 25c higher at R54,75. Richemont also reduced its opening losses and the shares closed 20c easier at R36,15.

Motor manufacturer Toyota was a strong feature with the shares bouncing off a day's R19,50 low to close 75c higher at R20,50 on 6 140 shares traded.

Market leader De Beers, which earlier dropped to R76,70, ended 75c easier at R77. Associate mining financial Anglos was R1 lower at R114,75.

Concorde Travel featured with 301 160 shares changing hands 2c below Monday's 35c closing level. Market sources said the shares were bought by two private investors.

Thinly-traded Gubb and Inggs jumped R1,20 to R8,90. Ahead of interim results Stanbic shares were well bid at R65 and offered at R67. — Own Correspondent and Reuter

SA gold, forex reserves up 10%

79

CT 8/8/92

PRETORIA. — South Africa's gold and foreign exchange reserves grew by 10% in July, according to figures released by the South African Reserve Bank yesterday.

Total gold and foreign assets amounted to R11,286bn at the end of July compared to the R10,187bn at the end of June.

Gold reserves increased by R138m over June and the rand price of gold during July was R892, slightly higher than the previous month's R856.

Foreign assets increased by R960m to R5,302bn in July.

Physical gold holdings at 6,707m fine ounces last month were marginally lower than June at 6,827m fine ounces. — Sapa

Gold, platinum tend firmer

STAR 10/8/92

LONDON — Gold and platinum markets appeared to take a relaxed view of last week's action in South Africa, the biggest producer of both metals, and prices fell steadily until Friday.

Values then steadied, encouraging the view that gold's recent technical uptrend was still intact.

The gold price on Friday rose by $2,30 to $350,95, which was still $7 down on the week.

The firmer trend was maintained this morning in Hong Kong, where the metal rose $1,25 to an opening of $351,25.

Platinum responded to gold's advance to reach $377,25 an ounce at Friday's afternoon fixing, up $3,25 on the day, but down $8 on the week.

Dealers said at the weekend that US investment funds had been pulling out of gold.

With their evacuation virtually completed by Thursday, market professionals were left on Friday to trade largely among themselves.

79

US figures

Their reluctance to carry short positions into the weekend was evident.

Sentiment was supported early on by hopes, later justified, of moderately constructive monthly US employment figures.

Also encouraging buying was renewed tension over Iraqi weapons inspection and relief that key support at $348 had withstood a severe test on Thursday.

Gold's earlier fall had been influenced, though not as much as might have been expected, by the Uruguayan central bank's announcement last Monday that it sold 50 000 ounces last month.

The bank, in line with many other central banks in developing countries, has adopted a new reserves policy involving a switch out of the yellow metal and into fixed-term deposits denominated in US dollars and Deutsche marks. — Financial Times.

Gold, forex reserves at record level

(79) (18)

By Derek Tommey STAR 10/8/92

Threats of mass action failed to deplete gold and foreign exchange reserves last month, which surprisingly jumped R1,1 billion to a record R11,3 billion, Reserve Bank figures show.

This followed a R208 million dip in the reserves in June when they are normally under pressure as quarterly and year-end payments are made abroad.

Gold holdings, valued at R892,07 an ounce (R856,13 an ounce in June) rose R138,4 mil lion to R5,98 billion, while foreign assets rose by R960,4 million to R5,3 billion.

The steep increase in reserves should do much to boost business morale.

The net inflow of more than R1 billion in foreign currency, though unexplained, should boost the economy. It should also help the rand remain firm.

The Reserve Bank still has a tight grip on money supply.

Temporary

Its call at the beginning of the month for a one percent increase in the cash that deposit-taking institutions have to keep with it resulted in deposits rising by R900,7 million during the month to R1,96 billion.

This was a temporary expedient to drain cash from the market and stop money accumulated for tax payments later this month artificially depressing interest rates.

The banks making these deposits will receive interest on their money and presumably will be repaid later this month.

Paralleling the increase in the deposits was an R854,6 million increase in the Reserve Bank's holdings of government stock to R1,17 billion.

No explanation for this was obtainable at the weekend, but speculation is that deposit-taking institutions may have been able to meet the one percent call with government stock.

Gold plummets by $8,55 in New York

LONDON — Gold plunged on world markets yesterday, falling $8,55 to close at $339,25 in New York last night after ending $3,25 down at $345,80 in London.

The falling gold price pulled New York's comex gold down sharply in late trade, following slumping silver and platinum.

Nymex platinum plummeted more than $12 as frenzied selling and liquidation triggered stop-loss orders. A sharp fall in the Nikkei share index has raised fears that demand could slacken from Japan, the world's biggest platinum importer.

"There is no reason to own any of these metals at recent levels — either technically or fundamentally. Reality is catching up with these markets," a floor analyst said.

Gold's decline was halted temporarily yesterday morning when unconfirmed reports emerged that Iraq was gathering troops at the Kuwaiti border.

An Iraqi opposition group said ~~Iraq~~ had mobilised forces along the Kuwaiti border. However, a Kuwaiti official said no movement of Iraqi troops had been observed.

□ In a report released in London yesterday, Metals and Minerals Research Services said European and North American investors had reduced their gold holdings by 300 tons in the first half of the year.

The amount sold from investment was equal to six months' output by SA. The sales were important in preventing the price from rising as supply fell sharply and industrial demand ran at a record high.

Supplies from the West were expected to fall by a "substantial" 7% to 2 470 tons this year. — Reuter, Sapa-AFP, AP-DJ.

B/047 13/8/92

Falling gold price adds to market gloom

STAR 14/8/92

By Magnus Heystek

The slide in prices on the JSE continued yesterday as further bad news in the form a sharply lower gold price depressed sentiment and sent investors hurrying for cover.

Gold was fixed at $337,30 yesterday afternoon, compared with $346,80 on Wednesday.

In the space of four trading days platinum has fallen by over six percent to $351,75, silver by 3,5 percent to $3,81 and gold by over three percent to $337.

Gold's decline was precipitated by the sharp drop in the platinum price on Wednesday when Japanese investors sold the metal on fears that demand would dwindle as the Japanese economy was showing no sign of improvement.

On the JSE, the overall index shed 54 points to bring its decline to 191 points since the beginning of the week.

Industrials also come under severe pressure and closed down 52 points after Wednesday's 110-point drop.

It closed at 3997 yesterday in what could be a major downward break of the 4 000 level.

The gold board was especially weak, shedding almost five percent of its value to 937.

News of the sharp drop in economic activity in the second quarter of the year, which shows that gross domestic product (GDP) declined by 2,6 percent on an annualised basis, added to the gloom.

Despite a brave face being put on by brokers, analysts fear a prolonged bear market.

De Beers again occupied centre stage yesterday. The share at one stage dropped to below R60, but some support later propped the share up somewhat. It closed at R61,50.

According to one broker, Cape-based financial institutions had been buyers of De Beers prior to its interim results.

"They were buying De Beers at R80 last week and now they don't want to touch it at R60," he said.

The sharp drop in De Beers, in particular, is causing havoc with the investment performance of financial institutions, especially unit trusts.

With De Beers having the largest market capitalisation on the JSE, it forms the largest single shareholding of most portfolios.

While the portfolios of pension, provident and other funds are able to hide the extent of their declines from the public eye, unit trust are not so lucky.

The decline in the value of general equity funds has been greater than the decline in the overall market, mainly because of the heavy shareholding in De Beers.

STAR 14/8/92.

Gold price dip adds to JSE gloom

179

14/8/92.

By Magnus Heystek

The slide in stock market prices on the Johannesburg Stock Exchange continued yesterday as further bad news in the form of a sharply lower gold price depressed sentiment and sent investors hurrying for cover.

Gold was fixed at $337,30 an ounce yesterday afternoon compared with $346,80 on Wednesday afternoon.

News of the sharp drop in economic activity in the second quarter of the year, which shows that the gross domestic product declined by 2,6 percent on an annualised basis, further added to the gloom.

Overall the JSE dropped by another 54 points yesterday to bring its decline to 154 points since the beginning of the week.

Industrials also came under severe pressure and closed down another 52 points after Wednesday's 110-point drop.

● Report — Page 15

JSE falls further as gold slides

PETER GALLI and HILARY GUSH

PLUNGING precious metal prices took their toll on JSE gold and platinum counters as the all gold index tripled its Wednesday losses, falling 43 points to close at 937 points. BDAY 14/8/92

While other counters continued to reflect heavy losses yesterday, these were not as severe as Wednesday's.

A dealer said that after pushing the market lower by "panic selling", institutional and private buyers were now placing buy orders at these levels.

The overall index continued its downward spiral, closing 54 points lower at 3 155 with the industrial index following closely, losing 52 points to 3 997. (79)

A market commentator said attention had moved away from De Beers to other blue chip industrials as some investors continued to panic and lightened their portfolios. "However, in late trade yesterday we saw a number of buying orders that had been cancelled on Wednesday renewed as some buyers were nibbling at blue chips at these levels," he said.

Bearish market sentiment and falling precious metal prices assisted the mining financials' 75-point drop to 3 455.

"The market has been really tough lately and while it appears to have steadied at these lower levels, major political or economic news is needed to stimulate it."

In London, gold closed at $338,40, $7,40

☐ To Page 2

JSE

BDAY 14/8/92. (79)

☐ From Page 1

down on Wednesday's close

The platinum index lost 30 points to 4 305 on the back of a $16 fall in the platinum price to $351,75 at the afternoon fix

On the SA Futures Exchange, volume yesterday more than doubled from Wednesday's 9 513 to 20 000 contracts "due to the phenomenal volatility in the market-place", MD Stuart Rees said

An institution-led bull run on the capital market yesterday brought rates down to lows last seen in March 1984

The yield on the bellwether Eskom 168 bond slipped to finish at 14,13% yesterday from Wednesday's 14,30% close The yield on government R150 stock — the benchmark gilt — ebbed 21 points to end the session at 14,23% from a previous 14,44%

Dealers said as the performance of equities was poor, institutions were "piling into gilts" and that market was bearing the fruits of the equity market's demise

Active trade in Transnet Elfi stock saw the TB12 bond gain 11% in five trading days From R89,75 a week ago, it closed yesterday at R99,75 Over the same period the all-share index fell 6,5%.

● See Page 7

Funds put metal price in a spin

BDAY 14/8/92

19

MATTHEW CURTIN

RAMPANT profit taking by commodity funds and nervousness about the world economy drove gold and platinum prices towards lows for the year yesterday.

Gold, having crashed on New York markets overnight, slumped in London to a close of $338,40, down from $345,80 on Wednesday.

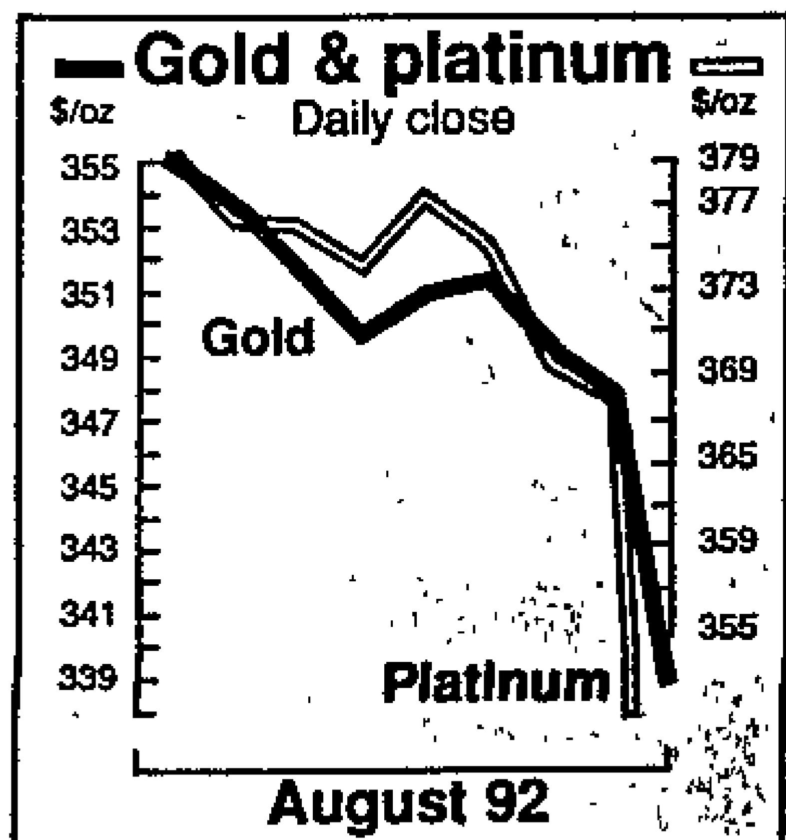
Platinum prices fell nearly 5%, losing $16 in their fall to yesterday's afternoon fix of $351,75, against $368,75 on Wednesday.

Analysts said the price free-fall was started by a frenzied selling session in New York on Wednesday afternoon. One dealer noted: "There was no news, it was fund selling."

The sharply weaker Nikkei index, which fell to a 77-month low yesterday, also undercut confidence in the platinum market, because of the metal's sensitivity to motor-industry and jewellery demand in Japan.

Almorie Maule, senior manager, strategy and planning, at Genmin,, said yesterday the falling precious metal prices were primarily the result of fund selling.

She said the rallies in gold and platinum prices in mid-year were not based on a significant improvement in fundamental market conditions,



but in speculative trading on world metal exchanges. Once confidence ebbed and selling started, most dealers joined the bearish bandwagon to send prices tumbling.

Commodity funds were now frightened of the precious metal markets, because of fitful economic recovery in OECD countries, a nervousness compounded by De Beers' poor results announced this week.

The risk of "a triple-dip recession in the US" was stronger now than it was six months ago.

But Maule said there were no signs of profound economic weakness, with indications Japanese imports of platinum were likely to match first half figures of about 31 tons.

Hanson suffers 28% plunge

LONDON — US-British conglomerate Hanson yesterday reported pre-tax profit fell 28% to $274m in its third quarter ending June 31, leaving profit in the first nine months of the financial year down 21% at £762m from £967m in the year-earlier period.

Hanson maintained its quarterly dividend at 2,75p a share and reaffirmed its quarterly dividend would not be lowered "until further notice".

The conglomerate switched this year to a US system of paying quarterly dividends from the British practice of interim payouts. It has now declared two quarterly dividends of 2,75p a share each, compared with a single interim dividend the year before of 3,15p.

Hanson paid a full year dividend in 1990-1991 of 11p a share and is on track to maintain that dividend in the year that will end on September 30.

Hanson is Britain's eighth-largest company by capitalisation on the London Stock Exchange. Its activities, including the Beazer construction company, Peabody Coal and Imperial Tobacco are about evenly split between Britain and the US.

"These are very good results in the economic climates affecting both sides of the Atlantic," chairman Lord Hanson said. — AP-DJ.

Basil Starke cuts operations by 60%

BDAY 14/8/92

LINDA ENSOR

CAPE TOWN — Building group Basil Starke had cut back construction operations by 60% and retrenched 300 workers this year as a result of the recession, former MD Maurice Phillips said yesterday.

He said plant had been sold and would continue to be sold until it reached levels required by present construction activities. Last year 150 workers lost their jobs, bringing the total number of workers retrenched so far to 450.

Phillips, who retired as MD after suffering serious injuries in a motor accident this year, said the steps were essential for the group's long-term prosperity. The remainder of the construction division had enough work and was active at present.

In the financial year to end-December 1991, Basil Starke made a slight profit, and is due to release its interim results next month.

Phillips said the purpose of the downsizing operation was to maintain stability under prevailing tough economic conditions. He pointed out the scaling-down had been structured to enable the group to adapt immediately to an economic upswing.

He did not think there would be a massive economic upswing, but only a bottoming out and slight upward trend over the next 18 months.

Phillips remains a director of Basil Starke Investments and the group.

Mines under pressure to hedge

BDAY 17/8/92

234/79

JONO WATERS

THE pressure on SA gold mines to hedge will increase as costs catch up with revenue, even though the premium between the forward and spot prices in dollar terms has almost evaporated, analysts say.

Low gold prices have forced producers to cut back production to keep working costs down.

However, analysts said many mines had been restructured as far as possible, and working costs were now likely to rise in line with inflation, threatening the life of several marginal mines.

Question

One industry source said mining houses had concentrated on cost management but they could now concentrate on "revenue management", maximising gold mining income by hedging their output.

Chamber of Mines economist Francois Viruly said rationalisation had taken place at mines over the last few years, but the question now was: "Can you rationalise indefinitely to stay in business if the gold price does not improve?"

Working costs among gold producers increased last year by only 1,6%, which was significantly below the inflation rate. But falling capital spending on the mines was an important sign that the industry was still in trouble. Capex fell by 16,9% during 1991.

Viruly said hedging had helped marginal mines, but the premium between the forward price and spot price had narrowed a great deal. The present premium was about 1% over the spot price in dollar terms.

This presented the possibility of marginal mines being faced with a greater fight for survival.

Gengold, for example, often managed to keep the increase in working costs below 1% a quarter as a result of rationalisation. This had greatly benefited the marginal mines.

Gengold managed to decrease its working costs a kilogram by 0,4% in the past quarter and management had cut costs to the bone. Gengold's after-tax profit increased by 5% in the June quarter to R70,6m and the importance of hedging was shown by its forward selling operations, which accounted for one-third of the profits in the quarter. The group hedged 20% of its production.

In the last quarter, the mining group reported that three of its profitable mines had costs higher than R30 000/kg. With the current spot gold price at R30 200/kg, these marginal mines do not have much leeway if costs increase.

Gengold CE Gary Maude has gone on record saying that if a mine makes a loss for more than three months, it would be closed down.

Deputy MD Tom Dale said a great deal had been done to cut costs and it was becoming progressively more difficult to achieve further cost improvements. However, he said there were still opportunities to reduce costs.

A tremendous amount of management effort had gone into examining every possible way to reduce production costs, but it was not possible to predict how successful these efforts would be while inflation was at 15%.

Costs of gold production, he said, were a function of both expenditure and recovery grades, the latter being vitally important to costs.

Dale said the mines could not bank on hedging to stay in production and noted that there were several financial tools in the forward markets.

"Gengold is fully aware of the opportunites in these forward markets and has the skills to exploit and make full use of them."

This again raises the question on whether marginal mines will in the future have to rely heavily on forward selling. Forward selling is a dirty word among some mining houses which argue that it keeps the gold price down.

Some analysts agree with this, and point out that the fall in the gold price from $359 two weeks ago came on the back of the Australians selling forward large amounts of gold when the price peaked, to protect some of their marginal mines.

But other groups see forward selling differently. One industry source described it as the "effective banking of production before it is produced".

Some analysts in the industry see the 11% interest premium in rand terms on forward gold sales making it sense for producers to hedge because, in their view, there is downward pressure on SA interest rates.

Some mining houses believe that forward selling caps the market. However, others say that it keeps gold trading within price bands — where the forward selling both capped and floored the market.

Mathison and Hollidge analyst Rob Gillan said "at best" gold mines would receive similiar gold prices in the September quarter compared to the last quarter, but they could be 5% lower as the rand had strengthened against the dollar.

He said wage increases would push costs up by at least 3% in the next quarter.

Gillan said mining houses had the opportunity to hedge when the price was over $350 but the chance had fallen away.

Viruly said: "Even if these mines, which hedge a significant portion of their production, did go out of business the expected contraction in size of the gold mining industry and resultant increase in price would not necessarily come about."

Increase

This was because the marginal mines in SA contributed about 80 tons a year to the total world production of about 1 800 tons a year and would not drastically affect the gold price.

Fundamental to an increase in the gold price was world economic growth which would increase the demand for jewellery, said Viruly. However, he pointed out that low gold prices encouraged consumption by the jewellery sector, which in turn explained the range in which the gold price had been trading.

Gillan added that any major slowdown in gold production, expected to peak for the century at the end of this year, would be focused on SA, and that meant closures.

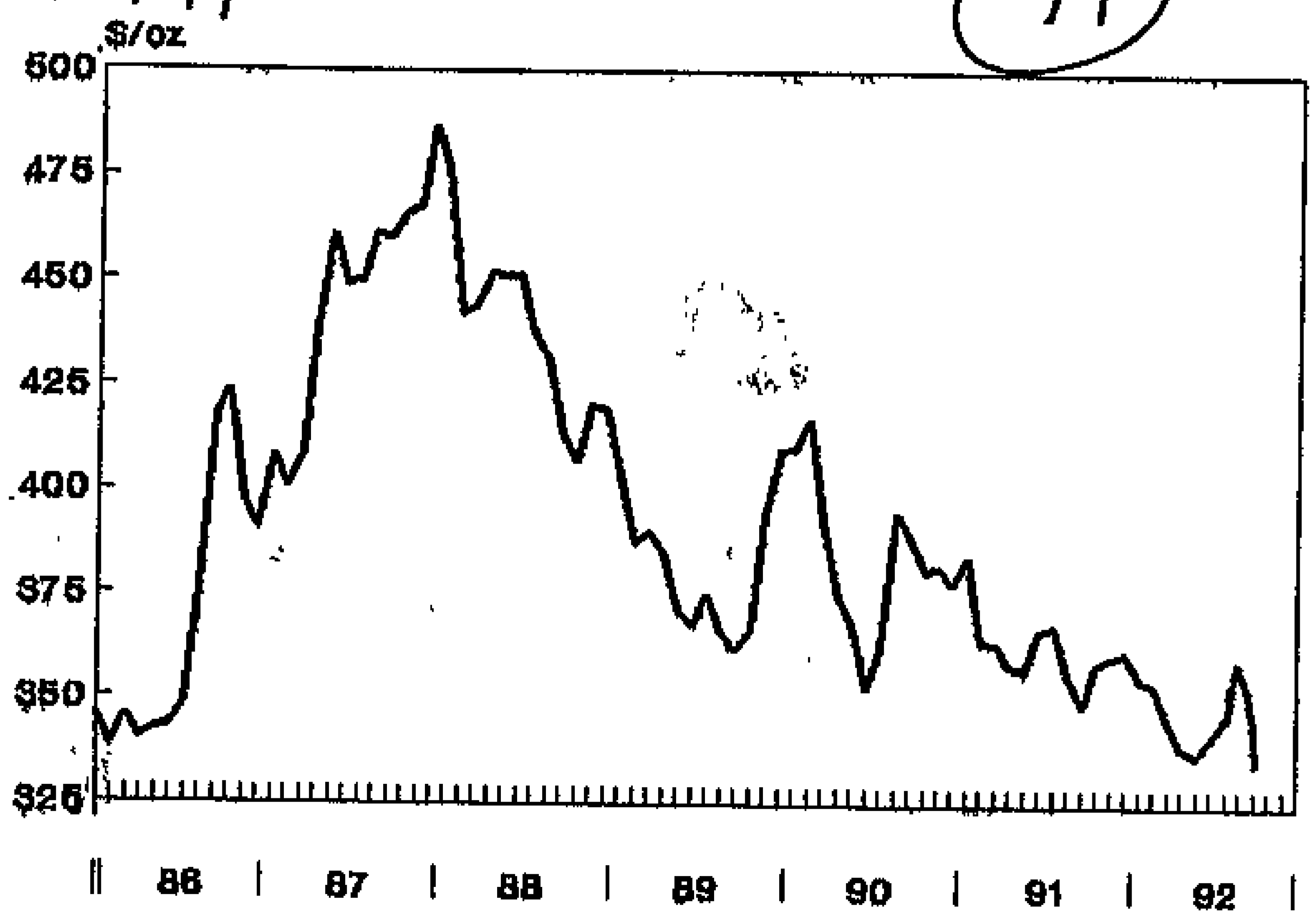
He said there could be a demise of the SA gold industry in the next five years as it was hard to see single digit inflation in SA in the foreseeable future. "The only saviour of the gold industry will be a declining rand against the dollar," he said.

Deflation and interest rates undermining gold

STAR 17/8/92

(79)

By Neil Behrmann



The declining gold price

LONDON — Look beyond short-term market movements to understand why gold rallies are faltering time and time again.

The main reasons are a deflationary world economic climate and high real interest rates.

On Friday, gold fell by 280 US cents to $335,45, down $15,50 on the week and only 250c above its recent six-year low.

Since gold does not yield any interest, it is suffering from asset-price deflation along with property, diamonds, art, other collectables and, more recently, equities.

Indebted individuals in the major industrialised countries — the US, Japan and Europe — do not have sufficient disposable income to buy more gold.

Thus coin and jewellery demand is slack in those regions.

The latest interim report of De Beers spells out the problems.

Retail jewellers are de-stocking because they are worried about final consumer demand. As a result diamond sales are falling down the pipeline, from wholesaler to manufacturer and finally to De Beers.

Thankfully for gold producers, it is only the nine-to-18 carat gold "adornment" jewellery markets of major industrial countries that are being affected by recession.

Sales of 22-to-24 carat "investment" jewellery bought in the Far East, notably India and China, are still strong, says a knowledgeable gold analyst at a mining corporation.

In the first six months of this year, Hong Kong's imports surged to 198 tons from 163 tons in the same period of 1991.

Total Hong Kong imports last year, which were mainly for China, amounted to 296 tons.

This year's imports, which are averaging 33 tons a month, compared with 25 tons last year, indicate that the annual total may reach 400 tons.

As a result of Far Eastern demand, total gold jewellery sales are expected to hold above 2 000 tons this year.

Mine production will be flat and CIS exports are expected to be sharply lower.

Market supply and demand figures are thus expected to be similar to last year's.

Nevertheless, gold badly needs a surge in investment demand to drive prices upwards.

With this in mind, its recent performance of the past few weeks reflects the impact of deflation.

From June onwards, commodity funds, which now control billions of dollars, bought gold futures and options.

Those purchases, plus short covering by dealers, speculators and producers, pushed the price through $350 from $340. But near $360 the market ran out of steam.

Week-long strikes in South Africa failed to spur prices and commodity funds began selling.

As the price fell, fund managers were panic-stricken. A plunge in platinum and silver prices made them all the more nervous.

They were unnerved by penetration of chart support barriers and a decline in the Commodity Research Bureau's index of 21 commodities to a six-year low.

Short-term movements aside, investors are tending to offload holdings because of deflation and high real interest rates on financial assets.

This strategy is frustrating the market.

Last month an informal survey of bullion dealers showed that most market participants believed bullion had bottomed, even though they were unconvinced that gold would make a substantial break upwards.

A German bullion manager cautioned that gold would remain stuck in a trading band of $340 to $380, a range that has been in place for several years.

In slack Northern Hemisphere summer conditions gold has fallen below that band and former optimists are now bearish. But market participants are hoping gold will re-enter the band once again.

But investors are also switching funds into bonds and short-term European deposits yielding returns well in excess of inflation.

Against these returns gold is at a distinct disadvantage. Even central banks are appreciating this.

Central bank sales, notably by Belgium, Iraq, Abu Dhabi and Eastern European, are estimated at 350 tons so far this year. So there is plenty of gold to satisfy fabrication demand.

Gold output up on 1991

BDAY 18/8/92 79

MATTHEW CURTIN

SA GOLD output held relatively steady in July, with production so far this year higher than in 1991, but falling dollar prices and the relative strength of the rand have exacerbated the pressures facing the industry.

A Chamber of Mines spokesman said yesterday that total SA gold production fell to 51,2 tons from 52,2 tons in June, but it was still higher than the comparative figure of 51 tons in July 1991.

