

Review of the gold market

The first quarter of 2008 was characterised by a volatile gold price, with a trading range of close to \$200/oz. While the market in mid March was exceptionally strong, with the price reaching a record high of \$1031/oz, the price also traded as low as \$833/oz during the quarter.

The average US dollar gold price for the quarter was \$925/oz, 17% higher than the previous quarter's average price of \$788/oz.

A weaker Rand/US dollar exchange rate saw the rand gold price reaching highs of some R271,622/kg. In rand terms, the gold price averaged R224,308/kg for the quarter, some 31% higher than the previous quarter's average of R171,334/kg.

JEWELLERY DEMAND

Jewellery demand slowed as a result of the high price volatility experienced during the quarter, particularly in the key markets of India and the Middle East. It is anticipated that jewellery demand for the quarter will show a decline on a year-on-year basis, but it must be noted that comparisons made against the first quarter of 2007 may be misleading as demand during that period was exceptionally strong and reached record levels in some markets.

In the Gulf markets, where local currencies are pegged against the US dollar, the full effect of the US dollar gold price volatility was felt and this led to a downturn in demand of approximately 20% year-on-year. Inflationary concerns in these markets acted as a further restraint on consumer confidence. In Dubai, where demand from the tourist trade balances local demand, the effects of poor local consumption were not felt as severely as in Saudi Arabia, where demand is primarily local. High value, branded segments of the market were less seriously affected than trade in high caratage, low value-added jewellery items.

The Egyptian and Turkish markets held ground in the first two months of the year, however both markets slowed in March 2008, with the Turkish market in particular showing a significant fall in consumption when compared to the same quarter

in the previous year. This was due to low levels of re-stocking prior to the main summer tourist season and the political crisis in March which caused the Turkish lira to decline against the US dollar, thus driving up the price of gold in local currency terms still further.

The Chinese market performed strongly despite the more volatile price environment, with jewellery demand increasing by some 9% year-on-year and investment demand by an estimated 63%. Chinese consumers perceive gold as an investment vehicle which can provide a hedge against the inflationary pressures which are increasingly being felt in that economy. The absence of viable investment alternatives also helped the case for local gold investment.

US demand continued the declining trend from the fourth quarter of 2007, particularly in the lower price segments of the market. Higher gold price levels are causing retailers to reduce the quantity of gold used in jewellery items in order to maintain price points.

CENTRAL BANK SALES

Sales under the Central Bank Gold Agreement totalled 70t during the quarter. The bulk of these sales were accounted for by the French and Swiss Central Banks with smaller sales by Sweden and the Netherlands.

IMF sales, though still subject to US congressional approval, look likely to take place over the longer term and will most probably be effected through the existing Central Bank Gold Agreement, without significant disruption to the market.

INVESTMENT MARKET

The fourth quarter was an active period in the investment sector. Investment markets in China and the Middle East were strong at the retail level, with consumers in both markets moving strongly towards gold investment.

Investment in Exchange Traded Funds (ETFs) continued to grow for the fourth consecutive year. Total ETF holdings at quarter end stood at 29.7Moz, with a total value of over \$27.2bn.

The majority of inflows during the quarter were accounted for by the New York Stock Exchange listed StreetTracks Gold Shares product.

A new ETF was announced in the Middle East, and is expected to be listed and finalised by June this year. The ETF is backed by the Dubai Government and is Sharia compliant.

PRODUCER HEDGING

The size of the global hedge book as at the end of 2007 was confirmed late in February at 26.8 million ounces. Since then, Newcrest have announced a further reduction in their hedge book by some 300,000oz.

During the quarter, AngloGold Ashanti reduced its hedge commitments from 11.28Moz to 10.03Moz, through deliveries into maturing contracts and hedge buy-backs.

CURRENCIES

The US dollar continued to fall against the Euro, reaching a new low of Euro/US\$ 1.59 in March 2008. Overall, the US dollar depreciated 8% during the quarter from its opening value of Euro/\$ 1.46.

Post quarter end, the US Dollar continued to be under pressure at an exchange of Euro/US\$1.60. This weakness is primarily due to growing fears of an economic recession in the United States which is consistent with the Federal Reserve's actions during the quarter, by cutting its target rate by 2%.

Oil prices have continued to trade stronger, moving through the psychological barrier of \$100/barrel and reaching a high of \$110/barrel during the quarter. This move did not help sentiment towards the US dollar, contributing as it did to fears of surging inflation in a falling interest rate environment.

The South African Rand suffered its poorest quarterly performance in some time, losing 19% from its opening of R/\$ 6.84 to close at R/\$ 8.09. A number of factors have contributed to this weakness, most notably the uncertainty of power generation and supply, and the effect it will have on economic growth. In addition, the extent of the current account deficit within this environment has added to the negative outlook for the Rand.

The Australian dollar and Brazilian real both traded to multi-year highs of A\$/ \$0.95 and US\$/BRL1.66, respectively, in a quarter where both currencies continued their pattern of steady appreciation.