PRESS RELEASE
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Official Statistics Confound Rumour of Heavy Central Bank Sales: CBGA Sales in Year 2 Confirmed as Well Under Quota at 393 Tonnes

As forecast in mid-September's Gold Survey Update 1, sales by the signatories to the Central Bank Gold Agreement (CBGA) ended up far short of their annual 500 tonne quota at just 393 tonnes. This confounds market speculation during much of September that there had been a last minute rush to sell gold before the end of the second Agreement year (on 26th September) and that this was responsible for the period's price weakness.

Looking ahead, GFMS also see little reason to alter their belief that sales under the remainder of the Agreement are unlikely to reach quota either on an annual basis or for the full five year Agreement period. We are perhaps on the threshold of an era of more moderate net official sector selling.

A more detailed synopsis follows:

The second year of the current CBGA

At 14:00 GMT 4th October 2006, the European Central Bank (ECB) released the final weekly financial statement of the Eurosystem, of the current Central Bank Gold Agreement (CBGA) year. According to the document, Eurosystem members sold two tonnes over the week ending Friday 29th September 2006. (As information on daily activity over the week is not available, we cannot be certain of what portion of that figure was sold in the last two days of the second Agreement year, Monday 25th and Tuesday 26th October.)

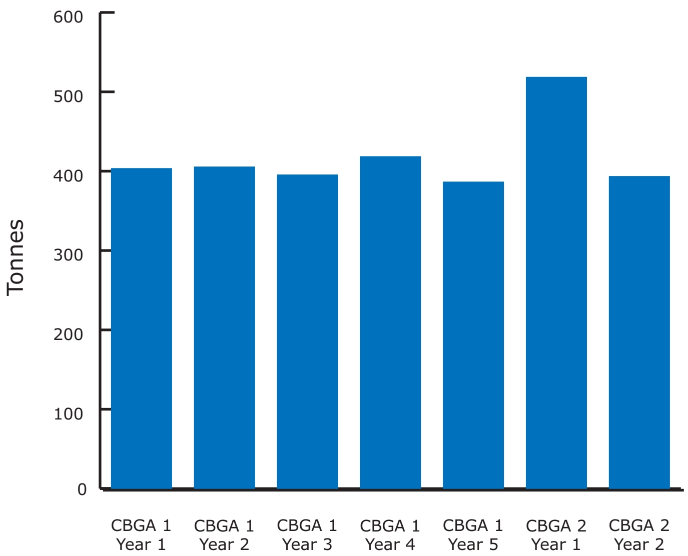
CBGA 2 Signatories' Sales

(tonnes)	Sales over the first year of CBGA 2	Sales over the second year of CBGA 2
Austria	15	12
Belgium	30	0
Finland	0	0
France	135	121
Germany	5	4
Greece	0	0
Ireland	0	0
Italy	0	0
Luxembourg	0	0
Netherlands	55	67
Portugal	55	25
Spain	30	36
Sweden	15	10
Switzerland	130	0
ECB	47	57
Additional Eurosystem sales in August & September 2006*	n.a.	62
Total	**516**	**393**

Source: IMF, ECB, GFMS

*The individual Eurosystem country data provided in this table is based on IMF data available to end-July. Swedish sales are based on the country's central bank's announcement of 9th September. Finally, combined Eurosystem sales in August and September are estimated using weekly financial statements released by the ECB.

Annual* Sales Under CBGA 1 & 2



Source: IMF, ECB, GFMS

*Refers to CBGA years rather than calendar years. Each CBGA year runs from 27th September to 26th September of the following year, the first Agreement year having commenced on 27th September 1999.

The release of this data confirms the view GFMS have had for some time now, which was extensively discussed a few weeks ago at the time of publication of our *Gold Survey 2006 Update 1*, that signatories to the current CBGA would fail to sell a sufficient quantity of gold by 26th September for the second Agreement year's 500-tonne quota to be reached. At the time, GFMS had argued that then current official IMF data indicated that the group had sold 331 tonnes over the course of the second CBGA year through to end-July. Furthermore, Eurosystem sales in August had amounted to less than seven tonnes; Sweden was set to sell 10 tonnes over the second year of the current Agreement, while Switzerland had no further sales planned.

In September, there was much discussion in the market over the potential for a major ramp-up in Eurosystem sales. Specifically, there was talk of forward sales having already taken place, with their settlement expected before the end of the second Agreement year, as well as continued disposals throughout the month. A number of analysts contended at the time that this activity was pushing the second CBGA year annual figure towards its 500-tonne limit, contributing significantly to the weakness in the price of the yellow metal over much of September.