According to Chamber figures, total cumulative gold output stood at 353,6 tons, 1,6% higher than the 348,1 tons produced in the first seven months last year.

Gold prices made small gains yesterday, with the metal fixed $1,70 higher at $337,40 in London yesterday afternoon. But the continued strength of the rand against the dollar has left SA producers facing the lowest rand gold prices since March last year.

Having fallen below R30 000/kg for the first time in more than a year, rand gold prices recovered to R30 140/kg yesterday, but well below average for the past five years.

In the June quarter the average nominal gold price received by SA mines was R31 900/kg, a price at which the chamber calculated 12% of gold output was being produced at a loss. Altogether, 15 gold producers reported working costs higher than R30 140/kg in the quarter.

Another five mines had working costs higher than R29 000/kg, including Anglo American's Freegold and Rand Mines' debt-laden ERPM.

Dries, Kloof keep GFSA ticking

(79)

CT 19/8/92

Own Correspondent

JOHANNESBURG. — The profitability of SA's two top gold mining companies, Driefontein Consolidated and Kloof, enabled Gold Fields to weather the depressed state of the industry in the year ended June 1992.

The mining house reported a 4% fall in earnings to 314c from 328c a share, but declared an unchanged total dividend for the fourth year running of 200c a share.

Chairman Robin Plumbridge said yesterday he was "particularly pleased to have been able to maintain the dividend in a difficult year". The strength of the group's performance was entirely due to its quality gold mines. Driefontein had raised its dividends in the year, as had Deelkraal, while Kloof had maintained its payout.

Gold Fields turned in a small increase in income from investments in the year to R289m (R285m). However, net revenue fell nearly 3% to R505m from R518m after the group received only R1m (R21m) from profit realised on the sale of investments.

Pre-tax profit fell more than 4% to R342m from R358m as expenditure rose to R163m from R160m. After a 13% lower tax bill, and accounting for R13m paid in preference dividends, attributable earnings fell to R302m from R314m.

Gold Fields maintained its dividend cover at 1,6 times, and the group's net asset value a share at year-end stood at R90,38, compared with R92,28 at June 30 1991.

be- ler- ted ike lay ain ver for ion uld six ere "la- sta- l be n of e in be- loy- ises ient the tant but ron-

ers g

s, Jap- their rch, a survey e first spend- d auto- sharp y said, g were 7% in- t said. stment -AFP.

...bel lifts ...ings 7%

JSE actu...

TERM	18.08.9... %
0	012,1...
1 year	011,9...
2 years	011,7...
3 years	011,7...
4 years	011,8...
5 years	012,0...
6 years	012,3...
7 years	012,5...
8 years	012,8...
9 years	013,1...
10 years	013...
11 years	013,...
12 years	013...
13 years	013...
14 years	013...
15 years	013...
16 years	013...
17 years	013...
18 years	013...
19 years	013...
20 years	013...
21 years	013...
22 years	013...
23 years	013...
24 years	013...
25 years	013...

The yields above ... Yield Curve. The yi... convention as nom... Customer Service...

Bond p...

Category
0 to 3 years
3 to 7 years
7 to 12 years
Over 12 years
All Bond

JSE ...

OVERALL
MINING PROD
COAL
DIAMONDS
ALL GOLD
RAND&OTHERS
EVANDER
KLERKSDORP
O.F.S.
WEST WITS
METALS&MIN
COPPER
MANGANESE
PLATINUM
TIN
OTHER METALS
MINING FIN
MIN HOUSES
MIN HOLDING
FIN&INDUST
FINANCIAL
BANKS&OTHER
INSURANCE
INV TRUSTS
PROPERTY
PROP TRUST
PROP LOAN ST
INDUSTRIAL
IND HOLDING
BEV,HOTL,LES
BUILD&CONSTR
CHEM & OILS
CLTH,FOOT,TX
ELECTRON,ETC
ENGINEERING
FISHING
FOOD
FURN&HSEHOLD
MOTOR
PAPER&PACK
PHARM&MEDICL
PRINT&PUBLSH
STEEL&ALLIED
RETAIL&WHOLE
SUGAR
TOBACCO&MTCH
TRANSPORT

Code	Name
RSA	

(79) (84)

Gilt millionaires

THE JSE WEEK

By JULIE WALKER

GLOOM on the equity floor could hardly contrast more starkly with the carnival atmosphere on the gilt market.

Several millionaires have been made over the past few weeks as rates gave up almost 100 points to well under 15%. Holders of call options only weeks ago have made plenty of money and expect more.

Their impoverished partners on the equity floor saw their worth decline even more this week. The market overall has shed 10% since the early June peak and the industrial index is down by 12%.

The cash-rich institutions have switched attention from private equity to public-sector debt.

At the start of June everyone on the JSE expected a correction of up to 20%, but halfway through, the mood is one of despair. World economics, domestic politics, strikes and joblessness are getting to the JSE at last.

Not even gold's encouraging advance to $360 could stimulate buying of all but the best golds — Freegold, Vaal Reefs, Driefontein.

Rembrandt companies have been hard hit. From above R29 in early June, Remgro has lost almost 20% to R23,65 and SA Breweries has given up 15% to R51,75.

Tongaat shed 325c to R16 in a single deal of barely 1 000 shares on Friday, but was bid higher at the close.

S/Times (BUS) 26/7/1984

Gold loan rates cut 0,5%

JONO WATERS

FIRST National Bank (FNB), a leading provider of gold loans to the local jewellery industry, dropped its gold loan interest rates by 0,5%, senior GM Norman Axten said yesterday.

The reduced rates are 4% for quantities over 5kg and 5% for quantities under that amount.

The international gold loan interest rate in dollar terms is 2,7%.

"By reducing the gold loan interest rates, we hope to stimulate the gold and jewellery industries by offering members a competitive advantage to market movements," Axten said.

BD 26/8/92

79

Krugerrand demand hits six-month high

(79)

BDAY 27/8/92

JONO WATERS

THE Krugerrand tender put out last week by the Rand Refinery was almost fully subscribed for the first time since February this year.

Every Friday the refinery offers by tender 6 000oz of gold coins struck by the SA Mint. Last Friday, buyers successfully subscribed for 5 600oz, the highest amount since the tender was oversubscribed in the third week of February this year.

Chamber of Mines GM Daniel Pollnow said the sale was "quite exciting" but said the question now was whether these volumes would be sustained. He said the talk of devaluation would provide a stronger interest in gold.

Investec dealer Tubby Goodwin said the market was short of coins at a 3% premium over the rand gold price and, as a result, the tender was an ideal place to take up stock. He said poor volumes in recent tenders was because the trading range had been between 0% and 3% of the rand value of gold.

Rand Refinery charges a premium from 3% for the one-ounce coin to 9% for the 10th-of-an-ounce Krugerrand.

The premium on Krugerrands had resulted in many coin investors buying coins overseas where there was a small premium between the spot gold price and the price of the coin. As recently as 1987, Krugerrands traded at a 42% premium to the rand gold price.

Goodwin said the lack of demand for Krugerrands was aggravated by their poor investment performance and the high holding cost of the coins.

Goodwin dismissed the suggestion that the Krugerrand had to change its name. "The coin has a good name overseas. Unfortunately we have lost the marketing edge because of sanctions."

He said the remarketing of the coins had been left too late and only a massive campaign would see the Krugerrand return as the world's premier coin.

Pollnow said the chamber was thinking about a sales drive but the market for bullion coins was "quiet", allowing time to prepare for the unit's relaunch.

Australia's Kangeroo Nugget held 35% of the world coin market, followed closely by the Canadian Maple Leaf. The world market for gold coins last year was 45,5 tons, down from 75,1 tons in 1990 and 98 tons in 1987.

Goodwin said local volumes in Krugerrands would increase if there was a weakness in the rand-dollar exchange rate, a substantial increase in the gold price or further political instability. Allowing local dealers to deal directly with foreign investors would also increase sales.

Pollnow said the market in second-hand Krugerrands was still strong and when this dried up, there would be a greater demand for new coins. There were 47-million Krugerrands in circulation.

The one-ounce Nugget and the Maple Leaf are 99,99% gold — nearly 24 carat. The Krugerrand actually weighs more than one ounce, since it is 22-carat, but contains one ounce of gold. Copper makes up about 9% of the coin's weight.

Central banks worldwide losing gold habit

STAR 3/9/92. 79

LONDON — Gold reserves held by central banks have this year shown their first significant dip in at least three decades after being remarkably stable since the 1960s, International Monetary Fund figures show.

The IMF's International Financial Statistics show the sale of 202 tons of gold by Belgium and rising sales by Canada, pushed official world stocks to at least a 31-year-low of 35 344 tons in June — after falling below 35 550 tons for the first time in May. The IMF records date from 1961.

Though the sales are small relative to stocks, the figures highlight market concerns that a trend may be emerging among banks.

Central bank vaults hold the equivalent of 17,5 years of annual world output.

In the European Community, bank gold accounts for 35 percent of total reserves.

One senior bullion dealer says it is unclear what effect the sales will have on the price of gold.

He notes that the market appears to have absorbed the gold — suggesting strong enough demand to support prices — but says that if the sales turn out to be "the nudging open of the central bank flood gates", prices will slide.

The International Monetary Fund data reveal a huge one-month, 133-ton drop in gold reserves held by the Bank for International Settlements (BIS) between April and May, which is unprecedented since the 1970s.

BIS gold stocks were at a record low of 43 tons in May.

The plunge in BIS reserves followed a smaller 27-ton decline in stocks between March and April when the gold price was fixed in London at a six-year-low of $334,75.

Gold was fixed in London yesterday at $340,45.

BIS holdings subsequently rebounded to 220 tons in June.

The BIS activity preceded the June 17 announcement by Belgium it had sold gold worth $2 billion to bring down the proportion of gold in its total reserves to nearly 50 percent. Analysts said the two events appeared to be linked.

One explanation for the fall in BIS stocks is that the bank sold gold which was then replaced by Belgian gold, market sources say.

This would have allowed Belgium to liquidate some of its gold holdings without causing panic in the market.

Gold at $338,70

(79) CT 3|9|92

LONDON. — Gold bullion continued to hover just above the day's lows in afternoon trading with the metal closing at $338,75/339,25, down from a previous close of $342,20/342,60. In New York gold ended at $338,50/338,90 an ounce.

Dealers said business was slow. Support was put at $338.

Platinum edged off the day's lows after finding some support around $355 but business was slow. It had a London afternoon fix of $355,75, down from a previous close of $357,75/358,75.

Silver bullion was quoted around 371/373c an ounce, little changed from its fix of 372c but down from a previous close of 374/376c.

● UK shares were higher at the close and holding firmly above the FTSE 2300 level after futures earlier lifted prices from the lows into positive territory, strategists said. The FTSE 100 index ended 14,6 points up at 2313, recouping a 16-point loss.

● US stock prices jumped higher at the end of the day yesterday, but traders said that volume was light, showing little conviction in the buying.

The Dow Jones industrial average closed 24,05 points higher at 3 290,31. — Sapa-Reuter

THE WEEK AHEAD by Simon Willson

Bearish factors cloud reserves

BDAY 7/9/92

79

RESERVES had a debt repayment and a drooping rand gold price to contend with last month, and the combination of these two bearish influences overshadows the August gold and foreign reserves total due early this week.

Reserves are therefore unlikely to match their R1,1bn surge in July, when the total leapt to a record R11,3bn.

The July figure was helped by the first upward valuation to gold reserves in four months as the rand gold price soared towards R1 000 an ounce in mid-month.

The gold factor is likely to weigh against the August reserves readout.

The dollar gold price sagged from testing $360 in late July to struggling to stay in touch with $340 be the end of August, while the rand surged against the beleaguered dollar.

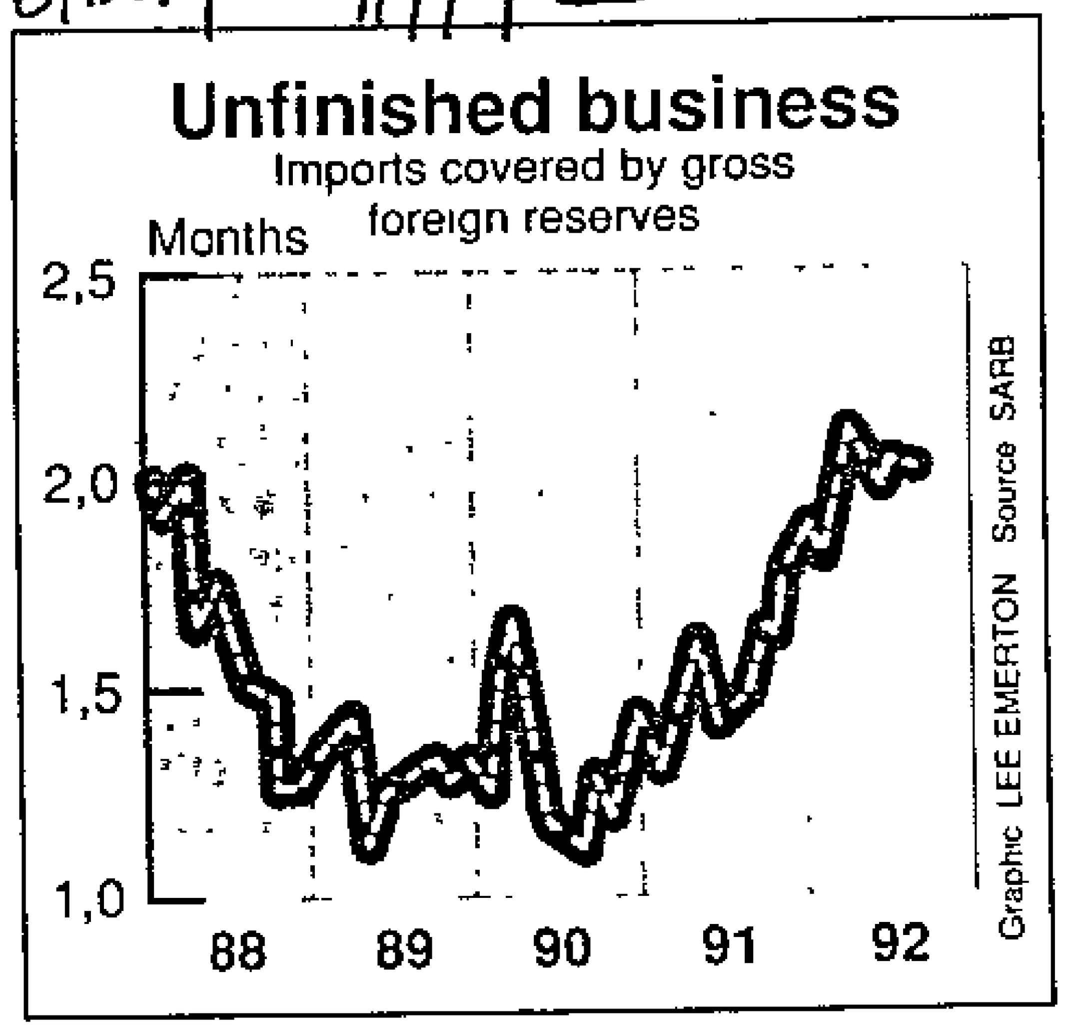
This cut the rand gold price from more than R990 towards the end of July to less than R935 by the same stage in August, making a lower gold valuation likely in this week's figures.

In addition, the second and final instalment of this year's total repayment of around R365m of foreign debt within the standstill net was paid in August.

The first tranche, of about $160m, was paid in February, leaving the balance to have been settled last month.

The overall reserves position was bolstered earlier this year when the Reserve Bank repaid the last of its foreign loans raised to support the balance of payments.

This means no part of the gross reserves is spoken for by obligations elsewhere, and that gross reserves equal net reserves.



Nevertheless, Reserve Bank Governor Chris Stals reiterated at the Bank's annual meeting last month that his goal for the reserves remained a total sufficient to cover three months' imports.

As the chart shows, the total is still some way short of this prudential requirement level, which, on 1991 figures, is around R17bn.

The other key domestic statistic due for release this week is the SA Chamber of Business's business confidence index.

The index dropped for the third consecutive month in July, easing to 90,1 from 90,8 in June.

Political events were cited as the main bearish factors behind the index's continued decline, and developments in the month since the July outturn are unlikely to have altered respondents' general outlook.

Internationally, the week gets off to a tranquil start with today's Labour Day holiday in the US, which will cut trading volumes in the financial markets.

Key figures are bunched at the end of the week, with the UK's August inflation rate a highlight on Friday.

UK consumer inflation dipped to 3,7% in the year to July from June's 3,9%, matching the low set last October.

Although it is mired in recession and unable to use monetary stimulus on the economy for fear of weakening sterling, the British progress against inflation stretches across a wide front.

UK producer inflation sank to 3,4% in the year to July, the lowest since 1968.

Wage inflation, as indicated by the change in average weekly earnings, slid to 6% in the year to June, a 25-year low.

A partial unwinding of July's unusually favourable mix of a fall in seasonal food prices, summer retail discounting and lower mortgage rates is to be expected.

But any slight uptick in the headline inflation rate still looks certain to be wiped out in the months ahead.

Similarly good inflation figures are due from the US, also on Friday, when the August producer inflation rate is published.

Although the year-on-year rate is set to stay below 2% after July's rise to 1,7% from 1,5% in June, early signs of inflationary inputs from the weak dollar could be emerging.

US producer inflation was negative at -0,5% in January, and has risen in five of the six outturns since.

Japan's current account surplus yawns

Krugerrand tender fully subscribed

JONO WATERS

THE Chamber of Mines' weekly Krugerrand tender of 6 000 ounces was fully subscribed for the first time since February this year.

Investors have shown a great deal of interest in the Krugerrands in recent weeks.

On the two previous Fridays, 5 600oz and 4 050oz were successfully tendered for.

Chamber of Mines senior GM Daniel Pollnow said investors were concerned about the depreciation of the rand.

This pushed people to hard assets like Krugerrands.

SA Gold Coin Exchange chairman Eli Levine said people were getting "jittery" and were looking for tangible assets which they could use as an insurance policy against uncertainties.

Investec dealer Tubby Goodwin said the market for Kruggerands was "very active".

He said that because of the increased demand for the coins, the premium over the rand gold price was now above 3%.

BD/BM 9/9/92 (79)

August reserves show R263m rise

B/DAY 9/9/92.

79

HILARY GUSH

GOLD and foreign exchange reserves — expected to fall following foreign debt repayments — rose by R263m in August to R11,5bn from July's R11,2bn.

Reserve Bank figures released yesterday showed the increase was due to a rise in the foreign exchange component of the reserves rather than gold. Foreign exchange holdings rose by R591m to R5,9bn from R5,3bn in July, while gold holdings were slightly higher at 6,74-million from 6,7-million ounces in July.

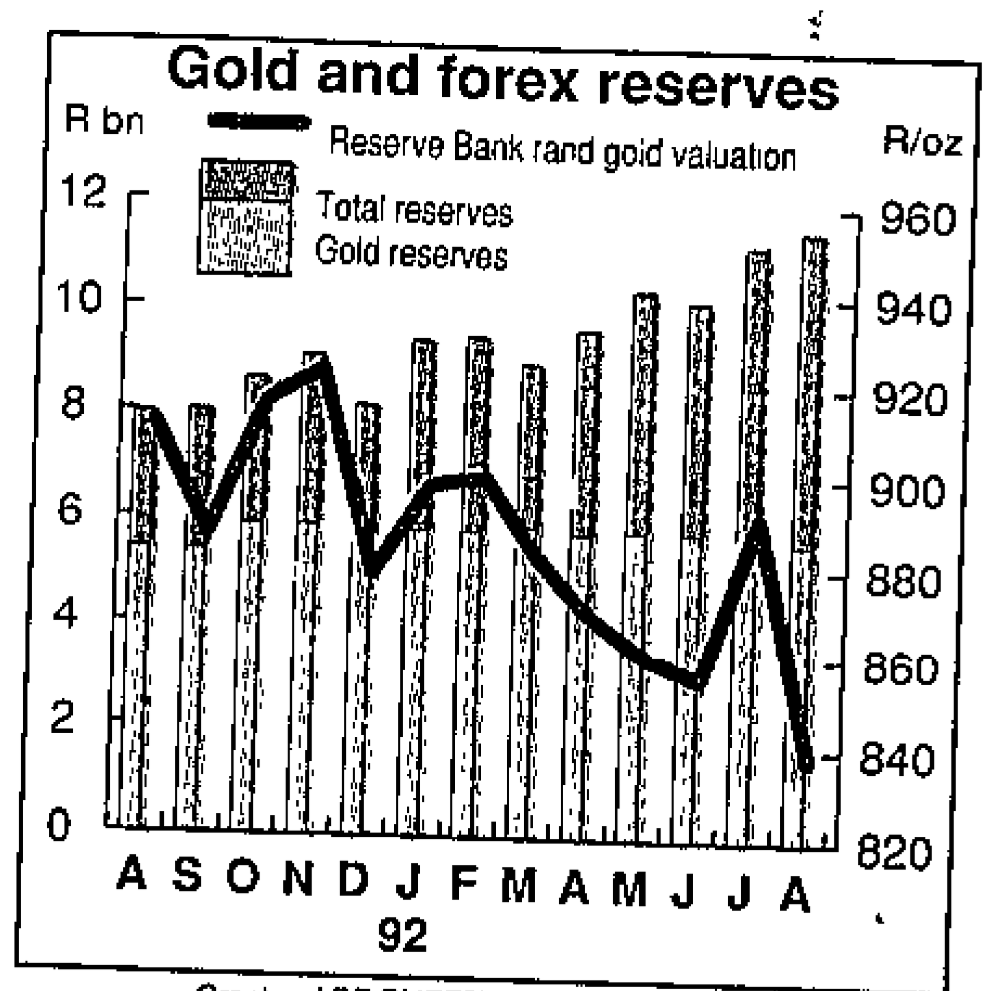
A lower gold valuation at R838/oz from July's R892 reduced the value of gold holdings to R5,66bn from R5,98bn.

AHI chief economist Nick Barnardt said the figures were surprising considering debt repayments in August, and the expected increase in food imports which required foreign exchange payments.

"In the face of the agricultural imports and the weakness of the world economy the higher reserves come as good news. However, the data might indicate further deepening of the recession in the third quarter and the impact of lower normal imports — apart from agricultural imports. In that case it is not unqualified good news.

"If reserves continue to rise at this rate, with credit demand so weak, and the inflation rate set to fall further in the next few months, we can expect a cut in official interest rates in the next month," he said.

Sanlam chief economist Johan Louw said considering the large debt repayments in August the higher reserves were satisfying. "If SA maintains this tendency of higher reserves the balance of payments will not be a problem in the future".



Graphic LEE EMERTON Source SA RESERVE BANK

Anglo American economic consultant Jim Buys said there had been a general expectation that gold and foreign exchange reserves would come down in August following large mid-month debt repayments in terms of the debt standstill.

"The overall outcome on the balance of payments must have been favourable to result in a rise in reserves despite repayment of debt which fell due in mid-August," he said.

A statement released with the figures disclosed that government had reduced some of its debt to the Reserve Bank on forward cover. A payment of R3,8bn was made, as provided for in the Budget.

Gold industry pins hopes on jewellery

BDAY 9/9/92 79

CHARLOTTE MATHEWS

LONDON — The future of the gold industry lay in increased demand for jewellery and in bringing down margins in the industry, Anglo American gold and uranium division chairman Clem Sunter said here yesterday.

He told the Association of Mining Analysts that physical demand for gold grew by 700 tons in the 1980s but, unless the gold price firmed, this would not be matched in the 1990s.

"It is impossible to say how much of the rapid increase in gold fabrication demand in the 1980s to its present level of 80% of total demand is due to the low gold price.

"We have no idea what the effect of a gold price of over \$400/oz or \$500 would be," Sunter admitted.

Margins in gold jewellery were extremely high and varied widely between the Far East and Europe.

Margins

In Europe, jewellery manufacturers were producing at between three times bullion's value, about \$1 000 profit per ounce, to five or six times bullion's value, or \$2 500 profit an ounce.

By contrast, in the Far East gold jewellery margins were 10% or 20%.

In the 1980s, when the gold price fell, the price of gold jewellery in Japan dropped but went up in France.

Sunter said gold would best be promoted through a larger-volume, lower-margin jewellery industry.

Of about 119 000t of gold produced "since the beginning of history", Sunter said, SA had produced 43 900t or 37%.

On the consumption side, 39% or 46 000t had been taken up by the jewellery industry and 39 000t or 33% by the "official sector", representing banks and government reserves.

"The official sector is one of the great variables in our lives over the next five to ten years.

"If industrial demand is 200t or 300t above supply by the mid-1990s, Anglo hopes central banks will see gold as an asset worth keeping."

Sunter said SA's gold reserves were estimated at about 42 000t, a large proportion of which was not worth mining at the current gold price.

At a price of more than \$600, SA gold production would rise but at its present level production would drop below 200t a year.

In 1993 if the gold price continued to fall, "we will have to start rationalising like everyone else", Sunter said.

However, Anglo forecast the gold price would rise. The group would not close shafts that it might later have to reopen.

Moab, Anglo's \$595m gold venture under development in the eastern Transvaal, would produce about 13t of gold a year at a grade of about 11g/t.

At the present gold price of under R30 000/kg, Anglo would have to slow production at Moab because its capital expenditure was currently included within Vaal Reefs' tax shield.

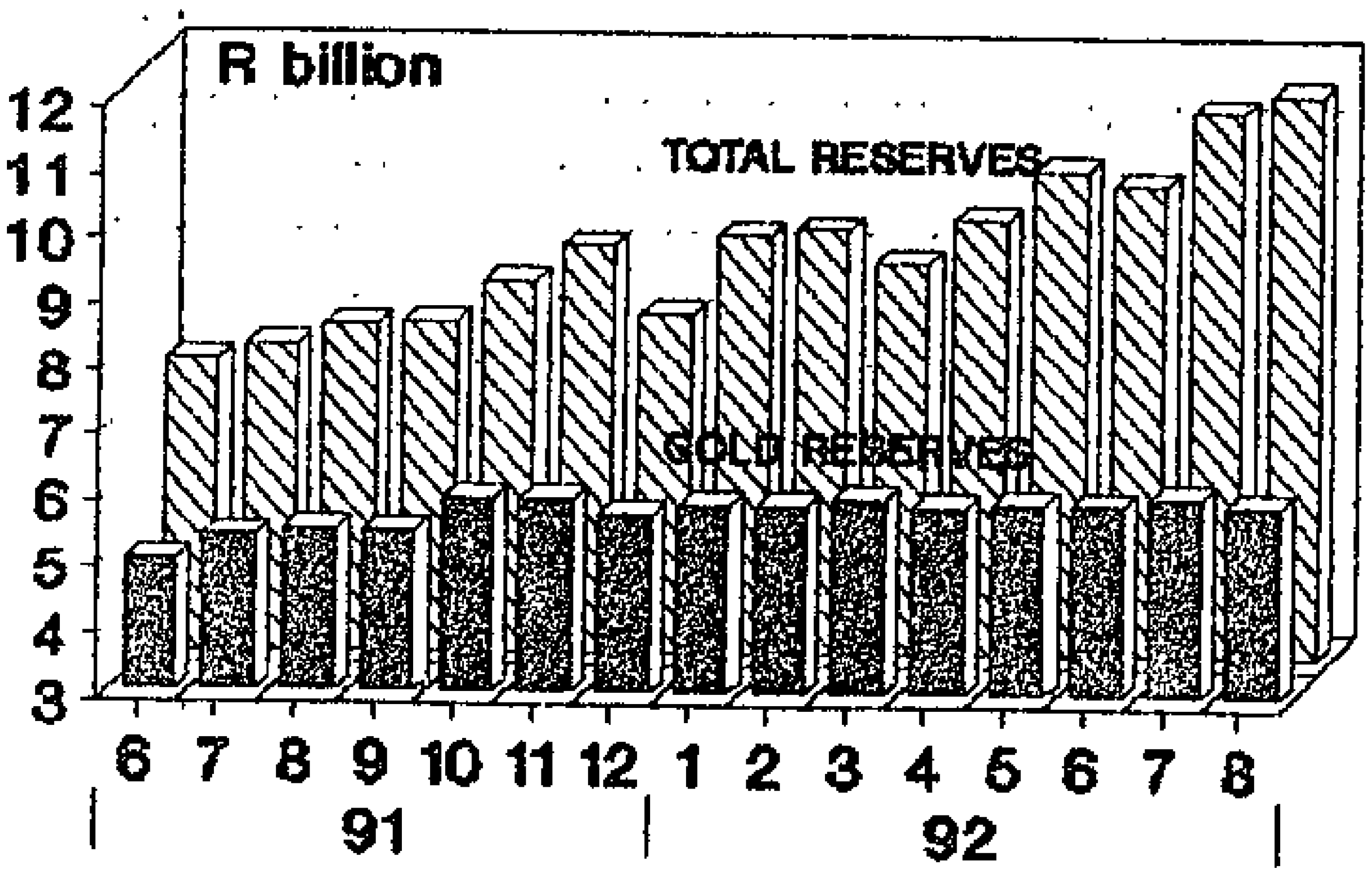
As a result, Anglo would not earn enough revenue from Vaal Reefs to cover the cost of development at Moab.

Sunter forecast a short transitional phase of interim government in SA followed by a properly functioning multiparty democracy. — VWD.

Gold and forex reserves at record level

(79) STAR 9/9/92

By Sven Lünsche



South Africa continued to build up its total gold and foreign reserves in August, boosting them from R11,29 billion in July to a record level of R11,55 billion.

The rise is remarkable, given that SA repaid the second tranche of this year's foreign debt and that the gold reserves were again devalued after the fall in the gold price during the month.

The foreign exchange content of the reserves increased by R590,3 million to R5,89 billion in August, more than offsetting a slight fall in the gold reserves from R5,98 billion to R5,86 billion.

While the physical volumes of gold holdings increased by 35 957 ounces to 6,743 million ounces, the rand value per ounce was sharply lower at R838,69 (July: R892,07).

The steady rise in the reserves over the past few years has been one of the few positive developments in the economy.

However, the Reserve Bank has indicated that it is aiming at a level of reserves able to cover three months of imports.

At present, the reserves would pay for just over two months of imports. A further R6 billion needs to be added to achieve the desired level.

Part of the reason for the steady rise in the foreign exchange component has been the relative decline of interest and dividend repayments on foreign loan and equity capital.

This is mainly due to the reduction in foreign debt, a sharp decline in foreign equity investment and the poor corporate results by SA companies with foreign shareholdings.

According to the Reserve Bank's Economic Report, total interest and dividend payments to non-residents as a percentage of export proceeds contracted from a peak of 14,5 percent in 1986 to nine percent in the first half of this year.

The Bank's total assets and liabilities decreased by R5,36 billion to R28,31 billion in August, which was mainly due to offsetting about R3,8 billion between the stabilisation account and the gold and foreign exchange contingency reserve account, as provided for in the March Budget.

Gold shares plunge as foreigners pull out

(79) CT 10/9/92

OHANNESBURG. — Gold shares ›ok a battering on the JSE yester-ay dropping 4,2% as foreign inves-›rs sold the shares on fears of con-nued violence following Monday's ıassacre of 24 people in Ciskei.

"The political outlook looks leak at the moment and investors re punishing the market," said ames Bredenkamp, a director of enekal, Mouton and Kitshoff.

The gold index ended 39 points ›wn at 889 and the overall index was 45 points lower, or 1,44% down at 3 085 — a 12-month low. The industrial index fell 29 points to 4 027.

Dragged down by the weakness in the gold sector Anglos fell R4, or 4,34% to a 12-month low of R88,25. Gencor fell 25c to R10,75. De Beers lost R1 to R54,25.

In golds, Dries shed R1 to R37,25, after touching R37 earlier. Vaal Reefs dropped R7 to R123, off a R122,75 low. Dealers said gold shares were being sold by London and continental Europe investors.

The selling began just before lunch and accelerating in early afternoon trade, they said. "Foreigners have taken a view that SA is on the edge of civil war," a dealer said.

Shares of companies with operations in Bophuthatswana were under pressure on concerns about the possible eruption of violence during the ANCs' march there.

Casino and hotel group Sunbop, plunged R2,75, or 7,83% to a 12-month low of R26,50 and Implats, which was being sold from overseas, dropped R2,50 to R40.

Lydenburg added R2 to R45 as the shares rerated upwards in line with its major investment, Rusplat. Analysts said Lydenburg should trade at 0,7 times Rusplat's share price or R51,10, based on Rusplat's R73 closing price.

Industrial blue chip, SA Breweries bucked the weaker trend to post a 25c rise to R53,25. But Remgro, Richemont, Premier and Tiger Oats posted modest losses.

Barlows was a weak spot, the shares falling 75c to R47,25 after testing the R47 level earlier.

Banking share Stanbic featured in R21,3m special deal of 300 000 shares traded at an unchanged R71. Other active shares were Medi-Clinic 11% convertible debentures, Gencor, Engen, Cashbuild and Columbia. — Sapa

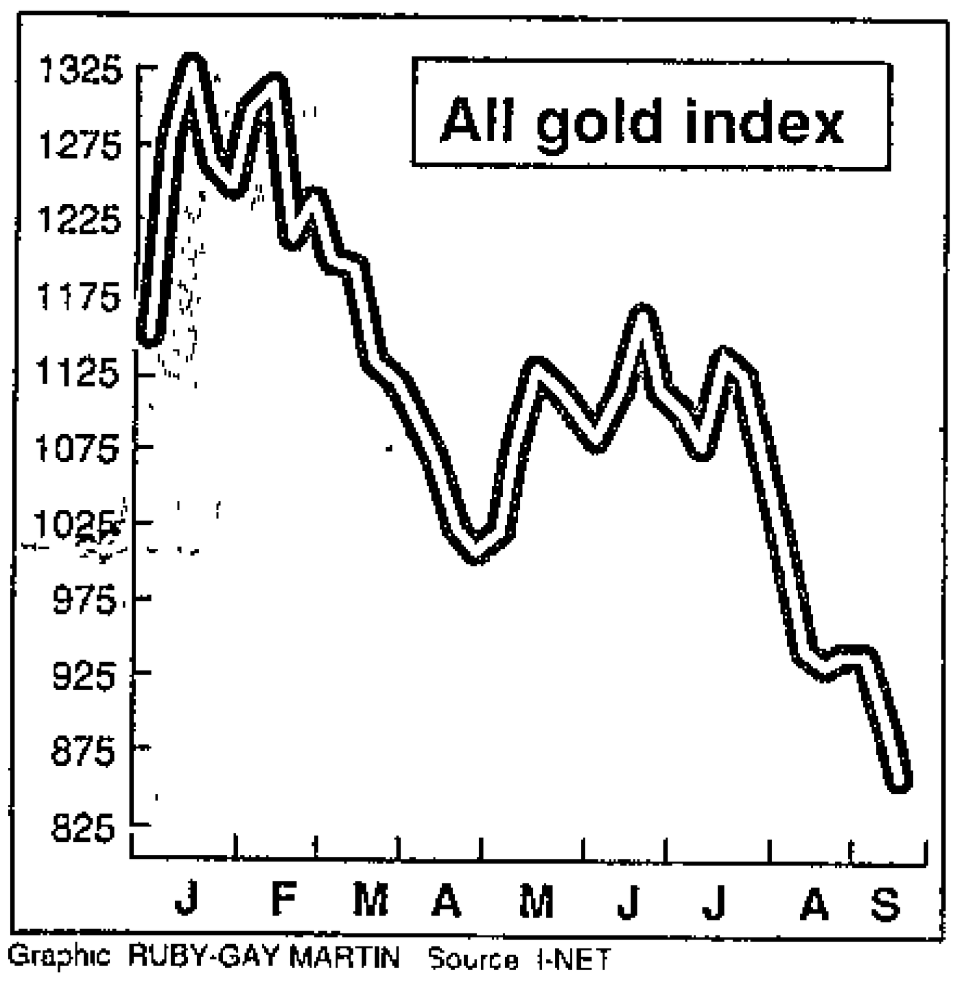
Gold index hits seven-year low

B/DAY 11/9/92

PETER GALLI

(79)

THE all gold index hit a seven-year low yesterday. It plunged 3,7% or 33 points to 857 on continued foreign and local selling as investors backed off on fears of further violence.



Graphic RUBY-GAY MARTIN Source I-NET

The index has travelled a rocky road since reaching its annual high of 1 340 on January 21 and market players feel short-term prospects are not good.

"The planned march on Bophuthatswana and fears of the loss of more lives are heightening negative market sentiment and pushing prices lower," a dealer said.

Share prices on gold counters were pulled lower in early trade as an unidentified US foreign fund continued to lighten its gold portfolio, dealers said.

This had a spin-off effect on the local market, which also saw some selling, although volumes were generally low. By the close, the index and some share prices had moved off their intraday lows.

Mining financials were also fairly hard hit, with the index easing 60 points to a 3 165 close.

RESERVES 79

Gold effect

FM 11/9/92 . 79

The falling gold price continues to erode the value of SA's gold holdings. The metal's price picked up ahead of mass action to a high of US$359,50 at the London afternoon fix on July 23, but fell back in August, when fears of supply disruptions were laid to rest. It fell to a low of $335,70 on August 14.

The month-end price fell from $357,85 in July to $340,75 in August.

This saw the value of gold reserves for the month drop by R328m ($98m) in the month to R5,7bn ($2,1bn), according to the monthly statement of assets and liabilities issued by the Reserve Bank. This occurred in spite of a small increase in gold holdings from 6,71m oz in July to 6,74m oz, as valuation fell from R892,07/oz to R838,69/oz.

But total reserves rose slightly by R262m ($137m) to R11,5bn ($4,2bn), as foreign exchange reserves rose by R590m ($235m) to R5,9bn ($2,1bn).

September reserves may be assisted by a somewhat higher gold valuation as the price has picked up to over $340 and largely remained at or above that level from the start of the month until Tuesday when the *FM* went to press.

The Bank's statement contains a note explaining the large increase in both assets and liabilities of R5,4bn. The change was largely brought about by the offsetting of the R3,8bn shortfall on the Foreign Exchange Contingency Reserve Account (which deals with forward cover), by transferring the balance on the Stabilisation Account, as provided in the 1992/1993 Budget. ■

Central banks sell gold

By JULIE WALKER

CENTRAL bank gold sales might reach 7-million ounces this year — more than double the 1991 figure. (79)

New York precious metals and commodities researcher CPM Group believes central bank gold sales will continue in the 1990s. S/Times

The disposals reflect a long-term re-evaluation by bank and treasury managers of governments. (BUSS7)

In industrialised countries, gold reserves play an active role in monetary affairs. Central banks sell gold to increase the value and usefulness of their foreign-exchange reserves at a time of monetary and fiscal stringency. 13/9/92

Uruguay sold another 50 000 oz of gold leaving 2,36-million ounces in reserves. Belgium sold 6,5-million ounces in the first half of this year as part of its long-term plan to reduce the portion of reserves held in gold.

Canada has sold 1,3-million ounces, England 200 000 and Austria 40 000 this year alone.

The governments do not benefit from holding gold. Selling it boosts total reserves, increases flexibility and improves the yield received on remaining reserves.

Central banks keep gold down

BDAY 14/9/92.

MATTHEW CURTIN

THE absence of a clear undertaking by central banks to hold on to or sell their huge gold reserves is unsettling the gold market and keeping prices low, says Chamber of Mines economist Ivor Liebowitz.

Gold is holding around the $340 level, but the metal is still at record lows in other currencies because of the weakness in the US dollar.

Figures released by the IMF last week showed that in June this year central bank gold holdings had fallen to their lowest levels since the fund started keeping records in 1961. Central bank reserves stood at 35 344 tons, down from 35 550 tons in May.

The 0,6% drop in holdings revived fears that some central banks would sell off more of their reserves, a move which would hurt gold market sentiment, increase gold supplies and knock prices.

Central bank holdings are equivalent to 20 times current yearly gold mine output, 60 times SA output, and alone could satisfy current global demand for the metal for 12 years or more. Liebowitz said yesterday that the only central banks to show any commitment towards their gold reserves were Canada, committed to sell, and SA, committed to buy.

"Nobody really knows what other central banks plan to do, and that is unsettling the market. It's not a picture which inspires confidence although holdings have remained pretty stable since the '60s," he said.

What was more comforting was that the gold market had absorbed large amounts of central bank sales so far this year, without a sharp corresponding drop in gold prices, Liebowitz said.

A senior industry source said the threat of central banks' sales was real, but they were unlikely to be irresponsible in selling one of their major assets. Sales were more likely to restrict gold's upward momentum than send prices tumbling.

The Belgian central bank sold 202 tons in June, and the IMF said reserves held by the Bank of International Settlements (BIS) had fallen by 133 tons to a record low of 43 tons between April and May. Canada's monthly gold sales were continuing to rise as it continued to run down its reserves of Maple Leaf coins.

Anglovaal marketing manager Rocky van den Berg said there was a natural limit on central bank selling, as largescale sales would hit prices hard and devalue the banks' assets. Sales seemed to be taking place in a controlled fashion, and the threat of sales was just one of many factors depressing gold prices and most other investments.

Gold and shares surge after German rate cut

STAR 15/9/92

(79)

By Derek Tommey

The gold price jumped $8 in London yesterday to a five-week high of $348 after a slight reduction in German interest rates — the first in five years — which set European and North American stock markets racing ahead.

It later closed at $346,25.

On the currency markets the dollar recovered all its past month's losses.

The cut in German interest rates, which accompanied the news that the Italian lira was being devalued 7 percent, was welcomed in other European countries and in the US as opening the way for reductions in interest rates elsewhere.

Such a move would provide some stimulus for a still fairly depressed world economy.

Belgium and Austria have already announced they are cutting their rates in line with Germany.

In New York, the Dow Jones industrial average gained 35 points to 3341 in the first hour's trading.

In London, the FTSE share index jumped 99,5 points in the morning but later lost almost half this rise.

Strong

Gold shares were strong on the Johannesburg Stock Exchange, the gold share index adding 47 to 904 points.

This reflected the R27 jump in the rand gold price to R973 an ounce, its highet level since August 4.

Industrial shares surged in line with gold shares, the industrial index gaining ~~85~~ points to 4104.

The announcement on Sunday night that Germany was to reduce interest rates came as something of a surprise to observers.

It followed sharp attacks in recent days by European and US government officials on Germany's interest rate policy. Members of the European Community and some US officials had accused Germany of putting its interests ahead of those of the community as a whole.

The German announcement initially set the markets ablaze. But some of the enthusiasm dwindled when the size of the reduction became known.

The Bundesbank said it was reducing its Lombard rate by only 0,25 percent to 9,5 percent and its discount rate by 0,5 percent to 8,25 percent.

Observers in Britain see the German move as giving the UK a temporary breather in its running battle to defend the pound, reports Sapa-Reuter.

"It doesn't mean UK rates are going to come down, but its does mean they won't go up," said John Sheppard, economist at SG Warburg Securities.

Peter Thorne at Nikko, said: "The German rate cut is good news, it was not as much as some people had hoped for, but it was realistic.

Reaction

"The market had a knee-jerk reaction and I now think that recent pessimism will be replaced by optimism."

However, the market must first contend with the French vote on Maastricht on Sunday amid speculation a No vote might prompt a rise in UK rates or force a devaluation of sterling.

t

(79)

Gold loses stream after strong surge

CT 18/9/92

By ARI JACOBSON

GOLD bullion which rose as high as $353 an ounce yesterday lost some steam through the day to close at $347,90/348,30 an ounce in New York, even though uncertainty remained over the future of the European Exchange Rate Mechanism (ERM).

The yellow metal started the day at about $349 an ounce in London and traded sharply up before the announced backtrack in interest rates, by the UK, to the 10% level.

"This may have been coincidental," said Frankel, Max Pollaks' gold analyst Adrian Finch "the fact is everyone overreacted with the flood out of the pound — today there's been a gradual and more positve response to the UK currency".

On Diagonal street a gold trader says that "at the opening gold shares looked promising — but by the end of the day there were no great shakes with the index 9 points up at 919 on weaker metal prices and thin volumes".

Finch mentioned that the move to higher levels would only be a short term scenario with expectations that bullion would tend back to its longer term trend — below the $350's an ounce level.

"Everything depends on Sunday (when the French vote on the Maastricht Treaty) the outcome, which is likely to be a no-vote, will cause some turbulence in currency markets and possibly further strengthen the metal."

But Finch adds that eventually individual currencies will find their proper trading levels.

Davis, Borkum's Dave Giese adds that the realignment of European currencies will also lead to some bullion volatility as gold moves between Central banks. "The Belgians sold some 200 tons the other day," he points out.

WATCHING THE GALLSTONE PRICE

FM 18/9/92. (79)

"There's gold in them thar gallstones" may not be a rallying cry to inspire a gold rush. But after a *Wall Street Journal* report this month on the worldwide trade in cows' gallstones — and SA's leading role in it — interest may be keener in the delicate and feather-light objects that are often worth their weight in gold.

In 1989 and 1990, gallstone prices were actually higher than the gold price. "During 1989, the average selling price was R1 230/oz, in 1990 it was R1 274, but last year it fell to R942," says Meat Board GM Pieter Coetzee.

The board normally collects 500 oz-1 000 oz of gallstones each year at the 11 abattoirs where it handles the sale of meat and offal. But this year only 64 oz were collected; one local broker says he suspects that supplies are being skimmed off before they get to the board's twice-yearly auctions in Johannesburg. Even with the small number of gallstones on offer at last week's auction, the average price was only R823/oz.

Cows' gallstones also come from other southern African countries and East Africa, where the drought is now boosting supplies and depressing prices. South America and the former Soviet Union also supply the trade. The healthier and more well-fed cows in the West tend not to produce many gallstones.

The gallstones go mainly to Chinese buyers and the official explanation is that they're used for medicinal purposes. "It is said that gallstone powder is mixed with some other compound and administered to patients with high fevers," Coetzee says.

"However, it is commonly purported, but not openly acknowledged, that gallstones are used as an aphrodisiac."

Collect a gallstone and save a rhino?

The Goldstone inquiry into the Caprivi training, initiated after a *Weekly Mail* exposé, has heard evidence from former Inkatha Youth Brigade leader Mbongeni Khumalo that the trainees were later within the force.

All documents relating to KZP employment are to be presented to the commission.

Further testimony by Buchner indicat-

Mbongeni Khumalo

"they i ing incident in E funeral. They als that some of my p ed. I disputed the

Gold rises as sterling takes a pounding

By REG RUMNEY

79

WMail 18/9 - 24/9/92

CHAOS in the world currency markets gave the gold mining industry an immediate double fillip this week.

Overnight the rand price of gold jumped around R17 to more than R984, on a dollar rise of only $3,10 to $349 at the London afternoon fix compared to the previous fix. Gold settled at $350,75 at the Thursday morning fix, down almost $2 from the opening price of $352,50.

A higher rand gold price could spell a return from the brink for some marginal gold mines. It remains to be seen whether the gold surge will continue. Should disillusionment with the world currency markets continue, gold will be a beneficiary, but any return to higher levels could well be ephemeral.

Overshadowing the market are any number of "stale bulls" waiting for the right level to offload gold investments whose performance has been less than extraordinary.

The cause of the uptick in the rand price of gold this week was a stronger dollar and a rise in the gold price. Usually a higher gold price means a weaker dollar, so what South Africa gains in dollars from gold revenue it loses on third currencies like the pound.

This time uncertainty about what will happen to European currencies caused a flight into gold and the dollar, both regarded as a store of value. The dollar strengthened against the rand and European currencies.

The uncertainty came after Britain and Italy temporarily withdrew from the European exchange rate mechanism, which is designed to keep exchange rates stable within the European community. The pound fell to R5,1859 midweek, and by yesterday morning was trading around R4,90 with the prospect of further falls, certainly until Europe's politicians re-establish calm within the system.

Nedbank chief economist Edward Osborn points out most of South Africa's exports, as with gold, are dollar-denominated so recent developments are positive for South Africa. Around 70 percent of our exports are dollar-denominated, and around 45 percent of our imports.

The European currency system has run aground because of conflicting economic interests within the community. (See *Guardian Weekly*).

Surge in gold may boost SA

(79) 19/9/92 Argus

TOM HOOD, Business Editor

GOLD jumped in price on the London bullion market last night to a seven-week high of $352 an ounce, up $11,75 on the week and $3,75 on the day.

This means the rand price of gold — the price earned by the gold mines — has surged to R1 003 an ounce, the best price for several months.

The rand price was R920 at the end of August and if the improvement is sustained it will mean a boost for the country's balance of payments and economy as a whole.

Gold was fixed at $347,20 in the afternoon in London and rose $4,80 to close at $352 in late trading. It was later quoted at $352,60 in New York.

The latest upsurge was a response to the week's currency market turmoil and possibility of more to come next week after the French referendum.

Gold, the American dollar and the German mark become "save havens" or "safety deposits" for nervous European investors.

In London, shares were sharply higher for the second day running amid continuing speculation that British interest rates would soon be cut.

The pound tumbled to a new low of 2,6050 German marks and $1,7375.

In Paris, commentators said France's overseas territories in the Caribbean and south Pacific could come to the rescue of the Maastricht treaty by voting in favour tomorrow.

On currency markets, the French franc traded near its floor and Irish overnight interest rates were put up to 500 percent to defend the punt.

In Bonn, Chancellor Helmut Kohl scathingly dismissed remarks by British Chancellor of the Exchequer Norman Lamont, blaming Germany for the currency crisis in Europe.

☐ **Countdown to the crisis**
☐ **SA emerges with a smile**
☐ **No reason to panic, say SA fruit exporters**
☐ **Bankers' decision cost billions**
☐ **Blood drawn on Black Wednesday**
☐ **See Section 3, Business**

Gold needs more than dollar run

STimes (B455) 20/9/92

By JULIE WALKER

A GENUINE bull market for gold requires the metal's price to run in currencies other than the dollar alone.

In mark, yen, sterling and Swiss franc, gold has reached its lowest level since 1980, according to International Gold Mining Newsletter.

When gold failed to breach \$360/oz in its brief bull dollar run that started in May, speculative interest quickly disappeared. Fundamentals were unable to support gold at this price.

Since May, the outlook for an improved supply and demand balance for gold has deteriorated because confidence of a move out of recession has been lost.

Depth

The key factor for gold, ignoring possible central bank activity, remains the demand for gold jewellery.

Anglo American's Clem Sunter says the corporation's gold strategy is based on a rise in jewellery demand supporting the gold price.

The newsletter says that in turn jewellery demand depends on the length and depth of the world recession.

Certain negative factors are coming to light, such as lower Japanese imports of gold and lower diamond jewellery sales.

Dubai, China, Taiwan and Hong Kong are the only regions increasing gold imports. But a clearer picture of 1992 gold jewellery demand will emerge in the next few months as the busy season in the trade begins.

The prospect of declining gold supply remains. The longer the gold price is low, the greater the number of mines likely to close.

Hedging contracts — not much used by SA producers but which have undoubtedly led to the prolonged life of many foreign operations — are running out. A declining contango on the gold price means that few contracts are being replaced at current levels. Russian supply is also likely to fall.

Reduced gold exploration expenditure will lead to a lack of replacement production, indicating a drop of supply in future. But suspended operations at marginal mines could be resurrected.

New projects are unlikely to go ahead — Anglovaal's shelving of the Sun prospect is used as an example and the political risk is highlighted.

The newsletter says: "To secure a long-term future, SA needs to be seen as a worthwhile safe investment for capital."

Mr Sunter predicts a decline in SA output, depending on the gold price. At \$400/oz he forecasts production at 500 tons in the year 2000, falling to 200 by 2017. At \$500/oz, production would remain at 600 tons by 2000, falling to 375 17 years on.

Mining Journal does not expect much of an improvement in gold until well into 1993, barring unforeseen circumstances.

Most pay rises below inflation

STimes (B455)

By ADRIAN HERSCH

20/9/92

A WAGE survey covering 72 major companies for the year to the end of August shows below-inflation increases — averaging 13%.

The survey by labour consultants Gavin Brown Associates found that the highest increases were in the food sector (14,8%).

Mr Brown says: "The relatively high pay increase in the food sector is not surprising due to the sector not being too depressed. Obviously, the last thing people will cut expenses on in a recession is food."

He believes that below-inflation pay rises will continue in most sectors at least towards the end of next year.

"Even if the economy turns around soon, there will be a 'lag effect' on wage increases of at least 12 months in most industries."

The survey shows increases firmly below inflation in chemicals (13,7%), commercial services (13%), clothing and footwear (11,8%) and parastatals (9,6%).

Bargain

Low pay increases in the metal industry, covering about 320 000 workers, are likely.

Eleven out of the 12 trade unions in the metal industrial council have accepted pay increases of 9,1% on actual rates and have agreed not to bargain for more at plant level.

The 11 unions are due to sign the agreement on Wednesday.

Numsa, with about 120 000 members in this sector, wants a 9,5% pay rise on scheduled rates and to bargain at plants.

But Numsa negotiator Les Kettledas says Seifsa's offer will be put to membership this weekend. The outcome could be known tomorrow.

The metal industrial council reports that 20 companies under its jurisdiction — but which are not covered by the national wage agreement — have settled for rises of between 6% and 11%.

The 20 companies, which include Iscor, employ about 55 000 workers.

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Saampro to be delisted, members offered 100c by Saambou. Frigate to be delisted, offer of 10c a share opens 2/10, closes 28/10. Hyperette warns. Racy calls off negotiations.

WEDNESDAY: Sage Financial Services changes name to Sage Group from 21/9 after members approve scheme of arrangement. Blue Circle to be suspended from 18/9, delisted from 30/10.

THURSDAY: Randcoal, Rand Mines warn of restructure. Holders of 100 Prefhold ordinaries to be offered 75 McCarthy. Junior and senior debentures to be converted one for one, but converted into 75 ordinary McCarthy for 100 debentures. Pepkor, Pep warn of restructure of Ackermans.

FRIDAY: Coronation Syndicate members offered 105,3c a share after change of control.

Gold shows muted reaction

STAR 22/9/92 (79)

LONDON — Although the gold price has moved ahead in recent days, the subdued extent of the rise reveals the market's lack of response to the chaos in European currency markets. Yet again, it appears that an international crisis has by-passed the gold market.