Indeed, the last few weeks of the second CBGA year saw Eurosystem sales increase markedly, compared to the exceptionally low levels they had kept to throughout the second half of July as well as during August. Nevertheless, their absolute levels remained insufficient for annual CBGA sales to even come close to their 500-tonne limit. In fact, September saw Eurosystem countries dispose of approximately 55 tonnes, bringing the second Agreement year total to a maximum of 393 tonnes (depending on what portion of last week's sales took place on Monday and Tuesday). Furthermore, although GFMS believe that this rise in official sector sales could have, at the margin, had some adverse effects on the gold price, its direct impact (as opposed to the rumour of high sales on sentiment) is believed to have been far less significant than that of investor liquidations which took place over September in gold and, in fact, across the whole commodities complex.

With regards to the significance of CBGA sales over the second Agreement year failing to reach 500 tonnes, GFMS are neither surprised nor alarmed by sales volumes falling short of their quota. Indeed, we expected this would happen at some stage of the five-year Agreement, although perhaps not as early as its second year.

The remaining three years of the current CBGA

From the very early stages of the current CBGA, GFMS have argued that it is unlikely that the second CBGA would see its members sell the full 2,500 tonnes the Agreement limited them to. First of all, announced sales amount to a maximum 1,045 tonnes, comprising of France's 500-600 tonnes, the Netherlands' 165 tonnes, Switzerland's 130 tonnes, Austria's up to 90 tonnes and Sweden's 60 tonnes. Germany retains the option to sell up to 600 tonnes over the course of the second CBGA, but has so far opted not to use it, only selling small quantities to supply metal for the minting of commemorative coins. Looking ahead, Bundesbank officials have expressed that they oppose sales to fund the government deficit, but have not altogether ruled out sales. Elsewhere, disposals from the ECB, Spain, Portugal and Belgium are likely to continue at a similar pace to that one seen so far.

Based on all of the above, even if Germany were to exercise its full 600-tonne option and had sales in the second Agreement year reached their 500-tonne quota, the group would have been hard pressed to achieve the 2,500-tonne limit set for the five years to September 2009. Given that last year's sales fell short of their annual quota, we are now quite sure that the 2,500-tonne limit cannot be achieved. Indeed, basis the arguments provided above as well as the wording of the second Agreement clearly specifying an annual quota of 500 tonnes, the only way for sales of 2,500 tonnes to take place over the five-year period would be for both a major unannounced seller (such as Italy) to emerge and the annual quota to be breached in one or more of the remaining three years of the current CBGA.

It is worth mentioning here the theory that the failure to meet the maximum quota signals a major policy shift within some of the Agreement's signatories, driven by a change in their attitude towards gold as a reserve asset. While at the margin sentiment towards gold may have improved, GFMS would remain cautious about attaching too much weight to this as an explanation for last year's sales shortfall. Indeed, we believe it is more likely that one or more CBGA countries are simply spreading out or delaying some of their planned disposals, rather than having made major revisions to their sales plans. In the case of Germany, for instance, the probability is that sales remain on the agenda and that these could be initiated if the Bundesbank and the government were to reach agreement over what to do with the proceeds from gold sales. Nevertheless, the fact that the CBGA probably will not deliver the once expected 500 tonnes of gold to the market each year (through to 2009 at least), plus evidence of some buy-side interest elsewhere in the world, suggests that a high watermark for net official sector sales was probably reached in 2005, with the lower level of sales expected in 2006 indicating a new trend of more moderate net selling from the official sector.

Prospects for a third CBGA

Finally, despite the current CBGA running until September 2009, there has been interest in the market over the prospects for a third Agreement between European central banks to emerge after the current one ends. With regard to this issue, GFMS believe that the fact that CBGA signatories are not expected to fulfil their 2,500 sales limit over the duration of the second Agreement, coupled with the very different market and price conditions likely to prevail in the next few years compared to those in 1999, probably indicates that a third CBGA is unlikely to materialise.

Note to Editors about GFMS Limited:
GFMS Limited is the world's foremost precious metals consultancy, specialising in research into the global gold, silver, platinum and palladium markets. GFMS is based in London, UK, but has representation in Australia, China, India, Spain, Germany and Russia, and a vast range of contacts and associates across the world.

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