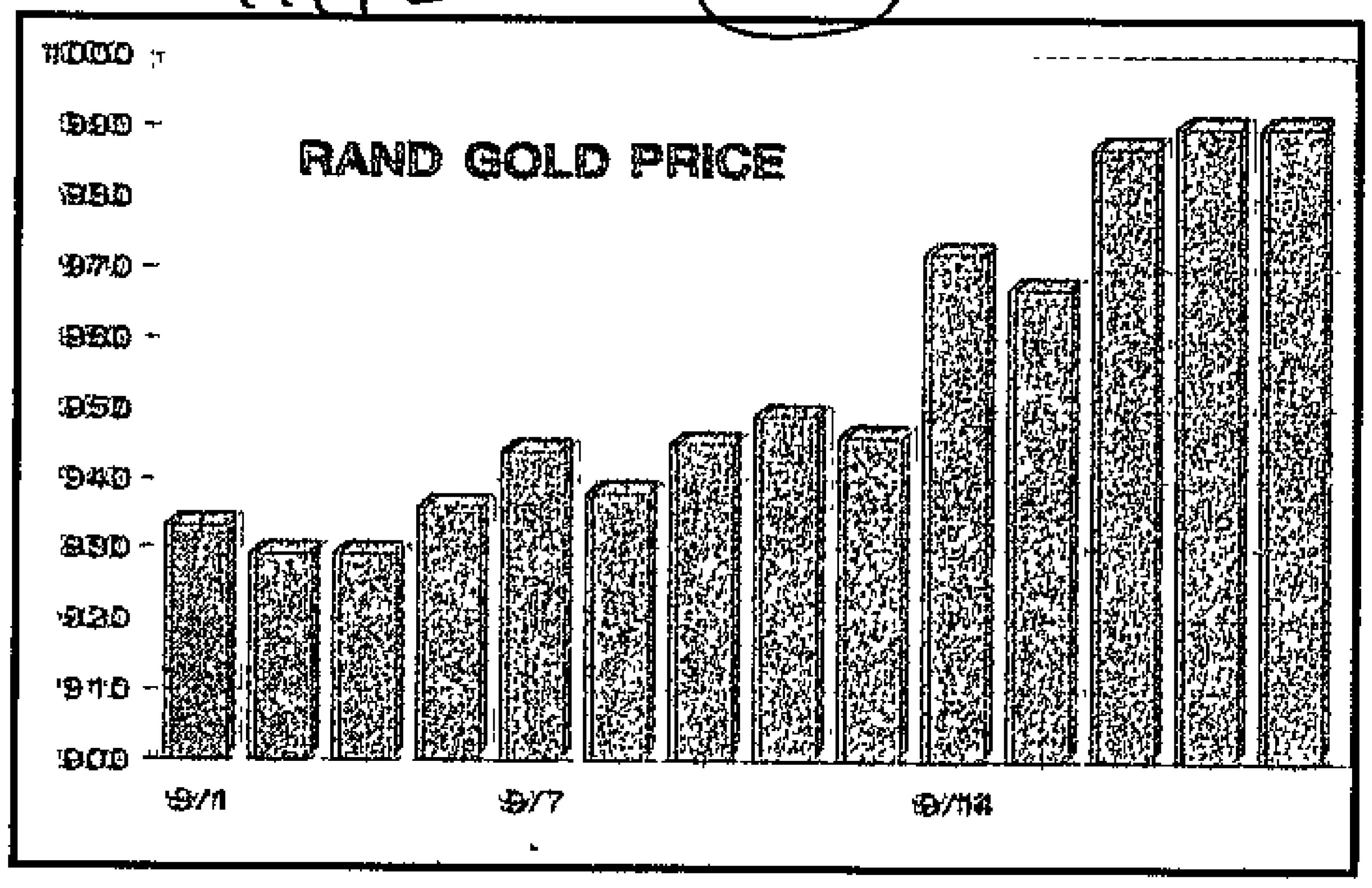
However, there is no doubt the market is jittery. Gold closed last week on the London bullion market at $350,25 a troy ounce, up $9,75 on the week and $3,75 on the day.

Most of the week's rise came last Monday as traders responded to the morning cuts in German interest rates, and ignored the strength of the dollar. The market rose $6,30 to close at $346,25. There was little sign of heavy producer selling and traders said the market was looking to consolidate between $345 and $350.

That is exactly what it did throughout the currency market upheavals which followed and was quoted yesterday after the French vote was known, down at the $348 level.

Andy Smith, precious metals analyst with Union Bank of Switzerland, believes that gold's behaviour has been unusual rather than remarkable, outpacing the dollar's rise and emphasising the Euro-epicentre of the uncertainty.

Taking September 3 as the market low at $338 and last week's high of $350, the market shows a rise of 3,5 percent. In terms of yen it has risen by 3,9 percent, in Swiss francs by 6,5 percent, in D-marks by 10 percent, in lira by 20,6 percent, in Australian dollars by 2,5 percent, and in South African rands by 6,7 percent.



Italy, where local gold prices are up by one-fifth, is the biggest single European market for gold jewellery, Mr Smith points out. At the same time Australian and South African producers are getting A$480 and R1000 a troy ounce, prices they have been happy to take for forward sales.

There has got to be something else, another shock to make the price jump, says Mr Smith. Otherwise the market will come off again.

Trading on the London Metal Exchange has been both nervous and thin during the currency market shenanigans. In the words of Nick Moore, analyst with Ord Minnett: Base metal markets have behaved like the proverbial startled rabbit caught in the flare of the headlights.

Copper, showed the most gains, closing the week at £1 383,50 a ton, up £141 on the week, but in dollar terms it was only about $25 ahead. Helping to support prices has been the re-emergence of the threat of industrial action at Poland's KGHM, where a 24-hour strike has been called for Wednesday.

The aluminium market has had only bearish news, particularly the news from St Petersburg that exports from the CIS are expected this year to reach at least the same level as in 1991 at 843 000 tons and possibly to exceed that figure by a further 100 000 tons.

Cash aluminium closed at $1 249,50 a ton, down $22,50 on the week.

Of the softs, the cocoa market has seen the most action, soaring as sterling slumped, triggering short covering purchases. The London December contract closed at £655 a ton, but has since retreated to £629, only £11 ahead on the week.

Bearish news arrived from Gill & Duffus, the London trade house owned by ED & F Man, which predicted a reduced world cocoa production deficit of only 25 000 tons for 1992-93. This compares with an estimated deficit of 88 000 tonnes in the current season.

The London market has also ignored this week's International Cocoa Organisation talks, which have mooted the idea of selling off the organisation's buffer stock to Russia with the aim of reviving the country's chocolate industry. But as one delegate put it: "They are feeding soup to a dead man." — Financial Times.

Bush backs gold as cure for woes

STAR 23/9/92

(79)

WASHINGTON — Gold should play a greater role in calming world currency markets, President George Bush believes. But persuading America's major economic allies to go along with the idea may not be easy.

The idea received a less-than-enthusiastic response yesterday from many finance ministers and central bank presidents at the annual meetings in Washington of the International Monetary Fund and World Bank.

Mr Bush caught many by surprise when he suggested in a speech that one way to alleviate turmoil in currency markets would be to use a market basket of commodities, including gold, to help determine the value of major currencies.

Mr Bush called this commodity basket "an independent reference point" that would help strengthen global economic co-operation.

US government officials insisted Mr Bush was not trying to return the US to the gold standard, whereby the value of the dollar would be tied to the price of gold.

Instead, they said, he saw this approach as a way to allow major industrial countries to determine whether their currencies were properly valued by measuring their purchasing power against a set collection of commodities.

The only specific commodity mentioned by the president was gold, although officials said the value of such products as wheat or oil could also be included.— Sapa-AP.

COMPANIES

'No short-term impetus to boost gold'

MATTHEW CURTIN

GOLD prices crept above $350 at the weekend, pulled higher by continued uncertainty in currency markets and higher platinum prices. BDAY 28/9/92

Davis Borkum Hare technical analyst Dana Wakefield said that while the longer term prospects for the metal were bright, gold prices still lacked impetus and showed no sign of breaking out of the $355-$362 territory in the short term.

Frankel Max Pollak Vinderine chartist Dee Campouroglou said there was no sustained long-term buying pressure in the gold market.

In spite of some "super-bearish" technical reports in the US that gold could break out of current trading levels by falling below $300, there seemed to be strong buying support at $334.

Although gold prices could remain flat for some time, the metal was on the verge of breaking its now long-established bearish trend-line, and should prices jump, gold's next trading band could be between $360 and $380, Wakefield said. 79

The all gold index rose seven points to 914 on Friday, sustained by small gains in heavyweight shares like Driefontein, up 50c at R37,25, and Kloof, 65c higher at R29.

Platinum moved closer to $370 on Friday, pulling the JSE platinum board higher, the index closing 97 points up at 4 778. Market leader Rustenburg Platinum rose 200c to R78, moving to a record high premium over rival Impala Platinum, which closed unchanged at R41,75.

Customs must return gold

BLOEM 29/9/92

BLOEMFONTEIN — The Customs and Excise Commissioner has been ordered by the Appeal Court in Bloemfontein to return packages of unwrought gold to Frans Tieber of Victory Park, Johannesburg.

The gold, with a total mass of 38,115kg and worth more than R1,14m at present prices, was seized at Jan Smuts Airport on March 7 1989. Criminal charges against Tieber were, however, withdrawn on October 20 1989.

Tieber contended that he and his girlfriend had agreed to transport the gold for a consortium from Zimbabwe via Jan Smuts to Zurich. The suitcases with the gold had been booked through to Zurich from Botswana. 79

Tieber said that as the gold had been booked through to Zurich, it was in transit and he did not have to declare it.

In the Transvaal Supreme Court on October 19 1990, Judge W J Hartzenberg found that Tieber had caused the gold to be landed at Jan Smuts. He was therefore deemed to have imported it into SA. He had failed to prove that the gold was lawfully in transit.

Yesterday Judge Richard Goldstone held that goods in transit were not imported into SA. Tieber did not thus import the gold and could not have contravened any provision of the Act that related to the import of goods.

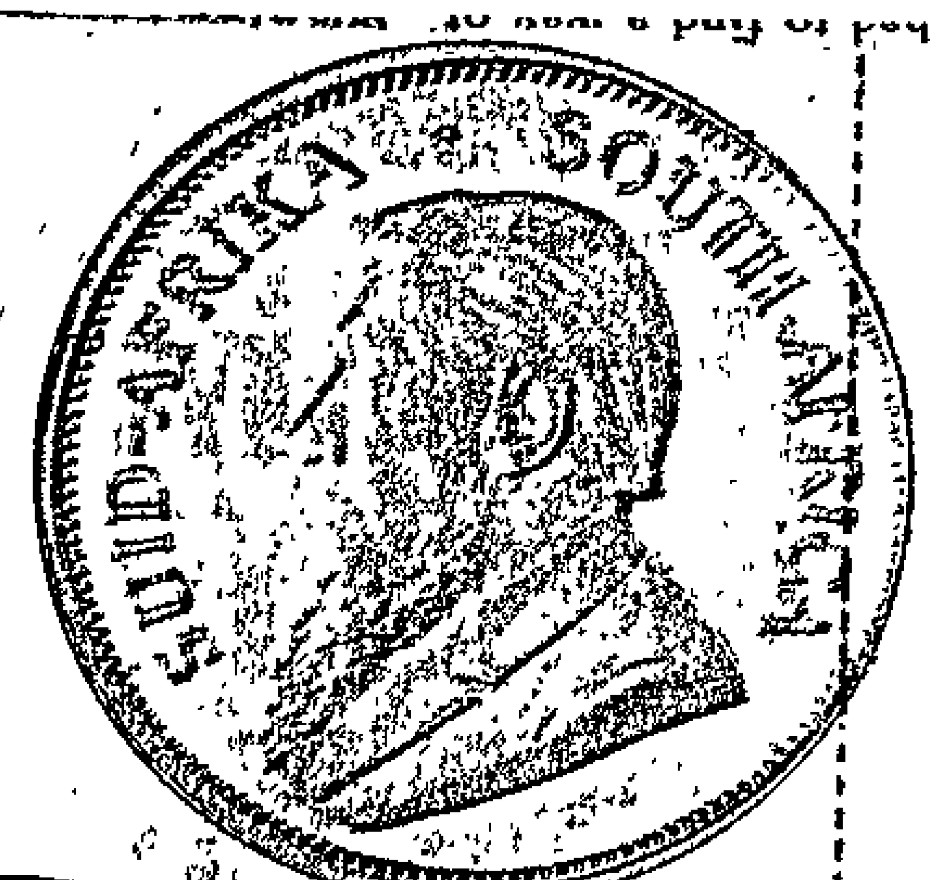
Consequently, he held, the commissioner was not entitled to seize the gold. — Sapa.

Protect assets and start coining it

79

***Shrinking rands** can be well spent investing in coins, says Eli Levine of the South African Gold Coin Exchange.*

STAR 3/9/92.



With rampant inflation, high taxation, devaluation and the prospect of wealth redistribution in the "new" SA, the need for investors to protect the buying power of their money is greater than it has ever been.

Few avenues provide a better way of doing so than carefully selected coins. With a steadily increasing demand for a limited supply of selected investment coins, values are set to rise substantially in the coming months and years, says Eli Levine of the South African Gold Coin Exchange (SAGCE).

Since it opened in 1973, the SAGCE has worked to achieve profits for its clients, and to put the man in the street on a better footing than even the expert numismatist insofar as profitable coin investment is concerned.

To ensure that prices at which coins are traded are true market values, the SAGCE established a Stock Exchange-type market for coins in 1977. Prices are determined entirely by supply and demand, eliminating the problems of over-pricing or under-pricing of coins.

Mr Levine summarises the main coin categories as:

■ Bullion coins: these are issued in unlimited numbers according to demand. They have no scarcity va... their pri... depend o... ranc... content. The best k... are Krugerrands.

■ Numismatic coins: These are issued in strictly limited numbers, essentially for collectors. They are also known as "rare coins". There are two categories – coins that are purely collectors' items; and those that have investment potential.

■ Investment coins: Only selected numismatic coins are good investments – low mintages alone are not a guarantee their values will rise.

The most significant feature distinguishing investment coins from other numismatic coins is the expectation, or knowledge, of reasons or factors that will ensure a strong demand in the future.

Popular appeal is high on the list; rarity is a prerequisite; and the quality, or degree of excellence, of the coin has a strong bearing on its value. The intrinsic or metal value is almost irrelevant.

All the coins for which the SAGCE makes a market appear in the "Index for Investment Grade Coins", available from the exchange.

...ystem of ... sealing ... S100 was established two years before the American Numismatic Association, the world's largest numismatic society when more than 30000 members world-wide, authorised the use of numerical grading system.

Also, the SAGCE encapsulated its first coins in 1976, a full 10 years before David Hall's Professional Coin Grading Services (PCGS) in Los Angeles encapsulated the first American coin.

The S100 certificate guarantees the authenticity and the grade of your coin. To date, more than 100000 coins have been evaluated, certified and sealed using the S100 system.

In grading coins, points are added to a starting score of 100 for good features such as good frosting (cameo like designs), fields (backgrounds to the designs) and rims, and are deducted for faults such as nicks, scratches, minting faults and other imperfections.

The resultant score is the coin's permanent grade, and is displayed in the clear tamperproof acrylic capsule into which the coin is sealed, and on the accompanying certificate which also certifies that the coin is genuine.

The SAGGE has developed its unique Anticipated Growth Percentage Analysis. This enables its brokers to advise clients which coins have the best potential. The SAGCE's qualified brokers would welcome any inquiries. Tel: (011) 3313341 or fax (011) 3311115.

THE WEEK AHEAD by Simon Willson

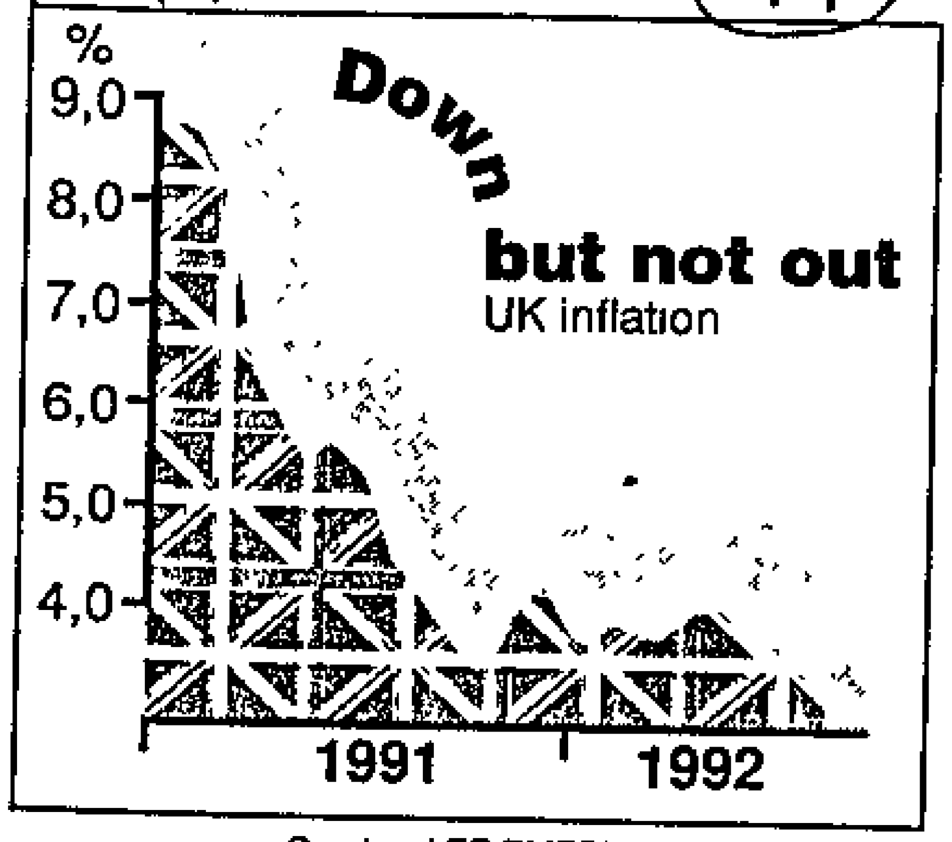
Reserves likely to hold

BDAY 5/10/92. (79)

A BETTER official gold valuation last month should shore up the September reserves total to be released this week, and continue to consolidate the marked improvement in reserves performance this year.

August reserves increased by R263m from July to reach R11,5bn despite an instalment of standstill debt repayment. Gross reserves still cover barely two months' imports, against the three months' import cover that remains one of the Reserve Bank's plainest financial targets. After rising in July for only the second time this year, the official gold valuation in the reserves fell again in August. But the September data should show another rise in the gold component following a firming in bullion and a weakening of the rand/-dollar rate during the month. The rand gold price stood at around R933 an ounce when the August reserves were measured; the comparable level last month was around R993, thanks mainly to the rand weakening from R2,75 to the dollar to R2,85 over the same period and to bullion being nearer $350 an ounce than $340.

Internationally, the statistical release likely to get the most limelight is the UK inflation rate for September, due out on Friday. It will be a figure laden with grim irony. The August figure, showing inflation at a four-year low of 3,6%, was published two trading days before Black Wednesday — the day last month when sterling was suspended from the European exchange rate mechanism (ERM).



Graphic: LEE EMERTON Source I-NET

The speculators selling sterling short — egged on, it has since transpired, by the Bundesbank — dismissed this evidence of progress in British macro-economic management. Perhaps emboldened by their sleeping partner in Frankfurt, they were able to ignore this particular fundamental and, in the end, came out with a tidy profit. As the chart shows, UK inflation has been knocked down and is on the canvas taking a count. Whether it rises again or is counted out largely depends on sterling's short-term fortunes in its re-adopted float.

Friday's figure will probably be a last, lingering memento of sterling's final days in the ERM. It should show another fall in UK inflation as frustrated retailers, increasingly desperate for customers, failed last month to repeat price increases imposed a year earlier. This should keep September's monthly rise in average prices down to a negligible 0,1% or 0,2%, giving an annual rate of around 3,5%.

Germany, meanwhile, is dealing with the mirror image of sterling's withdrawal from the ERM: the Deutschmark strength that unzipped the mechanism three weeks ago. An area of the German economy where the effects of a strong exchange rate are seen quickly is in the trade figures, and Germany's trade and current account balances for August are scheduled for publication this week.

The German trade surplus, already showing the effects of Deutschmark strength, narrowed to DM1,3bn in July from DM2bn in June. This kept the current account well in deficit at DM4,2bn after DM7,7bn in June. As German exports continue to suffer from the firm Deutschmark the trade surplus is unlikely to widen significantly before the end of the year, leaving the unification-burdened current account in a deficit of at least DM20bn this year.

If the UK inflation rate makes it down to 3,5% on Friday, there may be a minor restoration to Whitehall's dignity. Earlier in the week, Germany's once-only revision to its already released September inflation rate is timetabled. The German figure is likely to stay at 3,6%.

Mystery over gold market glitch

(79)

STAR 6/10/92.

LONDON — Something strange is going on in the gold market but, as usual in this secretive business, no-one is admitting responsibility.

The indication that all is not normal is that the cost of leasing gold has risen sharply, traders say, to the highest level for 18 months.

The last time something similar happened to the leasing rate it later emerged that Portugal's central bank had lost 288 000 ounces of the precious metal, then worth about $100 million, which had been lent to Drexel Burnham Lambert, the financial services group that collapsed in 1990.

According to Reuter news agency, the present glitch might have been caused by a very big central bank unexpectedly taking back from the market 1,4 million ounces (about 43,5 tons) of gold.

This represents about five per cent of the pool of 800 tons of gold which some analysts suggest is usually available to the market.

Central banks and other financial institutions lend gold to the market in order to earn a very modest return on an asset that otherwise would yield no interest.

Usually central banks roll over these loans to the market but the Reuter report suggests that one bank decided to take back its gold instead.

Traders say demand for leased gold is being stimulated at present by Australian producers selling forward because the price in Australian dollars has been rising, reflecting a strengthening of the US dollar.

Andy Smith, analyst at the Union Bank of Switzerland, recalled that in 1990 at the time of Portugal's embarassment, lease rates were kept down because Russia had gold to lend.

"The implication is that today there is no spare metal to lend, which is notable".— Financial Times.

Antimony market 'still oversupplied'

BIDAY 6/10/92

JONO WATERS

DEPRESSED antimony and gold prices and continuing high domestic inflation made it unlikely that Consolidated Murchison's (Cons Murch's) profit level over the past year would be maintained, chairman Mike Hawarden said in the company's annual report.

Hawarden said the antimony market continued to be oversupplied as a result of price discounting by Chinese producers. Cons Murch is the world's largest and SA's sole producer of antimony. (79)

Cons Murch's antimony concentrate stocks rose to 2 560 tons (2 045) in the year to end June 1992, as its sales of the concentrate declined by 16,3% to 5 950 tons. Gold production increased by 41% to 1 016 tons as a result of a 19% increase in grade and an improvement in gold recoveries.

COMPANIES

UAL Gilt gives 32,5% return

ANDREW KRUMM

THE UAL Gilt unit trust had recorded an "exceptional" total return of 32,5% for the year to end-September, said UAL management company MD Clive Turner.

Turner added that figures from a University of Pretoria survey indicated that UAL Gilt was the top performing unit trust over the past five years, with a total annual return of 18,47%. BDAY 7/10/92.

The unit trust's performance highlighted the defensive potential the specialist fund could offer in the face of political and economic uncertainty and market volatility, he said.

The fund had grown by R224m in the past two quarters alone.

Gilt fund unitholders would receive a distribution of 76,76c for the quarter.

However, other UAL unit trusts had not done as well.

79

The group's flagship, the UAL Unit Trust, recorded a total return of 8,3% for the year.

The Mining and Resources Fund showed negative 5% growth.

Meanwhile growth in the Selected Opportunities unit trust was marginal, giving a return of 3,6% for the year.

Commenting on the results, Turner said equities were likely to do well during the upswing expected in 1993.

Gold Fields shrugs off poor gold price

BD 7/10/98

MATTHEW CURTIN

GOLD Fields' streamlined gold division shrugged off another quarter of weak prices thanks to sharp increases in grade at its Kloof and Leeudoorn mines.

The group's overall earnings after tax and capital expenditure jumped nearly 20% to R102m in the September quarter from R85m. The increase in average grade to 9,1g/t from 8,6g/t more than offset both a fall in the amount of ore milled and poorer gold prices, which fell to R30 865/kg from R31 086/kg. Gold output rose to 31,4 tons from 30,6 tons, lifting gold revenue to R969m from R952m.

The mines continued their successful cost containment of recent months, with total costs up only 4% quarter on quarter, at R676m against R653m. Unit working costs rose a paltry 1% to R21 558/kg.

Executive director Alan Munro said at a news conference yesterday that Kloof was the group's "star performer".

The company, merged with the faltering Libanon and Venterspost operations in mid-year, paid no tax and reported a pre-capex profit of R115m, compared with R96m in the previous quarter.

● See Page 11

SA stocks and bonds slump on world markets

STAR 7/10/92.

79

By Neil Behrmann

LONDON — South African gold shares on foreign markets are at their lowest levels since the early 1970s, mainly because of the collapse of the financial rand.

The Financial Times index of SA gold shares has fallen 91 percent to 68,6 points from its all-time high of 735 points in 1983.

The fall in the gold price played a part, but currency losses are mainly to blame.

De Beers, South Africa's leading international share, is trading at around $9,75 — 70 percent below its end-1991 peak.

De Beers Centenary shares, already under pressure from a weak diamond market and threat of Russian gem sales, have fallen 20 percent from Friday's levels.

South African stocks and bonds quoted on world markets have slumped because they are denominated in finrands, a notoriously volatile investment currency.

Since the finrand discount has been as much as 42 percent, foreigners have been able to buy long-term Eskom stock on a yield of 24,6 percent, a return that should discount the risks of SA's political situation.

The finrand, which traded at an all-time low of 5,10 to the dollar at one stage on Monday, rallied to a close of 4,53 yesterday.

In the past year it has fallen about 35 percent. By comparison, the commercial rand's rate has hardly changed in the past few weeks.

Critical

London dealers are highly critical of the Reserve Bank's handling of the financial rand crisis, particularly since the finrand reflects international investment confidence.

When the finrand plunges, international investors perceive that the political and economic situation is deteriorating and the currency is caught in a vicious circle.

It was the mid-September devaluation of sterling rather than any worsening in political problems that precipitated the run on the finrand.

The devaluation encouraged SA banks acquiring and developing operations in London to buy cheaper pounds and sell financial rands, dealers say.

As a result the rate began weakening from 3,70 in mid-September and has since fallen by 23 percent.

Dealers say the Reserve Bank should have acted and either supported the rate or formed a separate financial rand pool for banks and other companies needing foreign currency for acquisitions.

It has been evident for months that foreign investors, concerned about the violence and in-fighting between the various black and white political parties, would be reluctant buyers.

So the finrand pool is too small to absorb large-scale foreign acquisitions by SA companies.

Now Swiss, German and other foreign holders of rand bonds are panicking and have been dumping rand bonds. The Swiss and Germans have been the main buyers of SA bonds in recent years.

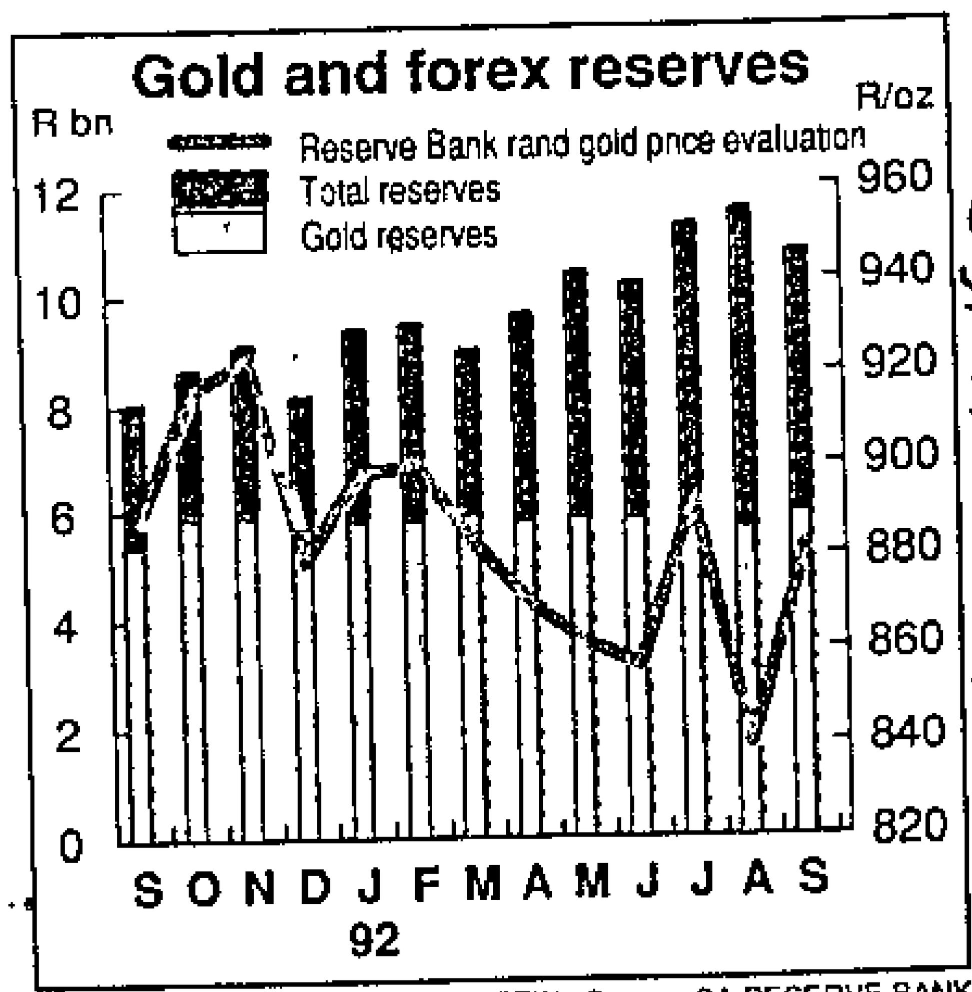
Depending on the timing of their original purchases, they are estimated to have lost more than a third of their capital as a result of the finrand slump. Their investment confidence has been shattered.

Patrick Quarmby, a managing director at Standard Bank, London, says: "It is ironic that the financial rand has collapsed because South African companies are now acceptable in the international community."

Gold, forex reserves dive

79

HILARY GUSH



Graphic RUBY-GAY MARTIN Source SA RESERVE BANK

BDay 9/10/92

PAYMENT for maize imports and end-quarter forex payments pushed gold and foreign exchange reserves almost R800m lower in September to R10,77bn from August's R11,55bn.

Reserve Bank figures released yesterday showed the sharp decline was due to a fall of over R1bn in the foreign exchange component of reserves rather than in gold.

Forex holdings fell to R4,87bn from R5,89bn, while gold holdings held steady at 6,7-million ounces. A higher gold valuation at R881/oz from August's R838 helped lift the value of gold holdings to R5,91bn from R5,66bn.

Nedcor Bank chief economist Edward

☐ To Page 2

Reserves

BDay 9/10/92

79

☐ From Page 1

Osborn said the drop in forex reserves indicated substantial payments for agricultural imports were made in September.

"The total payment for maize imports is in excess of R2bn, and I believe some of this has been bulked into one massive payment made last month," Osborn said.

He expected reserves to fall further over the next few months as payments for wheat and maize imports continued to drain Reserve Bank forex holdings.

Afrikaanse Handelsinstituut chief economist Nick Barnardt said a decline in reserves was typical at the end of a quarter as forex holdings flowed from the Reserve Bank to the banking system with a peak in forex activity.

Barnardt said the best basis of comparison was a "this month on three months ago" one, as it smoothed out seasonal factors. With June reserves of R10,2bn total reserves had risen R500m in the quarter

"Although I regard the decline at the end of a quarter as normal, a fall of R800m is a bit higher than was expected at the end of September. This could indicate an outflow of short-term capital arising from the negative political climate," he said.

Other economists speculated Reserve Bank intervention in currency markets helped lower September's reserves. Osborn argued against this, saying the Bank would not waste valuable reserves on propping up the rand.

Drought depletes reserves

STAR 9/10/92

By Sven Lünsche

South Africa's gold and foreign exchange reserves felt the first major impact in September of the severe drought, falling by seven percent from a record R11,55 billion in August to R10,77 billion.

The foreign exchange content of the reserves dropped by R1,02 billion to R4,87 billion as payments for imported agricultural goods, affected by the drought, mounted.

Total payments for maize imports are expected to be more than R2 billion this year. While a major part of this was paid in September, additional payments could exert further pressure on the reserves in the next few months.

Adding to the import bill are payments for wheat, which will have to be brought in for the first time in October.

Dividends

Economists say the foreign exchange reserves were further depleted by the dividend and interest payments to foreign investors in September, the last month of the quarter.

The decline in the foreign exchange content was in part offset by a R250 million rise in the gold reserves to R5,91 billion (R5,66 billion).

The volume of gold holdings fell from 6,47 million ounces in August to 6,7 million last month, but the rand gold price received rose from R838,69 an ounce to R881,14.

'Dumped' gold slashes price

STAR 13/10/92

NEW YORK — The gold price fell $5,20 to $345,20 on the New York Commodity Exchange yesterday, extending a $4 fall in London and bringing world prices back to the level of mid-September.

Traders said the drop seemed to be based on a large gold supply dumped from one source. Unconfirmed reports that the source was Middle Eastern.

"It seems it was deliberate attempt to bring the price down," an analyst said. "With the banks closed for Columbus day in the US and the Canadian markets closed for Thanksgiving, it didn't make sense for someone to do it on a day like this.

79

"It was a very thin market and it didn't take much to move the price." — Sapa-AP.

Gold dashes rising hopes of investors

By Derek Tommey (79)

Star 14/10/92

The gold price has been teasing investors again.

For most of the past four weeks it has been raising hopes that the bear market in the metal had ended by trading at above $345 and even reaching $351 at one stage.

But these hopes have been severely dashed.

The gold price has dropped $7 since the weekend and was trading at $343,55 in London last night from $346,50 on Monday.

In New York selling on the Commodity Exchange pushed the price down $1,20 to $344. In Hong Kong this morning the metal opened at $345,10.

There are no obvious reasons for this latest retreat.

It has been suggested that it could reflect forward sales by producers eager even to get the limited benefit of a $350 price.

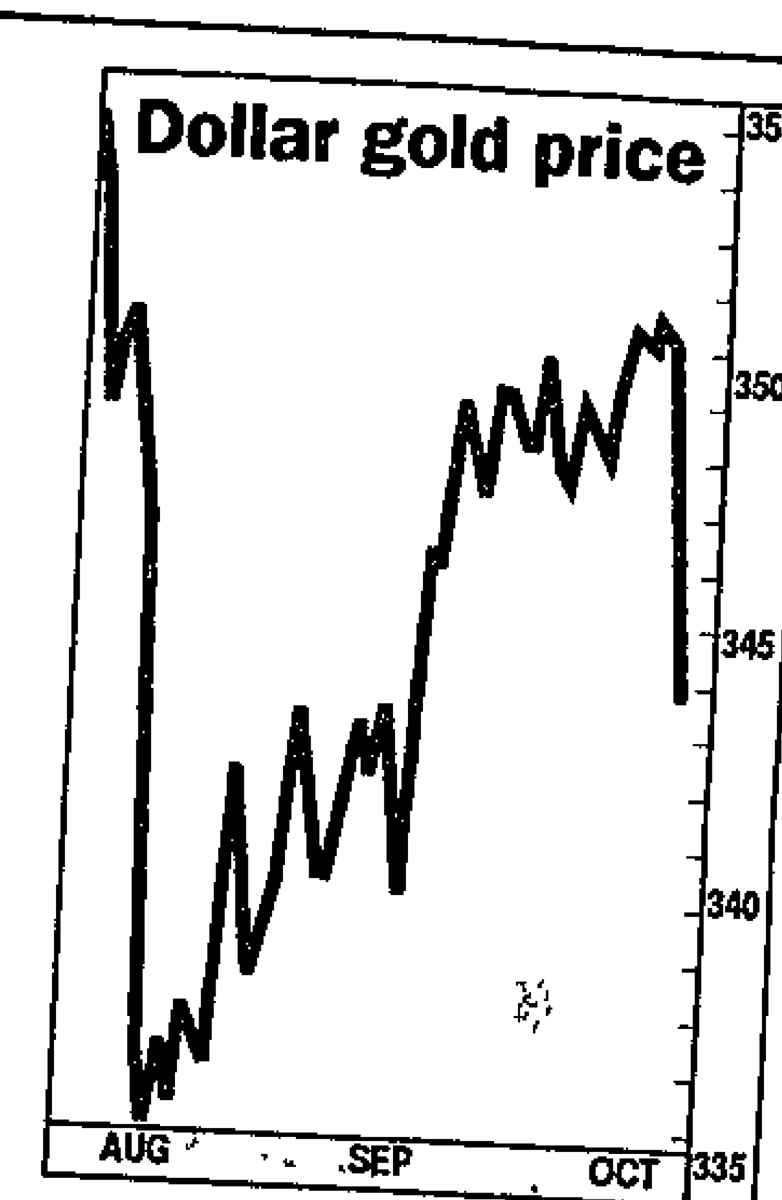
But it is possible the lower price may be related to the firmer dollar, which has appreciated against most other currencies in the past day or two. One result has been to weaken the rand against the dollar.

It closed last night at 2,868 to the dollar — its lowest rate since early May.

However, the weakness of the rand helped cushion the effect of the lower gold price on the mining industry as it resulted in the rand gold price increasing to R985 an ounce last night.

While this price is not particularly bountiful, it is better than the mining industry has been receiving.

This helps explain why the JSE gold share index recovered yesterday from its earlier fall to close only 11 points down on the day at 806.

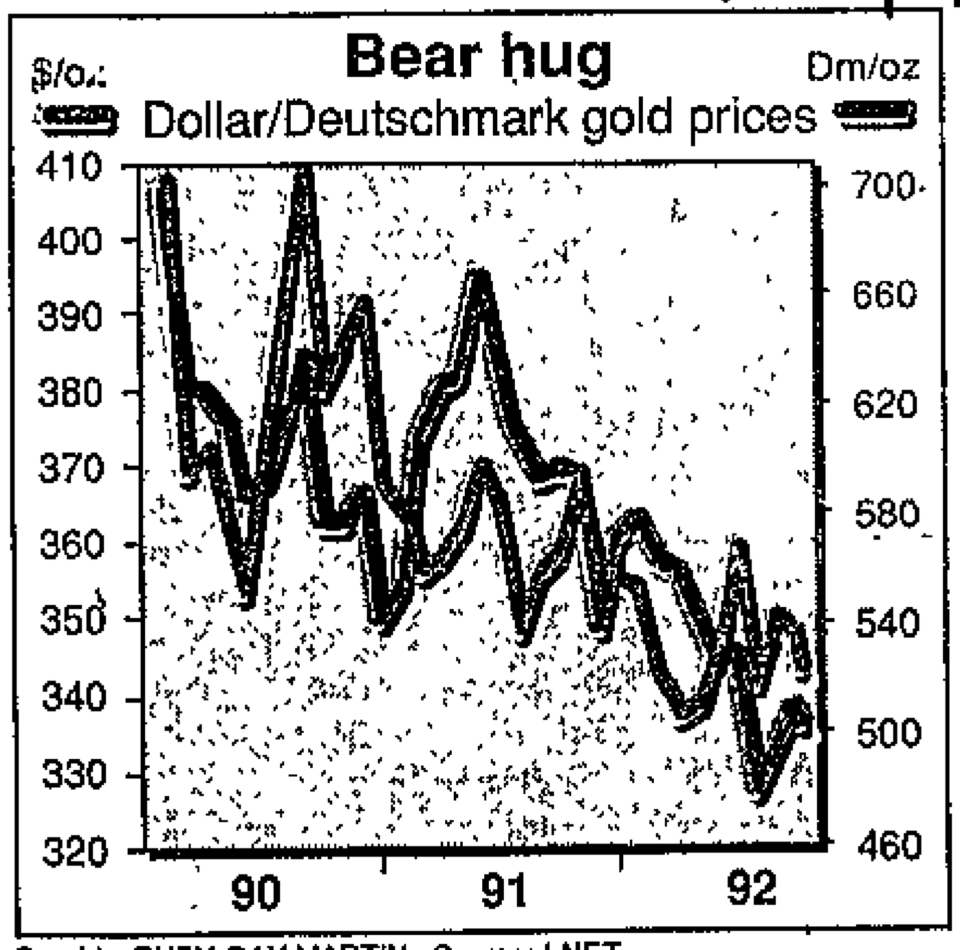


Gold subsides to month-long low

BDM 14/10/92.

MATTHEW CURTIN

(79)



Graphic: RUBY-GAY MARTIN Source: I-NET

GOLD prices sank to a month-long low of $343,45 an ounce yesterday, holed by profit-taking on New York's Comex futures exchange and by Middle Eastern financial institutions.

Market sources said investors turned bearish after the metal failed to break beyond the $350 mark after the recent chaos in European currency markets.

Gold was fixed in London yesterday afternoon at $343,75, nearly $7 or 2% down from Monday's setting, but slightly firmer compared with the $343,45 morning fix.

Responding to reports from London and New York that the SA Reserve Bank had supported gold prices, Bank spokesman

☐ To Page 2

Gold

BDM 14/10/92.

(79)

☐ From Page 1

James Cross said there had not been intervention to any "significant" degree in the past two days.

However, Cross said the Bank would continue to intervene to mop up excess liquidity or improve liquidity when the market was affected by turbulent conditions.

He said there had been warning signs that prices would fall because too many market participants had held the same view about the metal's prospects, added to which was yesterday's strengthening of the dollar against the Deutschmark.

Shearson Lehman Brothers first vice-president (bullion sales) George Milling-Stanley said in New York that investors had looked to gold "as a temporary parking place" during the confusion in European currency markets.

They had not put money into the metal as a long-term investment, dashing hopes held by gold bulls that the flight from European currencies and bonds would sustain higher gold prices.

Momentum unit trust pays 6,17%

(19) BDM 14/10/92

ANDREW KRUMM

ALTHOUGH exposure to gold shares hurt Momentum unit trust's performance over the year to September, the fund posted satisfactory results, says RMB Asset Management executive director Peter du Toit.

"During the quarter to September the fund had a 9% weighting in gold. This exposure hurt our performance as the all gold index dropped under pressure from overseas selling," Du Toit said yesterday.

"On a relative yield basis gold shares offer fairly good value, and we intend to maintain our holding," he added.

Given a tough third-quarter share market, the unit trust had outperformed the all share index and given investors a 6,17% total return for the year to September. However, the fund contracted to R53,6m in September from R57m in June as an overpriced JSE turned down.

Portfolio managers had disposed of remaining holdings in De Beers, East Dagga and consumer-related counters. These transactions increased liquidity from 13% in June to 25% in September.

Du Toit said the trust would maintain a cautious approach to the equity market.

"The industrial and financial markets are still fundamentally overpriced, and our strategy is now defensive," he said.

'Gold likely to receive support'

BDAY 15/10/92. (79)

NEW YORK — Turmoil in European currency markets and healthy global demand for jewellery will support gold near its current price through the fourth quarter, analysts say.

But at the same time, with no near-term threat of high inflation in Europe, Japan or the US and mine production holding steady, most observers doubt gold will start any steep climb.

Analysts project a narrow fourth-quarter trading range for gold, centred near its present price level. On average, forecasts put the metal's price between $335 and $365 by the end of the year.

Spot gold ended on Tuesday at $344 an ounce in New York.

Most analysts attribute gold's staying power at present levels to the shifting of funds out of European currencies into gold, as investors flee the tensions that have plagued the European exchange rate mechanism in recent weeks.

Some gold watchers say the metal's gains during September's currency crisis affirmed its role as the ultimate investment haven.

As monetary strains forced the British pound and Italian lira out of the ERM and the Spanish peseta was devalued, many investors dumped European stocks and bonds. At the same time, gold prices leapt more than $10.

The boost to gold that followed the currency crisis "basically refuted the theory that gold is an ancient relic that has no purpose" to investors, says Santa Monica, California precious metals consulting firm Kaplan & Co's president Bruce Kaplan.

But few analysts, if any, talk of the currency crisis as reason to expect a major rally for gold. In fact, some say that what is noteworthy about gold's rise in price is how small it was.

Many say the small volume of gold's gains, amid such drastic currency turmoil, underscores the fact that the metal has lost its status as a haven from financial uncertainty.

O'Neill notes that "there are so many sophisticated instruments available now — currency hedges, energy or petroleum hedges, interest rate hedges — that the need to use gold as a hedge has lessened dramatically".

Investors are now less likely to use gold as a hedge against currency volatility. Investors are more likely simply to seek safe currencies, according to Painewebber senior metals analyst Bernard Savaiko in New York.

Analysts say gold has found indisputable support in surprisingly healthy jewellery demand, which has shown sustained growth in the face of global economic recession.

The dollar-value of US gold jewellery retail sales rose 2,8% in the first half of 1992, compared with the first half of 1991, according to the World Gold Council.

Meanwhile, China's demand for gold jewellery has grown dramatically, outstripping its own mine supply and soaking up gold exports from all over southeast Asia, says Gold Fields Mineral Services metals analyst Philip Klapwijk. China's rising per capita income and its increasingly liberalised trade with Hong Kong have fueled the country's gold demand, he says.

On the supply side, analysts continue to expect total gold mine production to fall off soon, dampened by the metal's low prices. Growth in mine supply has slowed in each of the last four years.

An actual 0,2% contraction in supply in 1992 is forcast by London-based Metals and Minerals Research Services.

But many analysts disagree, saying they do not expect tighter mine supply before 1993. They note that SA production has held above mining industry forecasts so far this year, and several minor gold-producing nations have reported dramatic percentage increases in output.

Renewed inflation in the world's industrialised economies — like tighter mine supply — is a bullish factor that most analysts no longer expect to see before 1993.

If industrialised nations begin to take bolder steps to stimulate their economies, the potential for higher inflation could become greater, and gold would be boosted by its role as a hedge, analysts say.

And based on its likely impact on inflation, a victory by Democratic presidential candidate Bill Clinton in the US election in November is seen as mildly bullish for gold. Analysts say a victory for Clinton would lead to greater spending by the US government. — AP-DJ.

FM 16/10/92 (79)

RESERVES

Well covered

Despite the fall in official gold and foreign reserves in September, the position remains relatively healthy, with import cover currently at 2,4 months (see graph). This is a rise from September last year, when it was 1,8 months, and the previous September, when it was 1,4 months. UAL economist Dennis Dykes says the improvement is even healthier if liabilities are taken into account. "The Reserve Bank had outstanding foreign loans worth about R1,4bn at the end of 1989, which had fallen to zero by the beginning of this year," he adds.

In the month, however, a R1bn net outflow of foreign exchange took place in end-quarter payments and a sizeable maize and wheat import bill. At the same time the dollar value of the reserves was eroded when the European currency crisis boosted the dollar by 2,7% in the month to US$/R2,8105.

Consequently, total reserves declined by 9,2% to $3,8bn (or 6,7% to R10,8bn), with forex shedding 19,6% to $1,7bn (or 17,4% to R4,9bn).

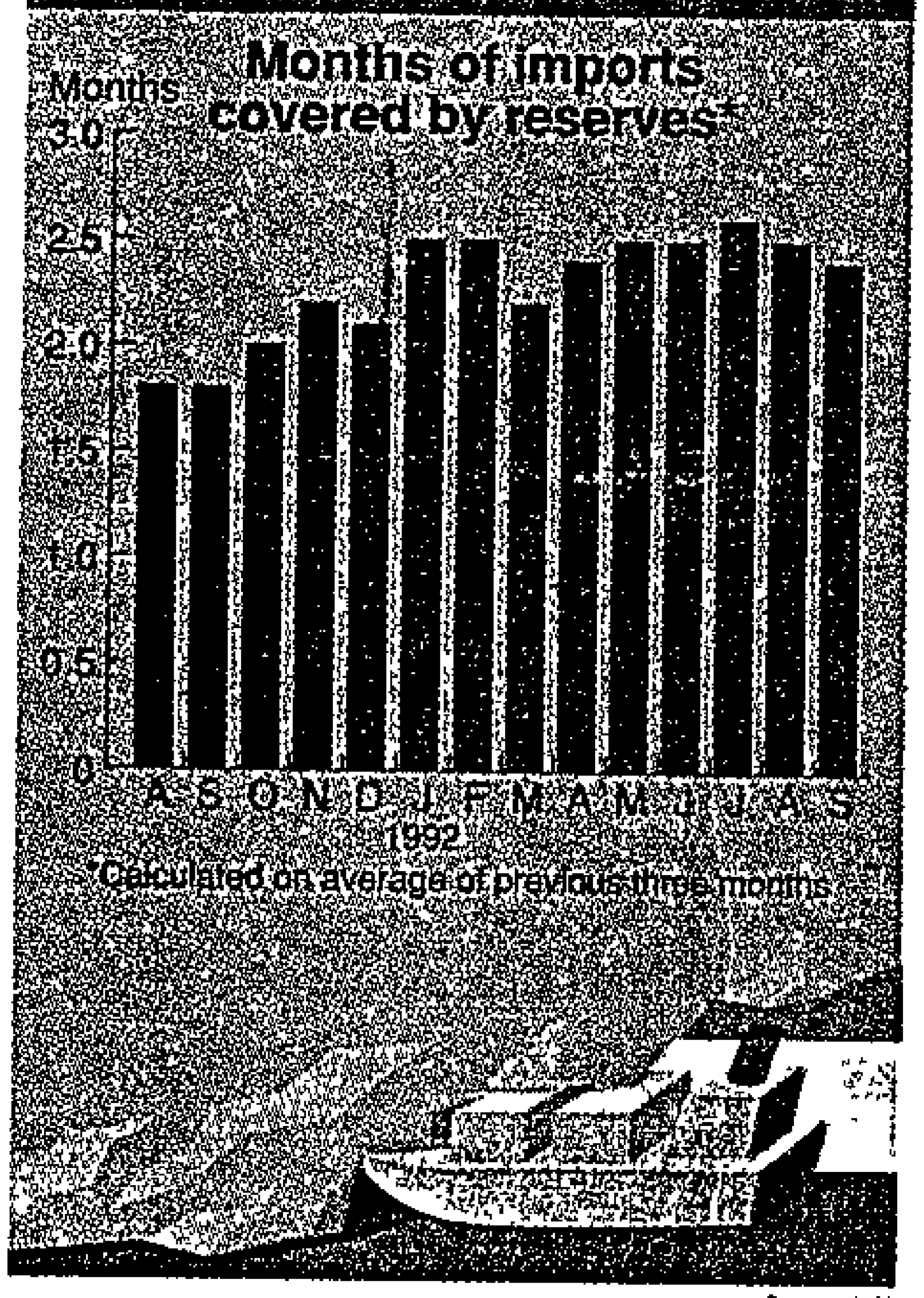
In spite of the strong dollar, movements in the gold price were favourable, ending September at a London afternoon fix of $349, from the previous month's $340,75. The rand valuation of gold holdings (90% of the average of the last 10 London fixings in the month) was up to R881,14/oz for the month from R838,69/oz. The value of gold reserves therefore climbed 1,7% to $2,1bn (4,4% to R5,9bn). Total gold holdings dipped slightly to 6,7m oz from 6,74m oz.

The rand's weakening in the month was less pronounced against the trade-weighted basket, declining 0,4%. Against the crosses it:

- Rose to £/R5,18 from £/R5,36;
- Fell to R/Y44,07 from R/Y45,89; and
- Declined to R/DM0,52 from R/DM0,53.

More cover

Import cover and reserves



Source UAL

A glut of Krugerrands on the market

(79) S Times (Buss) 18/10/92.

By MICHAEL WANG

THE domestic market for Krugerrands has all but collapsed.

From sales of 300 000 ounces two years ago, the Chamber of Mines says it will be fortunate if 70 000 ounces are sold this year.

By the end of September, total sales were 50 000 ounces, which represent close to 100 000 coins.

Krugerrands are sold in one-tenth, one quarter, one-half and one ounce denominations.

Slump

"There have been some weeks where we have sold nothing," says Chamber senior general manager Daniel Pollnow, who describes the sharp slump as a "debacle".

The massive drop in sales has forced Rand Refinery to postpone minting 1992 coins. A spokesman for the Germiston-based minter says production will begin only later this month.

This is an extraordinary turnaround for what used to be one of SA's — as well as the world's — most sought-after liquid investments.

A deepening economic crisis and a lingering, albeit mistaken, belief that Krugerrands are subject to VAT are the chief reasons for the sharp downturn, says Pollnow.

"People don't have much of a discretionary income anymore," he says. "They are just trying to pay off their bonds."

It was just a few years ago that the domestic market for Krugerrands was so buoyant that the government was compelled to slap a sales limit of 300 000 ounces a year, or around 6 000 ounces a week.

It was no secret that many investors were buying the coin as legal tender and transferring vast sums abroad.

Peak

The drop in domestic consumption comes as a double whammy. Since announcing in May 1991 that it intended to resume international sales of Krugerrands, the Chamber — which acts as the coin's wholesale distributor — has not sold one unit.

The primary reason, says Pollnow, is that the premium on the sale of Krugerrands in the secondary market is "substantially" less than the customary 3% commission the Chamber commands on sales to overseas banks and dealers.

In effect, there is a glut of Krugerrands on the market.

Since the coin's introduction in 1967, about 45-million units have been circulated worldwide. The coin's peak year of production was 1978, when more than six-million ounces were sold.

This vast number has whittled down somewhat in recent years, as jewellers have hawked the coin for melting purposes.

Other factors affecting investor interest in the Krugerrand and its international competitors are:

- A general decline in the price of bullion;
- A decline in the use of gold coins as a hedge on economic uncertainty; and
- Difficulty in convincing a new generation of investors that gold is a solid investment.

Sales of the world's gold coin market leader — Canada's Maple Leaf — tumbled by a full 60% last year to 412 000 ounces.

Another problem that the Chamber has had to wrestle with is the inferior purity of its range of coins.

Purity

When international sales of the Krugerrand were halted in 1986, the standard for gold coins was 22 carats (or 0,9167 pure). Since then, the standard has become more rigorous at 24 carats (or 0,9999 pure).

Pollnow says the Chamber has taken the decision that it will not raise its purity levels.

"We don't want a situation where we have a first and second class Krugerrand," he explains.

"And it's not clear that we would be at a disadvantage (with a 22 carat coin). The Krugerrand still has tremendous international acceptance."

But those days are now more of a distant memory as new Krugerrands remain off foreign markets and domestic consumption slumps.

Pollnow is convinced that a spike in the gold price is not the answer to the Krugerrand's sales woes. Only a renewed worldwide economic boom will bring investors back to the market.

Asked if he sees 1993 as the turning point, Pollnow would only comment: "We are ready."

Gold heavyweights 'badly undervalued'

B/Day 19/10/92. (79)

MATTHEW CURTIN

THE heavyweight gold shares which make up the JSE's all gold index are badly undervalued at present prices and may be at their cheapest levels for more than 10 years, says E W Balderson analyst Nick Goodwin.

Goodwin said yesterday that it was "crazy" for the all gold index to be as low as 793 points.

The index, made up principally of heavyweight gold stocks like Driefontein, Vaal Reefs, Kloof, Freegold and Randfontein Estates, was not reflective of the mines' performance. They remained highly profitable low-cost or high-grade producers even at poor ruling gold prices.

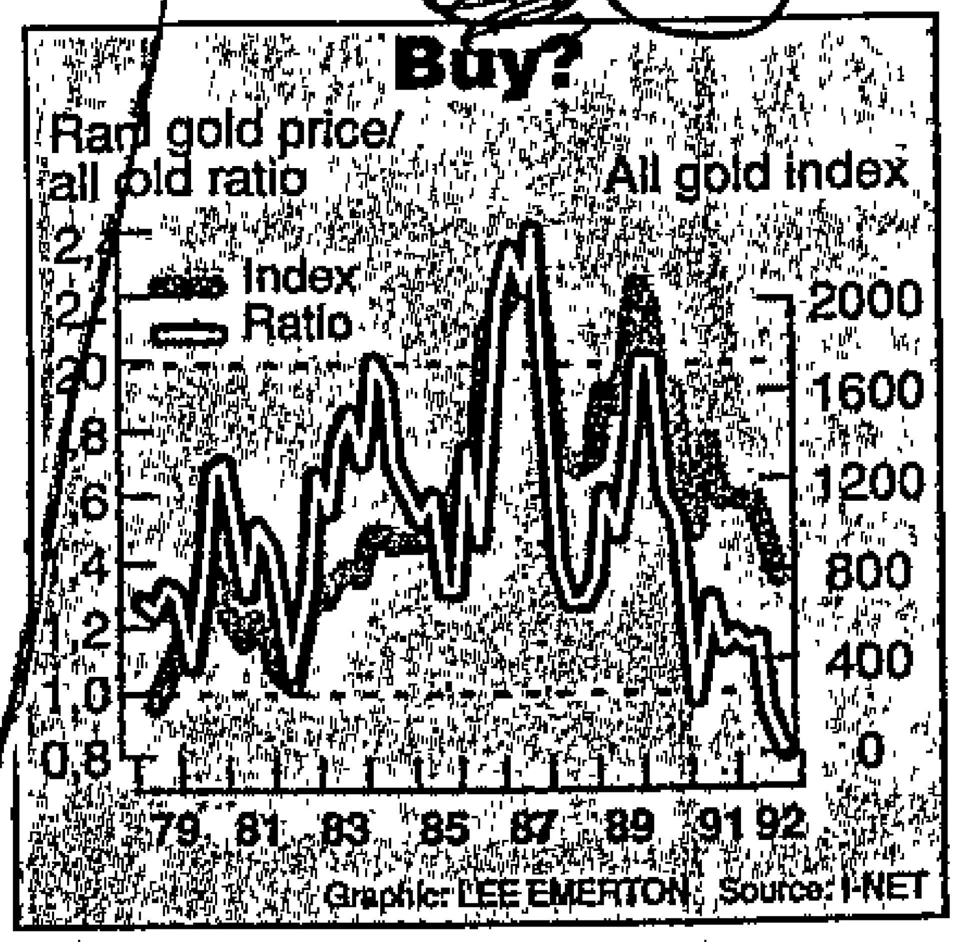
In contrast, outlook for shares in the marginal mines — which had little influence on the index — was more gloomy with poor short-term prospects for gold prices.

Goodwin said that although there was good physical demand for gold, such demand tended to shore up prices rather than drive them higher. Speculators seemed to be controlling the market at the moment and it would take a further deterioration in world economies, and the US in particular, to boost prices significantly.

In the past year gold prices have traded at an average of $349 an ounce, and in a narrow band between $340 and $?7. Gold prices slipped again on Friday, with the London afternoon fix down 10c at $341,75.

Goodwin said "an interesting empirical tool" for examining the value of gold shares was the ratio between the index and the rand gold price in ounces (see graph).

When the ratio fell below 1:1 it suggested that shares were undervalued as the



inspired investor would have found to his benefit in the first half of 1982 had he started to buy gold shares. In contrast, had he started to sell shares in late 1986 or early 1987 on the grounds that a ratio of more than 2:1 showed the shares were expensive, he would have beaten the late 1987 and late 1989 gold board crashes.

Goodwin said that with the ratio presently down to a record low of 0,8:1, the question was whether the market had "any more downside potential". Investors tended to oversell when gold prices fell, and over-react when they soared, suggesting that with the index as low as it was, this was a good time to buy gold mining stock.

"Analysts are in the business of avoiding blunders, anxious to sell near the top and buy near the bottom. Buying and selling once prices have hit the bottom or the top invariably means you have missed the boat because the gold market moves so quickly," he said.

Capital outflow shows slowdown

BDAY 28/10/92 (79)

GRETA STEYN

SA's foreign capital situation held up well in the third quarter in spite of escalating violence, economists' calculations show.

Economists said early indications were there had been a marked slowdown in the capital drain. This would represent a turnaround from the second quarter of this year, when R1,9bn had left the country as a result of adverse political factors.

However, economists said an improvement could be expected once the third-quarter figures were released — this was indicated by the rise in foreign exchange reserves despite a small current account surplus and large foreign debt payments.

The Reserve Bank was not able to confirm or deny balance of payments projections as it was still compiling statistics. Gold and foreign exchange GM James Cross noted, however, that foreign exchange reserves had held up well over the period.

The current account surplus for the third quarter is estimated at about R600m — sharply down from the R1,32bn surplus notched up in the second quarter. Foreign debt falling due (more than R1bn) exceeded the current account balance.

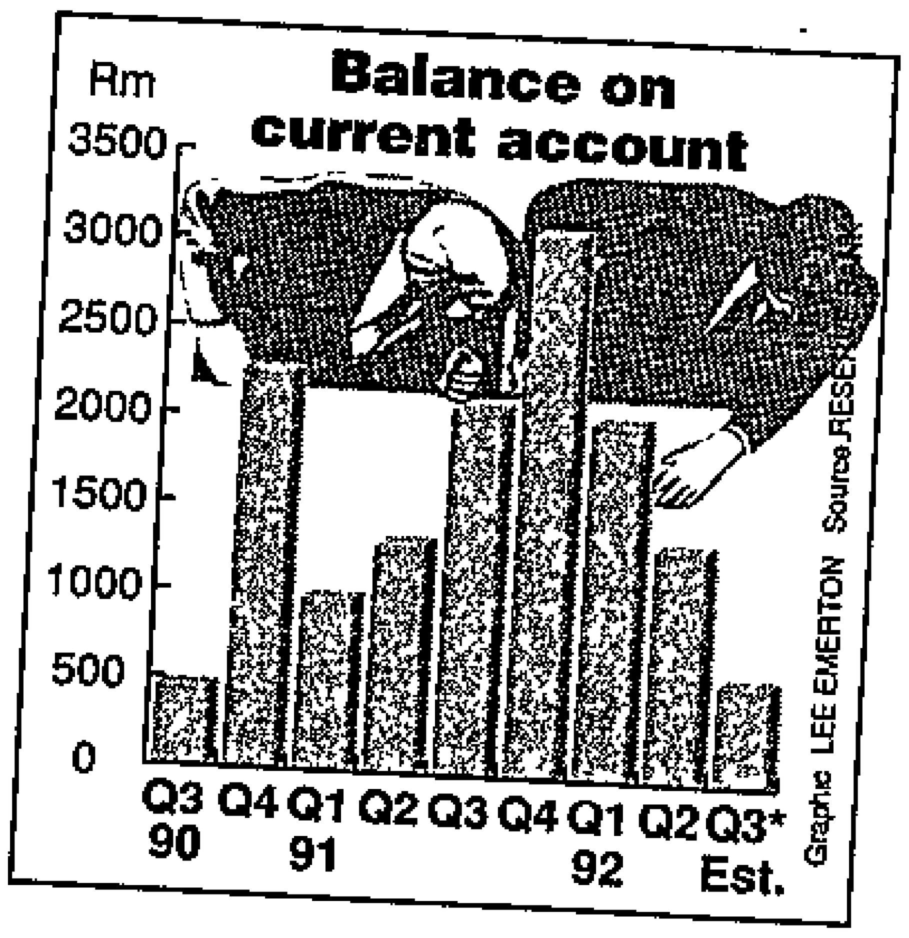
The current account is the trade balance less net payments for invisible trade.

Nedbank chief economist Edward Osborn said it was possible there had been a rollover of debt outside the standstill net falling due in the third quarter. Debt inside the net ($180m) had been repaid. He said it was possible a rollover of the remaining debt had been arranged at the beginning of the year, before the political situation had worsened.

Gold and foreign exchange reserves rose by R584m in the third quarter.

The difference between the current account surplus and the change in foreign reserves could provide clues as to foreign capital movements, AHI economist Nic Barnardt said.

The calculation indicated a small capital outflow during the quarter. However, Barnardt cautioned against drawing too firm conclusions from this calculation as the available figures for changes in foreign exchange reserves did not include those of the banking sector. Movements of currency between the Reserve Bank and the banking sector could be mistaken for capital outflows.



Shares slide as gold hits 10-week low

(79)

MERVYN HARRIS

GOLD was fixed in London yesterday afternoon at a 10-week low of $338,25 to send shares broadly lower on Diagonal Street, with turnover extending its dramatic slide of the past week.

The metal touched a session low of $336,50 before edging back to close at $338,25 as support emerged at the lower levels. The fall was ascribed to Middle East sales, modest producer selling, dollar strength and jitters ahead of the US presidential election which was keeping the market on the defensive.

Edey, Rogers & Co analyst Keith Bright said the severity of gold's decline surprised the market. B/DAY 28/10/92

Gold shares tumbled in the wake of the falling price of the metal with the 4% drop in the all gold index to 822 points dampening sentiment on the rest of the market.

Dealers said institutions remained on the sidelines apart from several bookover deals of large lines of quality shares which helped boost market turnover yesterday.

Against the R100m generally needed for brokers to break even, turnovers declined to R65,3m on Thursday, R50,6m on Friday and R48,4m on Monday.

Financial institutions are said to be reserving cash to fund the proposed R6,3bn Alusaf aluminium smelter project, the R2,4bn Royal acquisition of Del Monte Foods International and the R600m Stanbic rights offer.

Analysts said more rights issues could be on the cards, and further down the line funding would be needed for the R3,1bn Columbus stainless steel venture.

They also cautioned that the sluggish world economic recovery and escalating violence in SA could delay even further a domestic uptick and put more pressure on corporate earnings and dvidends.

This could prompt a re-evaluation by institutions of investing in leading shares relative to returns obtainable on alternative avenues of investment.

"The weight of institutional funds theory, which would continue to support shares, works when times are good but not when shares no longer produce value," an analyst warned.

FM 30|10|92 (79)

SA MINT FM 30|10|92

Going for the gold (79)

While people continue to make peace with their new coin series, the new SA Mint, which opened this week, is moving ahead with plans to win foreign clients. The mint, next to the M1 between Johannesburg and Pretoria, cost R200m and can produce 1,2bn coins a year. "It is the most modern and technologically advanced in the world," boasts MD David Powell.

He says the mint is discussing a new coin series with Namibia and is involved in talks with parties in Europe, the Far East and South America. "During the sanctions years we were precluded from following this route, but have now decided to launch a major, global marketing thrust."

If government decides to phase out the 1c and 2c coins, which make up 60% of the manufacturing run, the mint could expand its lucrative export capabilities. The issue is under investigation and would require a Cabinet decision. There are now about 300m 1c pieces in circulation; the total of all coins represent less than 1% of the cash in circulation.

Though the mint would like to secure a contract to supply a foreign country's coins, exporting specialist coins is where the real money is. GM Neels Dannhauser says the mint plans to market its facilities for the issue of commemorative coins and medallions because of the big profit possibilities in the collectors' market. "While the SA Chamber of Mines and the Rand Refinery sell bullion Krugerrands, our expertise lies in the higher-premium proof sets."

After the sanctions years and global recession, there is little demand for Krugerrands that cannot be met by the secondary market. Chamber of Mines senior GM Daniel Pollnow says that, since the early Seventies, about 54m of the coins have been minted.

"While the Canadian Maple Leaf is the biggest seller in the world, total Maple Leaf stock is only about a quarter of that of the Krugerrand."

The Krugerrand still carries a political discount, which means that it does not get the 3% premium above the gold price that other such coins fetch. The chamber is not considering issuing another coin at this stage, because the brand name of Krugerrand is seen as highly valuable. Pollnow says the chamber will resume selling Krugerrands "as soon as market sentiment changes, physical demand exceeds what the secondary market can provide, and the premium exceeds 3%."

He adds that the shifting mood in the global bullion market may lead soon to renewed demand. "The recent currency crisis must have forced a rethink on central banks about getting rid of their gold reserves, while newer gold producers are now also beginning to experience problems in keeping up production. The pendulum is therefore slowly moving back into the demand field and we expect a more bullish tone over the next few years." ■

Gold price unlikely to rise this century — Gold Fields analyst

(79) BDM 2/11/92

SA GOLD producers should assume there will be no increase in the gold price in real terms for the rest of this century, Gold Fields mineral services chief consultant Timothy Green said on Friday.

Speaking at an investment conference in Johannesburg, Green said the gold price level in the $340-$350 an ounce range is well sustained by physical demand, which is estimated at 2 500 tons this year, AP-DJ reports.

However, he said, the gold price was vulnerable to fears of central bank sales. "But I don't see the catalyst to bring gold back into the real driving force of serious investment money that could translate to a higher sustained price."

On the positive side, Green said the central banks realise that inaugurating a large sales programme would damage the gold price.

"That doesn't mean no more sales are forthcoming — central banks have been net sellers of nearly 2 500 tons since 1965 — but they will be measured and probably well absorbed in today's market," Green said.

He said the current gold price was underpinned by an expected increase in demand in China and decreased sales from Russia.

Green said the level of sales from the former Soviet Union were falling from its current production level of about 200 tons and would not return to previous levels before 2000.

Gold imports in most countries were higher in 1992, he said.

Green said demand for gold in jewellery manufacturing and other industrial usage in 1992 will easily exceed last year's record, Reuter reports.

He said jewellery manufacturing will absorb at least 2 200 tons this year.

He reported "remarkable" increases in offtake in major Middle and Far Eastern markets, except for Japan which imported 245 tons last year but had shown a 19% fall to September this year.

Offtake by jewellery manufacturer Italy was up 7,6% in the first nine months against the same period in 1991.

Hong Kong, Singapore and Taiwan alone will import 900-1 000 tons this year, equal to half of all Western output, he said.

Consumption in China may well double this year to 400 tons, he said.

Sharp dip in demand for weekly Krugerrand tender

JONO WATERS (79)

THE weekly Krugerrand tender, which was well-supported in August and September, has dropped-off dramatically in the past few weeks.

Only 150oz were successfully tendered for last week, and the week before was even lower at 50oz.

Two months ago tenders of between 5 000oz and 6 000oz were a weekly event as investors feared the rand may be devalued.

Chamber of Mines senior GM Daniel Pollnow said there was a general lack of interest in gold as an investment at the moment and any demand for the coins could be met by trade in the secondary market.

"In addition, people are struggling under the present economic conditions and not many people are saving money, so they don't have any money to invest in shares or Krugerrands."

Pollnow said the Rand Refinery had not started producing Krugerrands this year, but would do so before the end of the month. He said the refinery planned to produce in excess of 10 000 Krugerrands this year — one of the lowest amounts in recent times. BDAY 3/11/92

While demand was weak at the moment, Pollnow said he viewed this as short-term and was optimistic that demand would improve in the long-term.

Investec dealer Tubby Goodwin said the Krugerrand market was "very weak" at present with supply of the coins exceeding demand.

Cardboard coffins and paper houses

S|Times (BUSS) 8/11/92.

DIAGONAL STREET

by JULIE WALKER

CORRUGATED cardboard coffins and paper houses are but two innovations from Nampak, the diversified packaging blue chip in the Barlows stable.

Not only does the group lead in SA, it is the 15th largest in the world, according to figures given by Nampak chairman Brian Connellan to a presentation for the Investment Analysts Society in Johannesburg this week.

Mr Connellan and his team described the activities of Nampak and the issues facing it in its drive to maintain world-class status.

"Virtually everything is packaged," says Mr Connellan, adding that packaging is sandwiched between big suppliers and large customers. In SA the business represents an inordinately large slice of gross domestic product — about 2,5% compared with 1,6% to 1,9% for other countries. Worldwide, packaging output is worth $250 billion to $300-billion a year.

Nampak is the most diversified packager, no single division accounting for more than 17% of sales.

Mr Connellan says Nampak will benefit when SA's GDP resumes growth.

In the past five years the group has spent R1,2-billion on expansion and aims to spend another R2-billion in the next five years. By that time, managing director Trevor Evans expects Nampak's turnover to be R10-billion, of which 90% will come from existing businesses, 5% from SA and regional acquisitions and the rest from international trade.

Nampak's capacity to borrow is strong — only 27% geared at the moment. Five years from now, even after another R2-billion of capex, Nampak could take on another R650-million of debt and stay below its self-imposed 50% ceiling.

Turnover in the year to September 1992 was R4,4-billion. Existing business covers the entire packaging spectrum — glass bottles, metal cans, blow-moulding, cardboard boxes, tissues, paper, sacks, plastics and more.

Mr Evans outlines four key issues facing Nampak: beverages, asset performance, productivity and exports.

Metal cans for drinks face a challenge from Rheem's aluminium plant, due to open next year. Mr Evans says Nampak will stick with tinplate because it is cheaper and stronger. Because Iscor has put in a new line to supply tinplate it will remain competitive.

He says the paper and glass divisions are underperformers and efforts are being made to correct their shortcomings. He expects the market share of glass bottles to shrink.

Focus on productivity has been increased. Most plants are running about 20% below capacity because of the economic downturn, but urbanisation is expected to boost organic growth.

On export opportunities, Mr Evans says Nampak is improving the packaging of goods. Technological alliances with foreign packaging leaders are being strengthened.

Since 1987 Nampak's share price has climbed from a pre-crash R30 to R80, a price 1,5 times the industrial index. Highly rated by analysts — the price-earnings ratio is 15 — the group looks to be in experienced hands.

Scharrig deal

S|Times (BUSS)

SCHARRIGHUISEN has bought 55% of three ~~Transvaal~~ operations undertaken by Cape-based Norman Mining for not more than R10,5-million. 8/11/92

Norman has earthworks and soil-stripping contracts with Trans-Natal's Optimum Colliery and Rand Coal's Middelburg.

Hope lingers on for gold

S|Times (BUSS) 8/11/92 (79)

FIVE international investment-house brokers canvassed by the Mining Journal's Gold Mining newsletter believe that the worst is over for gold.

SG Strauss Turnbull is encouraged by gold's hint of displaying safe-haven characteristics amid Europe's currency turmoil.

In dollar terms, gold has been relatively tranquil. Although Turnbull concedes that charts do not provide clear evidence of a reversal in the long-term downtrend, it believes the worst has passed.

Williams de Broe agrees that gold was a safe haven in currency turmoil — the first occasion since the Persian Gulf war. It attaches significance to the gold market's ability to absorb producer selling pressure.

It expects the dollar price to consolidate in the short term at the current level, then to test $360/oz — a figure unlikely to be breached.

Williams de Broe reiterates its view that gold has bottomed because jewellery demand is still strong and European investors are starting to look at it again.

Maison Placements Canada says gold is a commodity and the short-term price swings reflect a sophisticated trading arbitrage market. It says that although a well-defined trading range has been established, gold's uptrend is still intact. Once gold breaches $365, it will rally upwards.

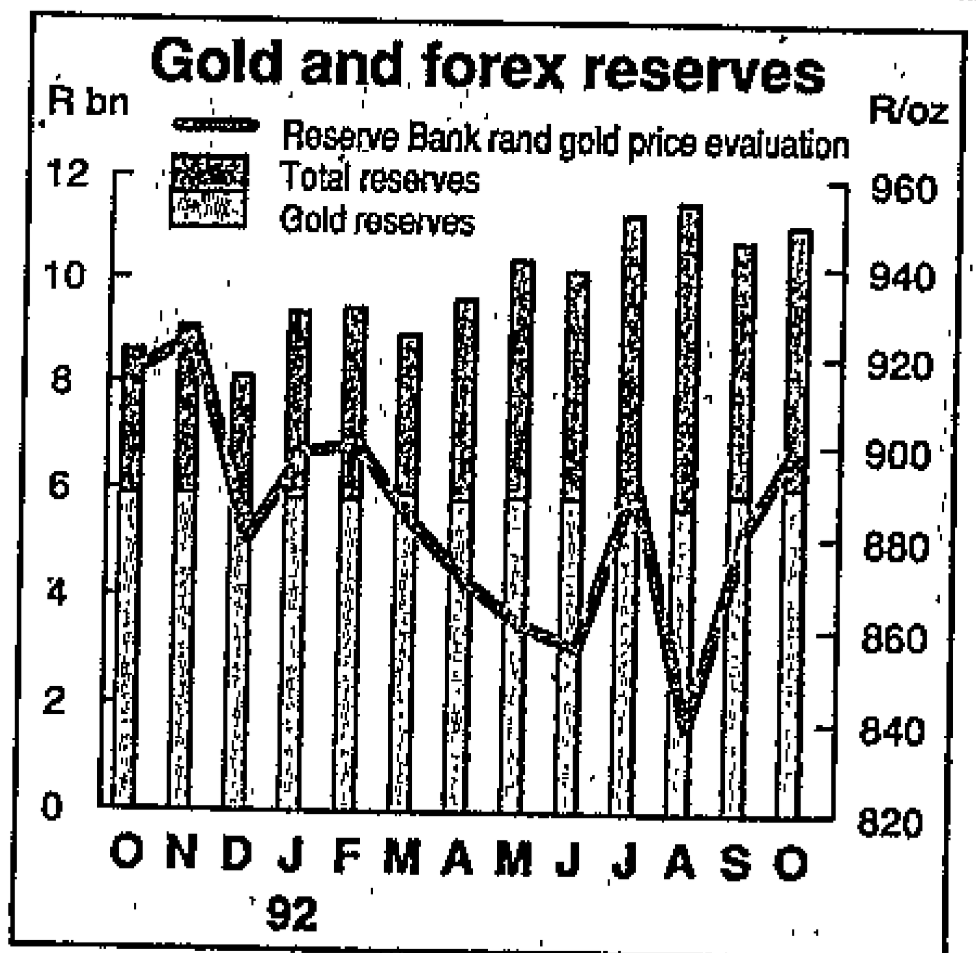
Carr Kitcat & Aitken says that technically, gold's recovery since August has produced an important double bottom, although recovery will be slow.

Credit Lyonnais Laing reminds investors that a year ago the fundamentals looked encouraging and gold rose to $370 by the end of November.

What stopped the price from rising was the belief that governments were still firmly in charge of their destinies and that their aim of curbing inflation by keeping interest rates high was achievable.

However, the last few months have been devastating and Laing says unemployment and the lengthening recession have replaced inflation as the main problem.

When the economic turmoil is over, Laing believes interest rates will generally fail to allow recovery in economic growth and that inflation will be allowed to rise. Gold might then recovery some of its popularity.



Graphic: RUBY-GAY MARTIN Source SA RESERVE BANK

Reserves back on an upward trend

79

HILARY GUSH (39)

GOLD and foreign exchange reserves returned to an upward trend in October after a sharp fall of almost R1bn in September.

Reserve Bank figures released at the weekend show that total reserves increased to R11,1bn from September's R10,77bn on the back of a rise in the value of gold holdings and forex assets.

While gold holdings remained steady at about 6,7-million ounces, a higher gold valuation in October — at R902,51 — helped lift the value of gold holdings to R6,09bn from September's R5,91bn.

Economists said despite capital repayments in October forex reserves grew to R5,01bn from R4,87bn. This reflected the reasonably good performance of exports and the effect the recession had had on depressing import demand. BDAY

Nedbank chief economist Edward Osborn said the revaluation of reserves after the fall in the rand showed there had been no real change in reserves. "The apparent increase in reserves was due to the higher gold price used, as well as the depreciation in the rand from R2,81 at end-September to R2,96 at end-October." 9/11/92

In effect there had been a slight reduction in reserves, which was more than offset by the revaluation, he said.

However, George Huysamer and Partners MD Werner Stals said: "The higher forex reserves indicate that exports must have performed well in October, considering the capital outflows which occurred in that month." He expected further capital repayments in November.

Gold is battered by central bank sales

MERVYN HARRIS

GOLD was testing its 1992 lows of around $333 on bullion markets yesterday on reports of continuing central bank sales, which were said to be spurring panic hedging by producers despite the low price.

After dipping to a low of $332,25 in London, gold edged back up to close almost $1 down on the day at $334,65.

Reuter reports gold has been battered by apparently programmed sales by central banks in roughly 50 000-ounce lots over the past two months. The metal has also been under pressure from the strong dollar but physical demand at the lower levels is cushioning the fall.

A weak commercial rand was, however, enabling gold to hold above R1 000/oz.

But renewed finrand weakness failed to prop up shares in rand terms on the JSE, dealers said.

The all gold index fell 3,6% or 29 points to 784 to approach the mid-October low of 778. Dealers said shares were marked down rather than sold off in a thinly traded session as poor sentiment kept investors on the sidelines.

Platinum eased $4,50 to $362 as US funds showed no signs of pushing the metal up after Friday's bout of intense profit-taking at the higher levels.

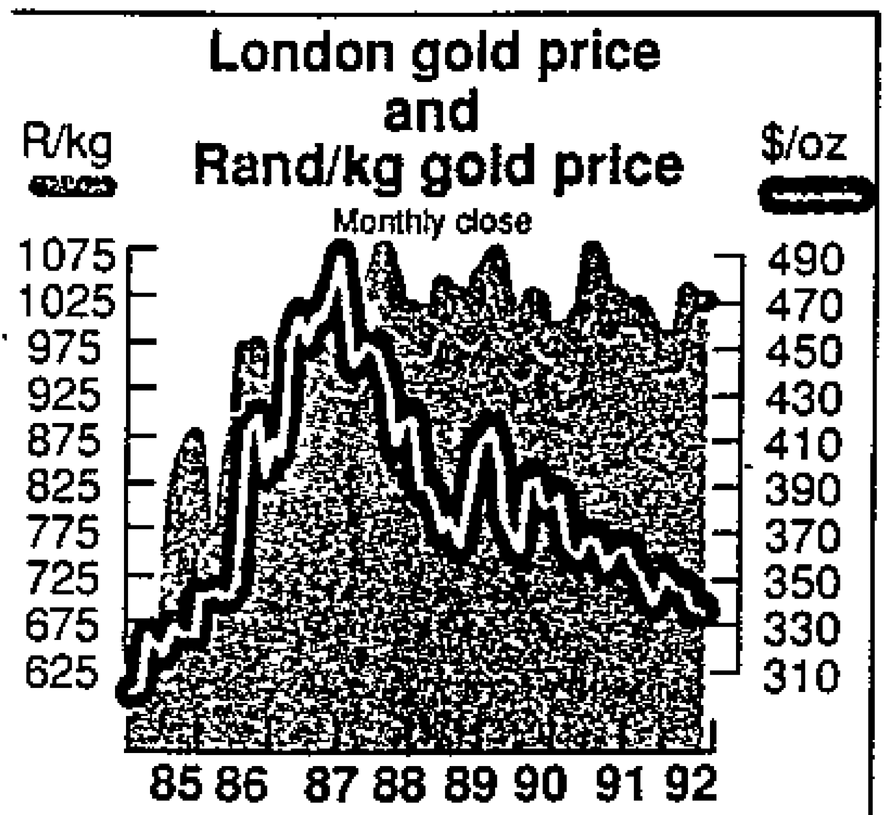
BDay 10/11/92

(179)

Gold sags to seven-year low after beating on world markets

(79) BDAY 11/11/92

MERVYN HARRIS



Graphic LEE EMERTON Source: I-NET

THE gold price sagged yesterday to seven-year lows in volatile trading on global bullion markets.

Gold's morning fix of $330,20 in London was its lowest setting since January 1986, after the metal slipped briefly below that level in Far East trading. It closed $4,75 lower in London at $329,90, with a firmer dollar also weighing on the metal.

Dollar strength against the commercial rand also pulled the rand gold price down R10 to R991,71/oz, but the recent higher trading range is good news for gold mines.

EW Balderson analyst Nick Goodwin said the higher rand gold price over the past few weeks was more than offsetting the decline in the dollar price of the metal.

"The average gold price for the September quarter was R962/oz and this should increase by about R40 to R1 000 in the December quarter, lifting industry profits by 22% to R219/oz from R179/oz in the previous quarter," Goodwin said.

"Most people tend to look at the dollar price of gold, but in rand terms earnings from all gold mines in the December quarter should be up by about 20% to R1,07bn from R875m in the September quarter.

"This means yields on gold shares are becoming more attractive. ET Cons, for example, is on a forward yield of more than 10%, Ergo on a 13% yield and highly rated Dries is on a yield of above 6,5%."

Another analyst said the depreciation of the rand would lessen the chances of more gold mines going under with the consequent loss of jobs.

JSE dealers reported no major sell-off of gold shares. The market continued its recent pattern of low volumes as nervous investors remained on the sidelines.

The all gold index fell almost 5% or 38 points to a seven-year low of 746 to bring the overall index down 18 points to 3 003, with platinum shares under pressure after the metal fell in sympathy with gold, shedding $12 to $350,75.

Deutsche Bank director and head gold trader Fritz Plass said in Johannesburg yesterday that fund managers and speculators who had gone into gold on expectations that a Bill Clinton victory in the US elections would boost the metal were now unwinding positions after the failure of the metal to perform.

● See Page 7

Clinton factor holding gold in check — banker

GRETA STEYN (19)

THE Clinton factor was one of the main reasons for the current pressure on the gold price, Deutsche Bank director and head of gold trading Fritz Plass said in an interview in Johannesburg yesterday. BDM

He said fund managers and speculators who went into gold anticipating a Clinton victory would give a boost to the metal were disappointed at gold's failure to perform, and were unwinding positions. There was a growing realisation that the Clinton administration would not be as inflationary as had been anticipated. 11/11/92

A major factor depressing the gold price this year had been central bank sales and fears of a major sell-off by central banks. Central bank selling had amounted to about half of SA's annual production (some 300 tons).

The Belgian central bank in the first six months had sold more than 200 tons. Other prominent central bank sellers had been Canada, Uruguay, the Philippines, Iraq (a substantial seller) and Jordan, he said.

A major holder of gold was the Bundesbank — it had 3 700 tons of gold. Plass pointed out that a recent article in the German newspaper Die Welt argued 20% of German gold holdings should be sold to help finance German unification. Plass said if the Germans did that, offloading 750 tons, it would exceed SA's annual production.

While he did not expect the Bundesbank to start selling in the foreseeable future, the German gold holdings were casting a shadow over the market.

Positive factors for gold that had kept the price from falling to $300 or below were investment demand from Southeast Asia and jewellery demand.

Another important factor had been hedging, Plass said, noting some SA mining houses believed the opposite. However, he said about 350 tons of gold had not come onto the market in the last three years which otherwise would have come onto the market.

While production from the former Soviet Union could be expected to increase, this would be offset by falling production in SA, Australia, North and South America.

The risk on the downside was limited, but there were also no fireworks in store for the upside. The immediate ceiling for gold was $360, but prices next year could be sustained at $375. Based on current information, he viewed the floor as $310-$325.

Gold production dips 1,9% during October

BDAY 17/11/92.

JONO WATERS

GOLD production in October fell 1,9% to 50,7 tons from 51,7 tons in September, the Chamber of Mines said yesterday.

The figure was 1,5% down on October's production last year, but the progressive total for the year was 1,5% higher at 507 tons compared with last year's cumulative total of 499 tons to October.

However, the gold price, now riding above R1 000 an ounce as a result of the weak commercial rand, could produce an increase in dividends from several mines.

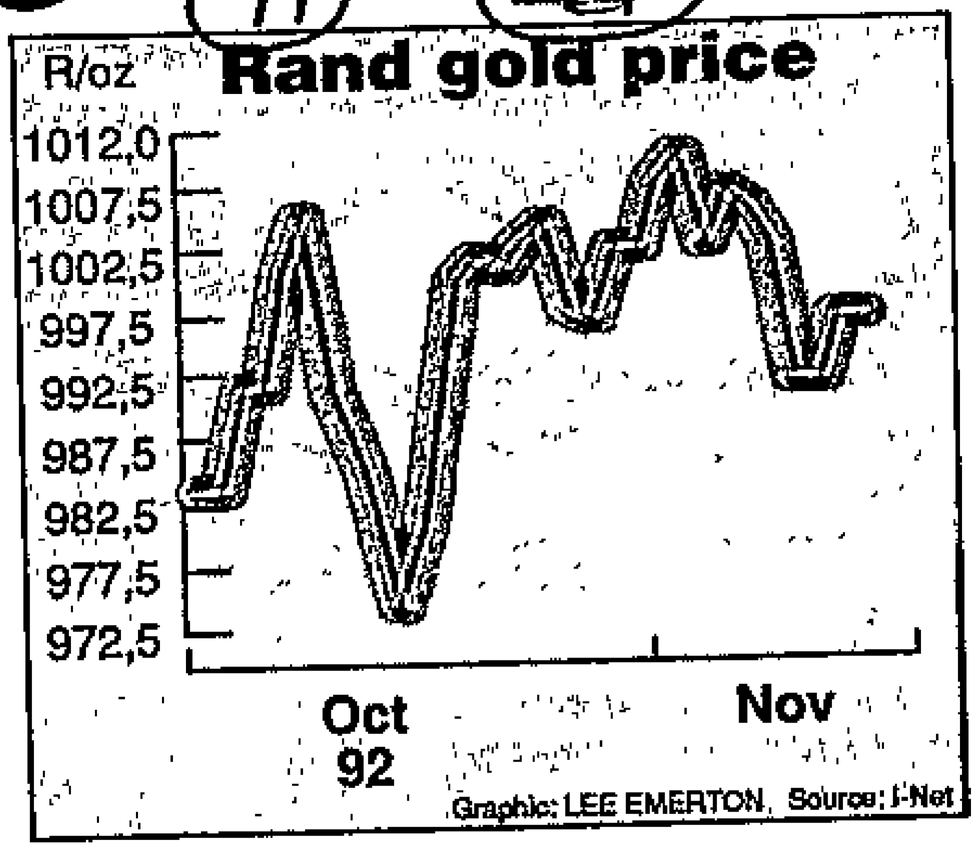
Gold was fixed at $335,40 (R1 005) in London yesterday afternoon, down $0,60 from the morning fix.

The average gold price received in the past quarter was R963 an ounce and the average price for the quarter to date is R997/oz.

EW Balderson analyst Nick Goodwin said the increase in the rand gold price made "quite a difference".

Goodwin said if the price was maintained at R1 000/oz, total earnings in the industry could increase more than 20% to about R440m from R362m in the September quarter.

Most analysts agree that gold shares at the moment are extremely cheap and trading at huge discounts.



Fergusson Brothers analyst Trevor Pearton said the gold index would be 30% higher if investors were not looking at gold in dollar terms.

"The gold price will help to maintain revenues and some mines could quite comfortably increase their dividends."

However, he expected "no fireworks" in the gold price before the end of the year.

He said the recent gold price drop to below $330 was a result of investors taking positions before the American elections and he believed the price could easily go below $330 before the end of the year as there remained factors in the markets putting downward pressure on the price.

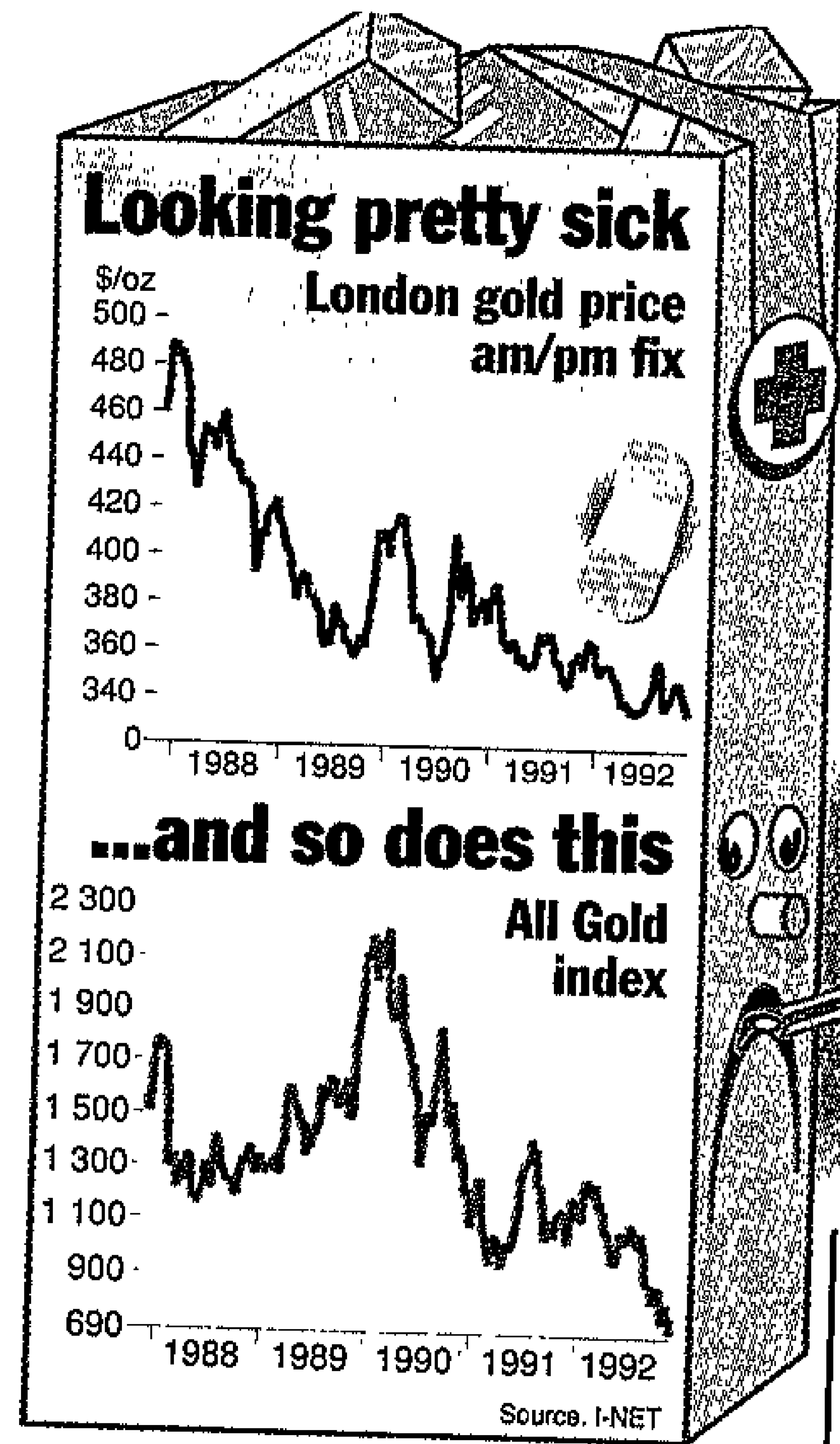
GOLD FM 20/11/92 79

Little joy for investors

It's a perennial question: where's the gold price going? For once, there's almost unanimity in analysts' responses: nowhere fast.

At the *FM* investment conference, chief consultant to Gold Fields Mineral Services, Timothy Green, believed a price of US$340-$350 is "well sustained by physical offtake," but then told mine managers they should operate "on the assumption that there will be no increase in real terms perhaps even for the rest of this century."

If that flattens hopes for a rapid and sustained increase in the metal price, Deutsche Bank senior vice-president Fritz Plass, who is responsible for its precious metals



division, told the SA investment community last week he expects gold to fluctuate between $315-$360 for the next 18-24 months.

Green says the extraordinary news for 1992 is the substantial increase in physical demand for jewellery. "Last year, jewellery fabrication alone passed the 2 000 t barrier, to 2 100 t. This year it will be at least 2 000 t, probably significantly more."

Green admits the worrying feature is the possibility of steadily rising sales by central banks. Belgium has already sold 200 t in an attempt to align government debt relative to GNP with EC requirements. Canada has embarked on a 12-year sales strategy, selling 100 t this year. He estimates total central bank sales will top 400 t for 1992.

Plass says the Bundesbank is under mounting pressure to sell some of Germany's colossal reserves of 3 700 t to satisfy the increasing demands of re-industrialisation of former East Germany. London stockbroker Smith New Court senior mining analyst Steve Oke expects German economic growth next year to be negative or at best zero. "The Bundesbank may be forced to sell some gold," he says.

"The Germans' options are to raise taxes, secure foreign loans, arrange gold swaps or do a deal with the IMF. But if they do sell gold, it's worth remembering they're very conservative central bankers. The last thing they'll do is flood the market — they don't want to shoot themselves in the foot."

In international investment terms, Oke says the JSE All Gold index is again in buying territory. "It's been an unmitigated disaster for people who invested in June/July last year. In dollar terms, the index was 450 then. Now it's 160, a level last seen in 1978."

Oke adds that the international perspective on gold and gold shares is clouded by general lack of confidence in the metal and "a distinct lack of enthusiasm for the SA

FOX FM 20/11/92 (79)

market — the mines' cost structure is worrying, and so is the political environment."

Oke's prediction for the gold price is $325-$360, "but this depends," he says, "on currency stability and on the actions of the new US administration."

In summary, international gold-watchers are predicting static, do-nothing prices. "SA mines," says Plass, "will have to live with that for a while." Nor should they rely on continuing devaluation of the rand. Reserve Bank Governor Chris Stals has indicated the Bank's policy will be to value the currency against a basket, not just one selected for business reasons.

The answer for the mines lies in cost reduction campaigns and making the most of forward selling instruments. But for the investor, there's not much relief in sight.

David Gleason

Jewellery (79) lift for gold

FRANKFURT — Demand for gold jewellery, which has outstripped production from Western mines for the last three years, will exceed supply by nearly 500 tons in 1992, says the World Gold Council (WGC). STAR

Bryan Parker, manager for jewellery business planning, told a group of gold bankers yesterday that over the last three years demand had outpaced Western output by a total of 850 tons.

"And in 1992, demand for jewellery appears likely to exceed Western mine production by almost 500 tons," he said.

Parker, speaking at the third annual WGC gold bankers meeting, said gold used in jewellery fabrication had increased to 2 111 tons in 1991 from 800 tons in 1981.

Demand in the developing markets in Southeast Asia — Taiwan, Thailand and Singapore — had doubled to 1 650 tons over the last four years. 2/12/92.

"These countries enjoy high economic growth rates," he said.

"Second, these markets are liberalising their gold markets and this is releasing pent-up demand."

Parker said there was a vast potential for gold jewellery in China.

At the moment demand in China was 250 tons a year. But using the per capita consumption in Taiwan and Hong Kong as a base that demand could exceed 9 000 tons a year.

The WGC, an association of gold producers based in Switzerland, has 63 members in 12 countries. — Sapa-Reuter.

Insurer reluctant to meet JSE claim

STAR 3/12/92

By Derek Tommey

Creditors with just under R1 million in "general" claims against stockbroking firm Andrew Forbes, which defaulted in June owing R16,5 million, can expect to be paid soon, says the Johannesburg Stock Exchange.

But clients with "limited" claims may have to wait some time because the insurer which provides fidelity insurance cover has rejected the stock exchange's claim as it is currently formulated.

A "general" claim arises when the transaction has to be settled with the stockbroker within seven business days.

Transaction

A "limited" claim is when the transaction does not have to be settled in this manner, for example when a stockbroker manages his clients' portfolios.

The JSE has an R80 million guarantee fund which covers "general" claims in full.

But in the case of "limited" claims, the cover amounts to only R1 million for each stockbroker for equity transactions and a further R1 million for gilt transactions.

The JSE also has a fidelity insurance policy with aggregate cover which amounts to R100 million.

It was taken out on behalf of member firms and covers loss of securities or money as a result of theft, fraud or dishonesty.

JSE president Roy Andersen said last night the JSE was reformulating its claim under this policy. But should the claim ultimately be repudiated, the JSE may be compelled to institute legal proceedings.

The insurer's reluctance to accept the JSE claim relates to the principle that no one may insure against one's own unlawful acts.

Andersen said that as soon as the JSE had clarity on this matter (it is counsel's opinion that this principle is not applicable in this case) a further announcement would be made.

Three of the four JSE broking firms which defaulted in the past 12 months owe R22,8 million between them.

HG Crosby, which defaulted last December, owes about R2,9 million, Andrew Forbes R16,5 million and Ben Janse van Rensburg R3,5 million. Claims against Kritzas, which defaulted last month, are believed to be small.

Andersen said the JSE had already paid "general" claimants R991 776 against Crosby out of its own funds, which it would recover from the guarantee fund when full payment was made.

The JSE is also about to pay Forbes "general" claimants about R957 000. Payment of the van Rensburg claims could be delayed as a liquidator has only recently been appointed.

Andersen emphasised that the JSE was doing all it could to speed up payments of claims against these companies.

It had spent R1 million on accountants and lawyers to expedite the investigations into the defaulting companies.

Forbes is being liquidated by Kessel Feinstein and Ernst and Young. Another accountancy firm, Deloittes, is bringing Forbes' accounting records up to date and has nearly completed dividing claims into "general" and "limited".

After this, "general" claimants will be paid.

"Limited" claims will be paid when the final liquidation and distribution account of the insolvent firm has been confirmed by the Master of the Supreme Court and when the insurance proceeds have been received.

Proceeds

"Limited" claims against Crosby will also be paid out when the insurance proceeds have been received.

Van Resnburg is being liquidated by Coopers Trust and the investigating accountants, Ernst and Young, will shortly be able to determine "limited" and "general" claimants, after which the "general" claimants will be paid.

Although the claims against Kritzas have not been quantified, preliminary indications are that they should be covered by the provisions of the Guarantee Fund.

Mervyn Serebro

Philip Grover

Changes at OK Bazaars

By Stephen Cranston STAR 3/12/92

Mervyn Serebro, currently MD of OK Stores, becomes group MD of OK Bazaars from January 1 after the retirement of Gordon Hood.

Philip Grover, MD of the Hyperama, becomes group deputy MD on January 1.

Serebro says he will act urgently to restore the group to profitability "The building blocks are already in place and I know what needs to be done."

He says that the OK has gone through an unfocused period and needs to deal more closely with customers in the C, D and E income groups.

He says at one time when competition was less significant it could afford to be all things to all people.

"We prided ourselves on carrying 60 000 items. We should no longer concentrate on carrying a breadth of merchandise, but rather on honestly carrying the commodities which best suit our consumers."

Serebro questions the group's decision to close 31 smaller stores and to focus on super stores, often in upmarket shopping centres.

"It made sense at the time, but I'm not prepared to comment further until I take over," he says.

Serebro says the OK is actively seeking sites in townships such as Soweto and Atteridgeville, but institutions are reluctant to commit their funds in such areas.

An active first day for SAB 2000

By Stephen Cranston

The newly issued SAB 2000 bond was first traded yesterday at a yield of 14,88 percent, two points short of the opening yield of 14,90 percent. STAR 3/12/92

The yield slid to 14,74 percent during the day before running up to a high of 14,86 percent and closing at 14,82.

A dealer said it was an active day with R217 million worth of the bond trading on the JSE Gilts floor alone.

It is trading 90 to 100 points higher than the benchmark RSA 147, which finished trading at a 13,86 percent yield.

Quality golds finding favour

STAR 3/12/92

By Leigh Hassall (79)

While the bulls and bears are tussling over the future of gold, some analysts suggest that quality gold shares now offer fundamental value and recommend cautious buying.

"The rand price of gold has risen six percent since the crash of 1987, yet the JSE all-gold index has fallen 64 percent," says Andy Paterson, trading analyst at EW Balderson.

"This translates into a gap of 70 percent, the widest it has been in five years," he says.

"Gold's loss of favour with international investors, coupled with local political instability, has led to the reduced demand," adds Paterson.

The all-gold index, currently at 866, has lost 27 percent since this time last year.

However, Paterson expects 15 percent upwards correcti to 1000 over the next fe months.

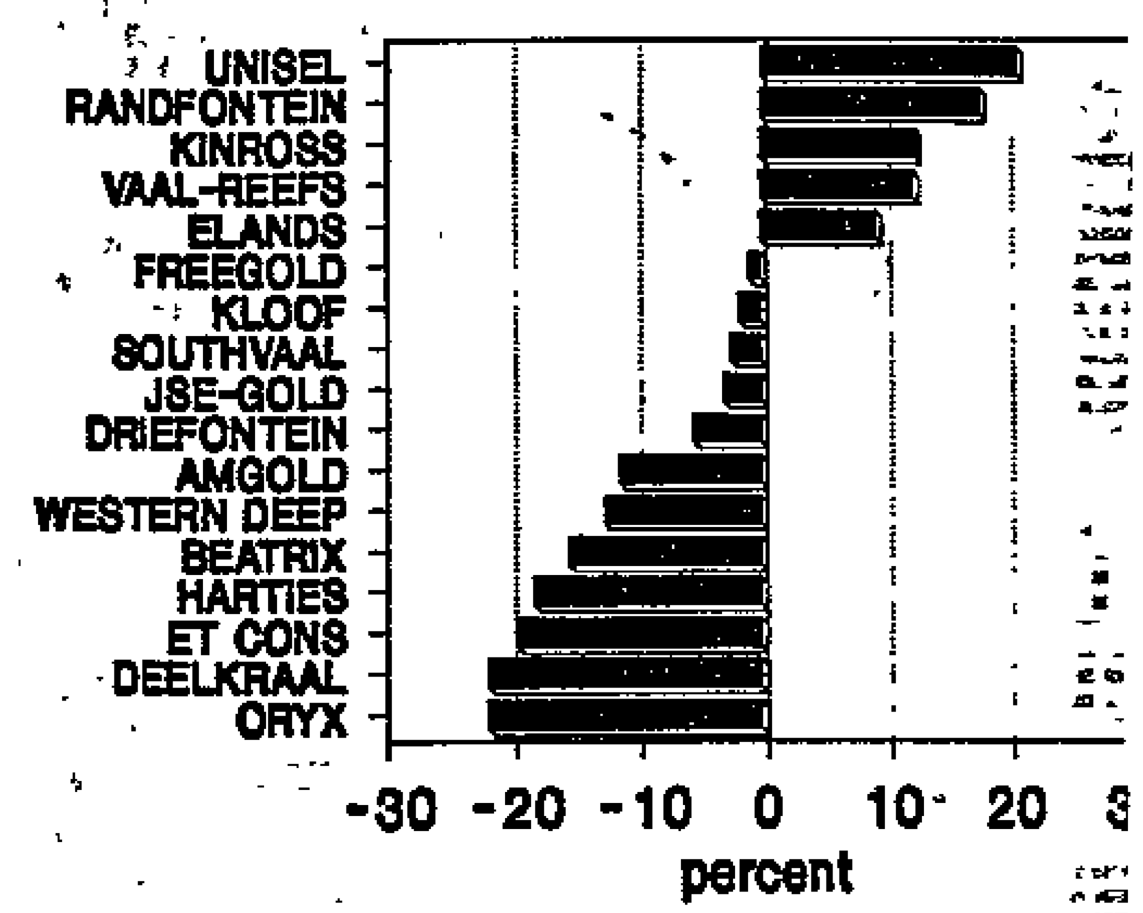
On a technical analysis, t 1000-level marks the breaki point out of the index's curre medium-term bear trend.

"If the gold price strengthe to $355 we could see the ind rising above the 1000-mark a entering a much bigger bull market," says Paterson.

Since the beginning of t current quarter the index h dropped three percent, but few of the quality gold shar have out-shone the index.

Kloof, Elands, Randfonte Dries, Vaal Reefs and Weste Deep are on the steepest rec ery paths.

Paterson notes that Weste Deep and Elands have come the lowest base (see graph).



Capital gains tax

Taiwanese are buying more gold

Star 7/12/92

TAIPEI — Average gold consumption by Taiwanese is expected to reach 10 grams per person this year, the highest in the world, the World Gold Council says.

The non-profit organisation says up to 74 percent of the cash-rich island's 21 million population hold the precious metal. (79

Asian countries consumed 569 tons of gold last year, absorbing a third of total gold on the world markets.

Taiwan, Hong Kong and China, backed by strong buying power boosted by favourable economies, will take up 450 tons of gold alone this year.

The whole Asian region is expected to buy 667 tons.

Taiwan's lifting of a 40-year ban on the import and export of gold in August has also boosted demand.

The Finance Ministry says Taiwan has been the world number one gold buyer with imports in the first 10 months of this year up 70 percent on a year ago to 150,1 tons, worth $1,6 billion. — Sapa-AFP.

THE WEEK AHEAD by Simon Willson

Underlying factors could tell real story

B/DAY 7/12/92. 79

WHEN the level of November's gold and foreign exchange reserves is published early this week, underlying factors will matter more than the headline number.

The level of gross reserves has not yet recovered from a fall of almost R1bn in September, ascribable mainly to one-off events such as maize imports and end-quarter forex payments. Reserves rose R300m to R11,1bn in October, partly clawing back the loss, but August's record level of R11,6bn is still R500m distant.

The latest Reserve Bank quarterly bulletin, released last week, seemed to indicate that the third quarter was the rough one for reserves. The bulk of drought-related agricultural imports seems to have occurred in the three months to September, knocking the reserves by dragging the third-quarter current account surplus down to only R400m from R1,3bn in the second quarter.

Now that is out of the way, and a modest rebuilding could be in prospect. After the commercial rand's historic fall through the R3 level against the dollar early last month, the rand gold price should also help to bolster total reserves. Gold remained solidly above R1 005/oz in the end-November period when gold reserves are measured, whereas it straddled R1 000 four weeks earlier.

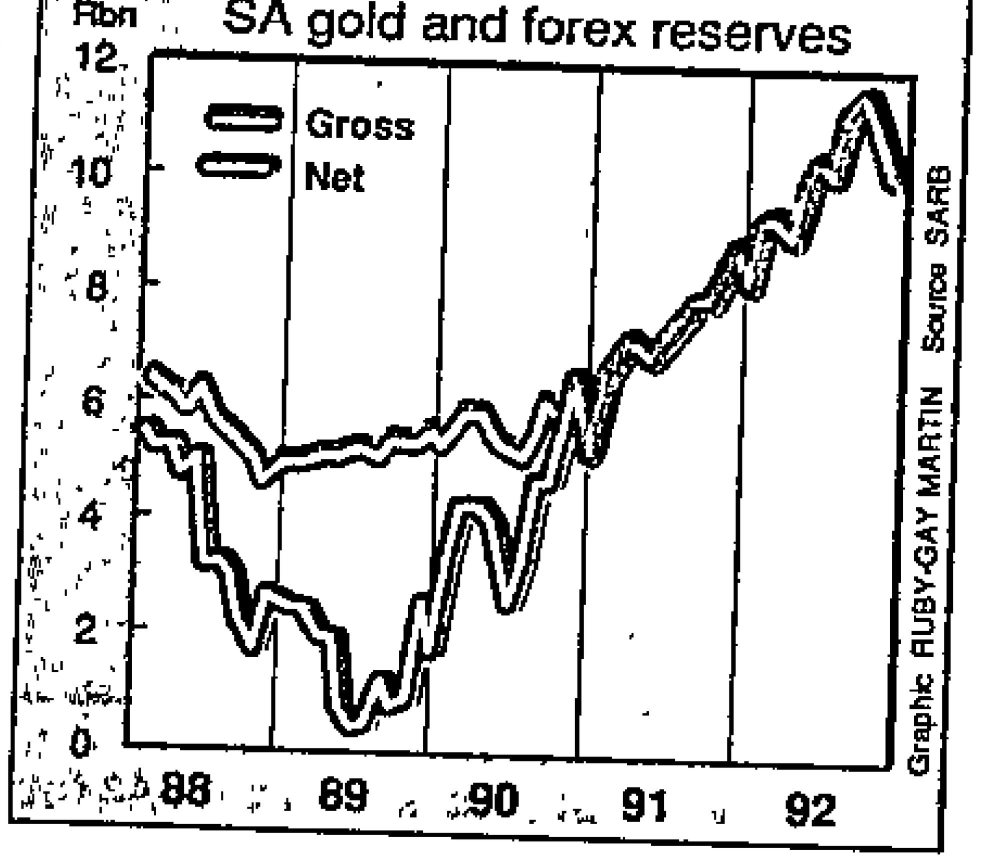
But whatever the headline level, the reserves' true health is best assessed through two underlying features of the data. The first is the amount of import cover the reserves afford. The internationally recommended minimum import cover is three months' and SA's, at just over two, still has some accumulating to do.

The chart illustrates the second underlying feature — the relationship between gross and net reserves, where gross reserves comprise gold and forex retentions plus reserve-related loans by the Reserve Bank. Net reserves are gross reserves less the Bank's liabilities and, as the chart shows, net reserves looked a bit dicey in mid-1989.

In fact, SA was just about broke. Nearly all gross reserves were already spoken for by loans to the Bank, leaving almost nothing over in the kitty and net reserves near zero. The good news now, which should continue to apply to the rest of this year's reserves, is that gross reserves equal net reserves. The Bank has no outstanding reserve-related loans.

Back from the brink

SA gold and forex reserves



Internationally, the key US figure for the week is **November retail sales**, out on Friday. Recent outturns have been impressive, showing sales up 0,5% in September and 0,9% in October and rising sales for four straight months. Separate figures have shown a surge in consumer confidence last month, and this could well have fed into extra buying and higher sales.

The **US November inflation rate** is also out on Friday. US consumer prices jumped 0,4% in October, the highest monthly rise in seven months, as the annual inflation rate rose to equal its 1992 high at 3,2%. Rising demand is well short of capacity constraints, however, and with oil prices soft there seems little danger of a US inflation bulge. **US producer prices** for November are measured on Thursday and, after rising only 0,1% in October to be a mere 1,7% up on the year, should continue to calm any anxiety about inflation.

As with SA reserves, observation of the UK inflation rate involves looking past the headline figure and focusing on underlying trends. The headline **UK November inflation rate** is released on Friday, and was steady at 3,6% in September and October. But the UK authorities have a 0%-4% target range for underlying inflation, which excludes mortgage interest payments, and it is the underlying or core inflation rate that therefore drives British monetary policy.

Core inflation eased for the sixth consecutive month in October to a four-year low of 3,8% and should continue to ease over the short term until the effects of sterling's recent fall work through to import prices.

STAR 8/12/92

Gold and forex reserves decline

By Sven Lünsche (79) (84)

Total gold and foreign reserves fell by R531 million in November against a background of a lower trade surplus and renewed capital outflows.

Reserve Bank figures released yesterday show that gold and forex reserves declined from R11,1 billion in October to R10,6 billion last month, led by a R833 million drop in foreign assets to R4,2 billion (R5 billion).

The gold content of the reserves rose from R6,1 billion to R6,4 billion on a combination of a higher rand gold price at R911,09 (R902,51) and a rise in the the volume of gold holdings to 7,01 million ounces (6,74 million ounces).

The large fall in foreign exchange reserves can be attributed for the most part to the fall in the trade surplus over recent months, but is also a sign of renewed capital outflows.

According to the Reserve Bank, total capital outflows were R960 million in the third quarter, which economists attribute to foreign investors disillusioned over the slow political process and the volatility of the finrand.

The trade surplus for the first ten months of the year declined marginally to R12.7 billion.

According to Boland Bank's latest Economic Review, the value of exports has risen by only five percent this year, reflecting sluggish demand in industrial countries.

At the same time, import values increased by seven percent in the wake of higher agricultural imports and declining domestic production levels.

Golden Christmas present

STAR 18/12/92

By Derek Tommey

79

Struggling gold mines have received a small Christmas present.

In a suprise development, the gold price jumped more than $3 on Wall Street late on Wednesday and rose 80c yesterday to reach $388,65 — its highest dollar price since November 2.

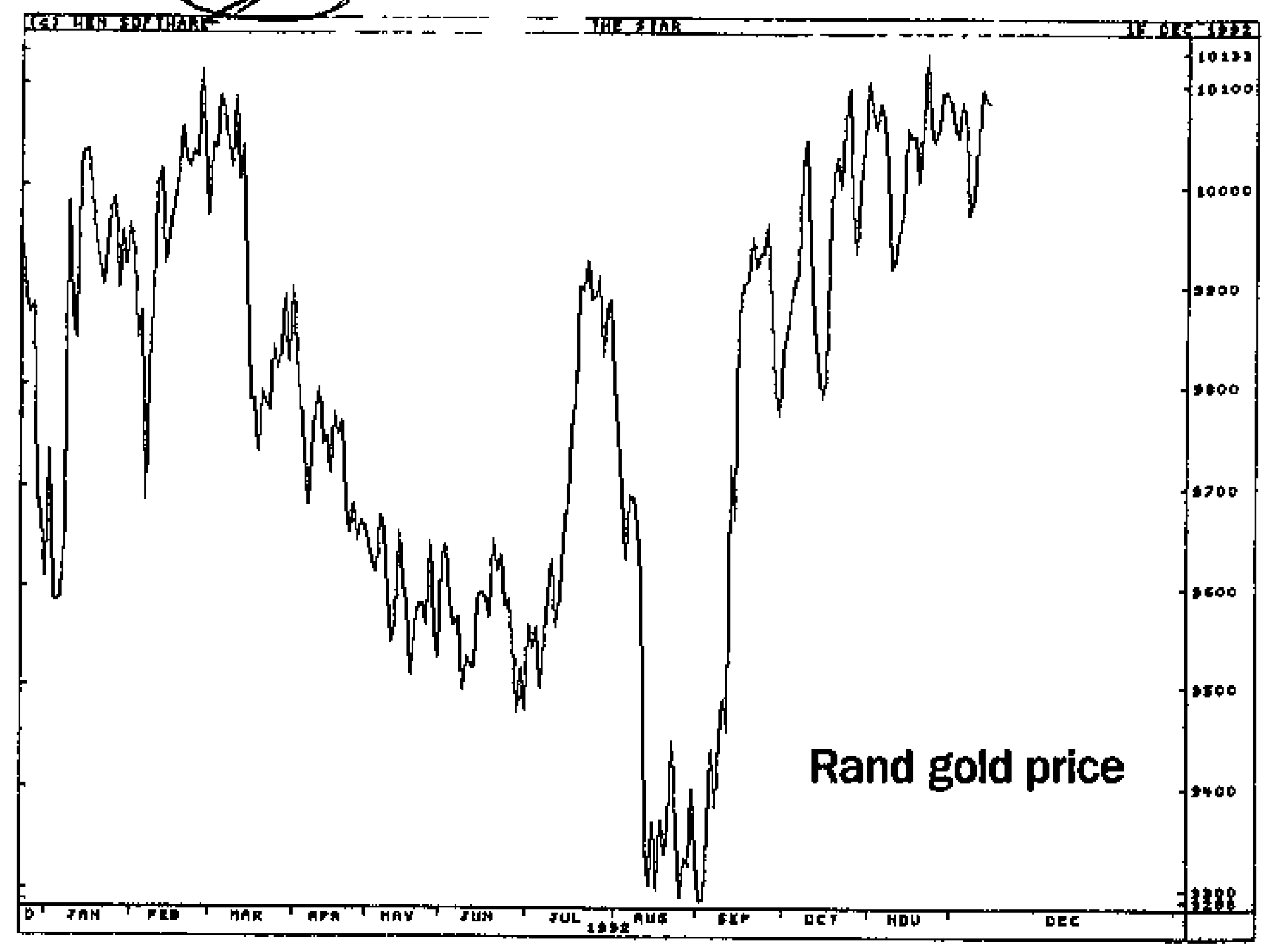
With the rand trading at R2,99275 to the dollar, the move lifted the local gold price some R5 to R1 013,50 an ounce — which is about the highest it has been since the middle of last year.

This brings the increase in the local gold price to R85, or about 9 percent, since the beginning of September.

The spurt in the dollar gold price is attributed to developments in Russia, which could lead to that country withholding gold from the market.

One suggestion going the rounds in the London bullion market is that Russia wants to build up its gold holdings in order to facilitate raising loans abroad.

This talk has been confirmed to some extent by Russia's success in rescheduling its $11,2 billion of German debt and Germany's commitment to supporting Russia in a bid to reschedule its European debts.



The Financial Times reports that Russia and Germany settled their most important financial dispute on Wednesday, clearing the way for a debt rescheduling package for Russia in the Paris Club this week.

A series of agreements came after two days of talks between Chancellor Helmut Kohl of Germany and Russia's President Boris Yeltsin.

They included a deal to defer for eight years repayment of the Dm17,6 billion ($11,2 billion) owed by Russia in transferable rouble debts to the former East Germany.

For his part, Mr Yeltsin renounced all claims to massive compensation for Soviet military installations in East Germany

These signs of a healthier Russian foreign financial situation next year suggest that Russia may be able to cut back on its gold sales and start rebuilding its reserves.

As yet there have been no signs of this happening.

But any significant reduction in the supply of gold to the market could give the price a needed boost.

$3 hike is Christmas present for gold price

ARG 19/12/92

DEREK TOMMEY
Weekend Argus Correspondent

JOHANNESBURG. — Struggling gold mines have received a small Christmas present.

In a suprise development, the gold price jumped more than $3 on Wall Street this week to reach $338,65 — the highest dollar price since November 2.

With the rand trading at R2,99275 to the dollar, the move lifted the local gold price about R5 to R1013,50 an ounce — which is about the highest it has been since the middle of last year.

This brings the increase in the local gold price to R85, or about 9 percent, since September.

The spurt in the dollar gold price is attributed to developments in Russia, which could lead to that country withholding gold from the market.

One suggestion going the rounds in the London bullion market is that Russia wants to build up its gold holdings in order to facilitate raising loans abroad.

This talk has been confirmed to some extent by Russia's success in rescheduling its R11,2-billion of German debt and Germany's commitment to supporting Russia in a bid to reschedule its European debts.

The Financial Times reports that Russia and Germany settled their most important financial dispute on Wednesday, clearing the way for a debt rescheduling package for Russia in the Paris Club this week.

A series of agreements came after two days of talks between Chancellor Helmut Kohl of Germany and Russia's President Boris Yeltsin.

They included a deal to defer for eight years repayment of the Dm17,6-billion (R11,2-billion) owed by Russia in transferable rouble debts to the former East Germany.

For his part, Mr Yeltsin renounced all claims to massive compensation for Soviet military installations in East Germany.

Originally, Russia had claimed as much as Dm18billion for the facilities before reducing the claim to Dm8billion and then writing it off.

The two sides were delighted with their success in resolving the dispute, in spite of the upheaval within the Russian government over the past week.

Germany has now pledged support for Russia in this week's Paris Club negotiations, aimed at rescheduling up to 16billion in debt falling due next year.

These signs of a healthier Russian foreign financial situation next year suggest that Russia may be able to cut back on its gold sales and start rebuilding its reserves.

As yet there have been no signs of this happening.

But any significant reduction in the supply of gold to the market could give the price a needed boost.

Gold still has a central role to play

In the context of managing foreign reserves, not everything, it seems, has been said on the subject of gold

S Times (Buss) 27/12/92.

79

JOHN CAVILL IN LONDON

IT is almost a generation since that "barbaric relic", gold, lost its official monetary status when the fixed price of $35 an ounce was abolished. And virtually every current forecast about the bullish supply-demand outlook for the metal carries the qualification "... as long as the central banks don't step up their sales".

The implication is that gold is a sterile asset whose price fluctuates like any other commodity and one which no central bank therefore considers as part of its reserves — any more than it would tanks of crude oil or tons of copper.

Yet gold remains a highly ranked item among central banking priorities where the management of assets has assumed major proportions in a world of quaking values and exchange rates.

And that, in spite of all the pondering and talking that has taken place about the role of gold in international financing, is why the yellow metal will be on the stage of a top-level, one-day conference in London on January 25 (admission: R2 300). Its sponsors are Goldman Sachs, the giant US investment house, NM Rothschild, leading London bullion dealer and merchant bank, and the World Gold Council.

THE great and the good will be speaking, from Johannes Witteveen, former IMF president, to SA Reserve Bank governor Chris Stals, Philippe Moutout, deputy director of the Banque du France, to Robert Guy, bullion director at Rothschild's, and a senior official from the Bank for International Settlements (the central banks' bank).

In the context of managing foreign reserves, it seems, everything has not been said on the subject of gold.

Bullion has "lost weight" in official reserves. In 1979 when all central banks (according to IMF figures) held more than 1-billion ounces in their vaults and bullion's average price that year was $306 an oz, gold amounted to nearly 50% of total forex reserves.

The big sell-off in the 1970s saw net official sales of 30-million ounces, but the next decade produced a swing-back. Central banks were net buyers of more than 24-million ounces, with developing countries building up their bullion hoards.

Over 1990-91 there were small net disposals of 1,3-million ounces and in June this year Belgium offloaded 6,5-million ounces. The result is that 932-million ounces of gold — only 10% less than in 1979 — at $330 an oz now constitutes just under 20% of total official reserves — although there are suspicions that it may be higher.

Official central-bank figures supplied to the IMF could mask the fact that a country has other stocks of bullion held by another state institution as a strategic reserve.

BELGIUM, which has done this before, was rebalancing its assets in June: gold was equivalent to 45% of reserves before the sale, now reduced to 35%. That takes into account the "refund" to Brussels of 1,3-million ounces from the European Monetary Cooperation Fund (ECMF).

Like all other members of the European Monetary System, based round the European Currency Unit (ECU), Belgium had to contribute 20% of foreign currency reserves and 20% of gold holdings to the ECMF. As the bullion sale meant that more than a fifth was left with the ECMF, 1,3-million ounces was returned to the Belgians to restore the proportion — hence the upward blip in their gold figure in July.

So gold is still big — carrying equal weight with currencies in the ECMF "pot", which is there to be mobilised in case of a liquidity crisis — and a powerful factor in reserve assets despite its wild price fluctuations.

Not that the dollar, the principal reserve currency, has proved a reliable asset. At current levels gold is 60% or so below the wild high of 1981.

But, in terms of ECUs, the dollar has dropped by 40% over the same period and, during the past five years, since the US currency's balloon was pricked, it has lost nearly half its value in yen terms and 44% in Deutschmarks.

Another problem which needs a decision is the proposed European Central Bank — although the crisis in the European Monetary System's exchange rate mechanism has undoubtedly postponed the advent of a common currency and a single central bank for the EC.

CENTRAL banks cannot count their own currencies, however strong, as foreign-exchange reserves. What, then, are the options for the European Central Bank?

Adding more dollars, their biggest forex holding anyway, carries its risks. And nobody is quite sure how the Japanese would regard the use of yen as an international reserve currency.

Then there are the huge variations in the proportion of the precious metal to total forex holdings from 47% in France and 44% in Italy to 40% in Holland, 32% for Germany but only 14% in the UK and a minuscular 0,3% in Ireland.

As Robert Guy said at Rothchild's this week: "Central banks get big headlines over possible sales and add to the depression in the gold market, but there is a lot more to it than that. And it is only relatively recently that they have started to talk about a policy towards gold."

A testing time ahead for gold

By Neil Behrmann (79)

(...) STAR 28/12/92.

LONDON — Gold could encounter a tricky period in the first quarter of next year, with producers who postponed sales in November and December for tax reasons expected to be sellers.

In the closing months of this year, gold was helped by buoyant Far Eastern demand, ahead of the Chinese New Year.

The World Gold Council estimates that China's gold demand is running at 250 tons a year, 50 percent up on 1991.

But this demand has not succeeded in lifting the price because the Chinese tend to buy when the price is depressed.

The Chinese New Year will be over at the end of January and the subsequent weeks may prove to be a testing time.

The key next year will be the action of central banks.

Clearly central bankers want to mobilise more of their huge stockpile, but they are fearful they will unsettle the market. Gold will thus be a topic at a key central bank conference at the end of January.

About 450 tons of central bank gold was sold this year, according to Gold Fields Minerals Services.

The sales placed a ceiling on the market and central banks are concerned that their actions will be self-defeating.

There is little point in selling an asset if the sales depress its price unduly.

This is the dilemma of the Bundesbank, the German central bank.

It is under political pressure to sell or lend a portion of its huge gold reserves to help finance costs of unification.

The Bundesbank has sole control over Germany's gold and foreign exchange reserves.

Yet with costs mounting on the reconstruction of the East, members of the ruling Christian Democratic Party, opposition party politicians and trade unions are calling for sales of at least a fifth of its gold.

The Bundesbank holds around 3 700 tons of gold, including 700 tons set aside to back the European Exchange Rate Mechanism.

The 3 000 tons in its possession is currently valued at Dm4 500/kg, according to Die Welt, a German newspaper.

Market value

This is about a quarter of the market value.

So, in theory, substantial profits can be made if the gold is sold. In practice, it is another matter.

Die Welt recommends two ways to mobilise the gold reserves.

Sales can be made either directly to central banks or on the market.

According to a German bullion dealer, such sales can be made without having a major impact on the price.

He cites the recent 200-ton sale by the Belgian central bank as an example.

That view may be a trifle optimistic. If the market gets wind of an impending Bundesbank sale or detects large amounts of gold offered at the London fix, it will become suspicious.

Other gold holders will be anxious to sell, buyers will withdraw and the price could tumble.

The second alternative, suggested by Die Welt, is for Germany to issue gold-backed bonds.

The advantage of these bonds would be a lower interest rate and parts of the borrowings could be repaid in bullion.

The disadvantage of gold bonds, however is the risk of a price increase some time in the future.

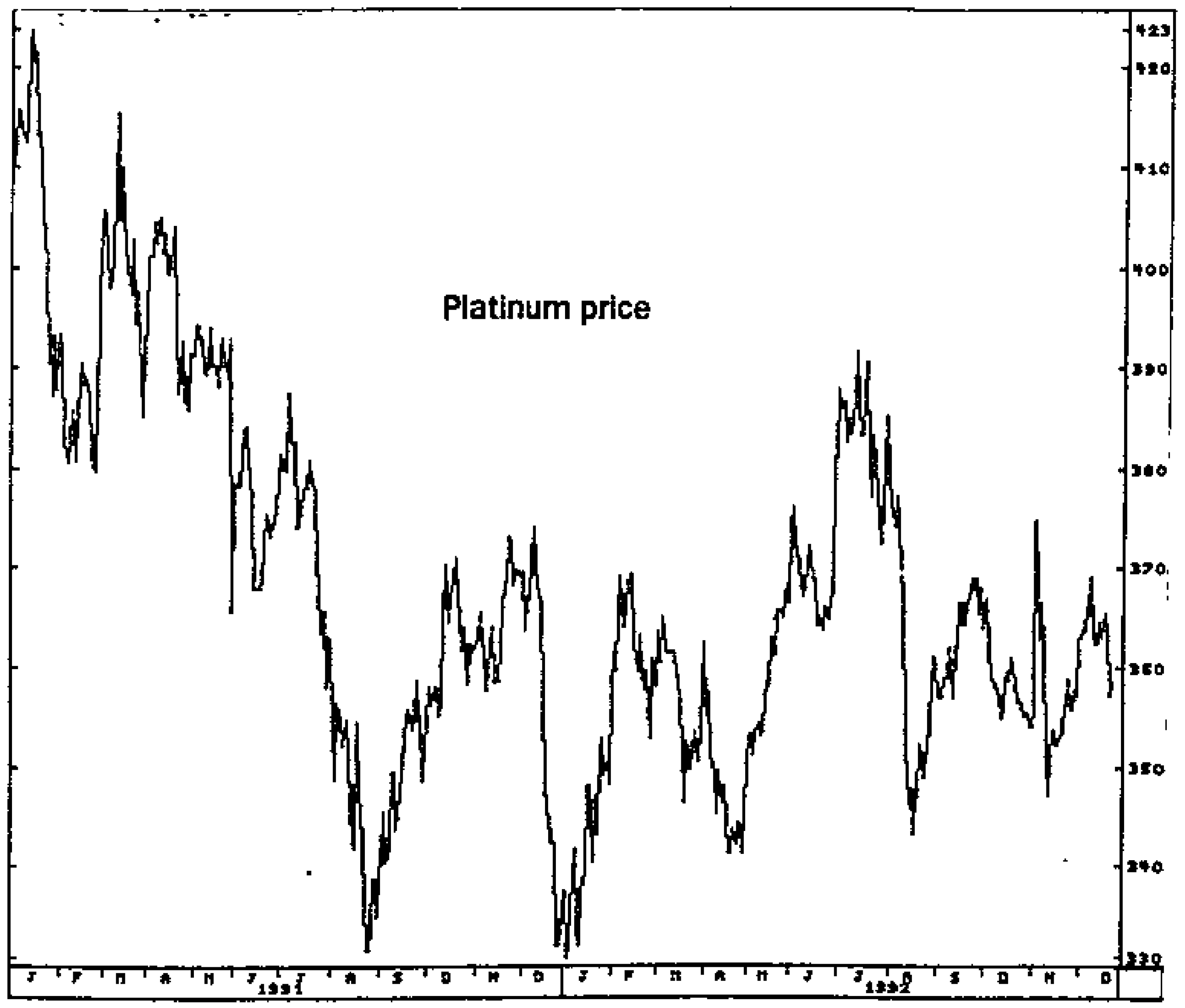
France, for example floated the Giscard gold bond when the price was depressed and was forced to repay the gold when quotes were surging.

Nevertheless, even though gold's leading role in international currency and monetary markets has been over for two decades, says Die Welt, the large gold reserves are still viewed by most politicians as sacrosanct.

German bullion dealers contend that this view may well be changing and future sales by the Bundesbank cannot be ruled out.

Gold could be a lead boot on the platinum price (79)

Star 28/12/92.



LONDON — The price of platinum will be closely linked to the pace of global economic recovery in 1993, bullion market analysts say.

"I expect platinum back up to $400 at some point in the first half of next year as its upside is better than gold and silver," said Tony Ching of the Commodities Research Unit.

Platinum was fixed in London last Wednesday at $359,60 an ounce.

Ching said platinum would be underpinned by autocatalyst demand for the metal as car sales revived in line with the major industrial economies and robust Japanese jewellery purchasing.

"Platinum appears to be running into a strong ceiling around $372 to $375," said Brian Nathan managing director of dealers Ayrton Metals, the marketing arm of Impala Platinum.

"The main issue is when the world's economic upturn comes and whether the gradual US pick-up can build and become the base for a better time for platinum, palladium and rhodium."

Andy Smith, analyst with the Union Bank of Switzerland, said he was not optimistic on the pace of world economic recovery and expected platinum prices to average less than $360 in 1993.

He said prices would peak near the end of 1993, but Japan's economic slowdown and a low gold price weighed on the upside.

"Platinum really hinges on whether the Russians will supply less again next year, because Japanese demand accounts for between 40 and 50 percent of the market and that will be lower again in 1993," Smith said.

Platinum is widely used in autocatalysts to reduce exhaust pollution and this accounts for more than 40 percent of the market for the precious metal. Jewellery demand, largely in Japan, makes up nearly another 40 percent of sales.

The UBS analyst said the market was concentrating on production of platinum-group metals in Russia — the world's second largest producer after SA — and neglecting domestic consumption and stock levels, which are equally vital for determing supply.

While Russian nickel production and associated platinum group metal output is expected to drop further next year, after an estimated 15 percent fall in 1992, consumption is falling faster.

Smith said the bearish outlook for the gold market next year would act as a drag on platinum as he doubted whether the white metal would sustain a $60 or $70 premium to its yellow rival.

"Gold will act like a pair of lead boots on platinum next year, as gold will be a lot nearer $300 than $400," he said.

The platinum fix on Wednesday showed a $26 premium to the gold fix of $333,00 an ounce.

Ayrton's Brian Nathan argued that Japanese platinum consumption in jewellery had held up surprisingly well in 1992 and would underpin the market's recovery next year.

"Japan's had a slowdown not a recession. If the US starts to pull-out out of its trough, the dip in Germany and Japan's economies will be less severe," Nathan added.

He said platinum could quickly become the market's favoured metal, in the same way speculation has driven its sister metal palladium to 28-month highs, if unexpected supply or demand factors seize investors' imaginations.

"If we have reports that catalyst demand for platinum is higher than expected, or nickel production is down in Russia again, platinum could become the flavour of the week," Nathan said.

"If platinum gets through $372 to $375 then testing $390 is definitely a possibility," he added. — Sapa-Reuter.