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Michael J. Kosares, Editor

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October, 1999

SPECIAL REPORT

The Dawn of a New Gold Market

The Central Bank Gold Agreement

by the World Gold Council

Summary

It began with a statement released jointly by European central banks from Washington, D.C. on Sunday, 26 September 1999 under support of the following signatories---

The European Central Bank and the central banks of Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, Switzerland, and England.

Mr. Wim Duisenberg, President of the European Central Bank, announced the joint Statement on Gold:

"In the interest of clarifying their intentions with respect to their gold holdings, the above institutions make the following statement:

1. Gold will remain an important element of global monetary reserves.

2. The above institutions will not enter the market as sellers, with the exception of already decided sales.

3. The gold sales already decided will be achieved through a concerted programme of sales over the next five years. Annual sales will not exceed approximately 400 tons and total sales over this period will not exceed 2,000 tons.

4. The signatories to this agreement have agreed not to expand their gold leasings and their use of gold futures and options over this period.

5. This agreement will be reviewed after five years."

The following remarks are from George Milling-Stanley, Manager, Gold Market Analysis--World Gold Council, from an October 6, 1999 address to The 12th Nikkei Gold Conference in regard to this important announcement:

> "Central bank independence is enshrined in law in many countries, and central bankers tend to be independent thinkers. It is worth asking why such a large group of them decided to associate themselves with this highly unusual agreement...At the same time, through our close contacts with central banks, the Council has been aware that some of the biggest holders have for some time been concerned about the impact on the gold price -- and thus on the value of their gold reserves -- of unfounded rumours, and about the use of official gold for speculative purposes.
>
> "Several of the central bankers involved had said repeatedly they had no intention of selling any of their gold, but they had been saying that as individuals -- and no-one had taken any notice. I think that is what Mr. Duisenberg meant when he said they were making this statement to clarify their intentions.
>
> "But it is important to recognise that the agreement represents something of infinitely greater significance than a mere repetition of statements central bankers had already made, or a clarification of positions they already held. This is a binding agreement, signed by central bank governors on behalf of their respective institutions and/or governments. Moreover, the European Central Bank is among the signatories, and 11 of them are full members of the ECB, which has already assumed a large say in the management of the gold holdings of its individual members. The UK and Sweden are members of the European System of Central Banks. Therefore the agreement can be monitored.
>
> "This should finally put to rest the fear that has kept the gold market in its paralysing grip for years, the fear that central banks have abandoned gold as a reserve asset, and are planning to sell all that they have.
>
> "That fear flew in the face of all the observable evidence. It is a matter of fact that only five governments have sold a significant quantity of gold in the past 10 years, if we define a significant quantity as 100 tonnes or more. A handful of others have indicated that they would like to sell, but it is only a handful, as the recent statement from the world's largest gold holders demonstrates. That leaves something like 120 or so governments that own gold, and who have neither sold in significant amounts, nor indicated any desire to do so. In all, countries not covered by the agreement hold 4,800 tonnes of gold, and are free to sell; But in fact they are just as likely to buy. Several of them have in fact been buying to build up their gold reserves - Russia, Poland, and the Philippines, to name just three."

World Gold Council Reviews "The Washington central banks' Agreement on gold"

26 September 1999

The Agreement

-- A new gold market

The WGC believes the Washington Agreement radically transforms the gold market for a number of reasons.

-- Explicit agreement

First, it is an explicit signed agreement among the European central banks, which goes well beyond earlier 'clarifications' about their gold holdings by central bank governors.

Although it is still a 'Gentleman's Agreement' in that it does not have the legal force of an international treaty, it has been signed by each central bank governor, all of whom (except the Bank of England) have legal responsibility for their gold reserves. Eddie George, governor of the Bank of England, signed on behalf of the Treasury.

It is our understanding that the Agreement will be monitored by the Bank for International Settlements (BIS).

-- Comprehensive

Second, the Agreement is comprehensive. The central banks participating hold (see attached table) 15,998 tonnes, nearly 50% of the world's official gold holdings. The US has already announced its intention not to sell or lend gold and Japan followed suit the day after the Agreement was announced. The International Monetary Fund and Bank for International Settlements are to abide by the 'spirit' of the agreement. In addition Australia has said it will not sell any more gold, and South Africa is unlikely to sell part of its reserves given the government's vehement opposition to the UK sales.

These institutions account for another 36% of world holdings, bringing the total amount of official gold covered to 85%.

-- It covers lending

Third, an unexpected and important part of the statement was the limit on gold leasing (lending).

The signatories to this agreement have agreed not to expand their gold leasing and their use of gold futures and options over this period.

The words used are not totally clear on whether gold leasing is to be frozen at current levels, or whether some leeway will be allowed as long as the total at the end of the period equals that at present.

But together with the fact that neither the USA nor the IMF can lend gold, this implies that the supply of additional gold for lending will be very substantially reduced in the next five years.

Lease rates jumped to 10% in the first few days after the agreement, and though they have fallen back, they remain at a still high level of 4-5%, more than two times the rate the 1-2% the market is historically used to. The market remains tight, with very little gold coming onto it.

The restriction on lending will underpin the recovery in the spot price; the sharp increase in the net volume lent in recent years undoubtedly played a part in depressing the price as most gold that is lent is sold on the spot market. Over the last five years many analysts estimate that leasing has increased by 400-500 tonnes a year, in effect increasing available supply by that much. In future there will be no net increase in lending or in the central banks' use of gold futures and options.

-- Market credibility

The jump in the price shows that the market fully expects the central bank agreement to be observed. In our view, the central banks will pay no notice to calls for a "rethinking" of the Agreement.

The main reason for believing that the Agreement will hold is that it has been signed by the central banks which have (except for the Bank of England) legal control of their nation's official gold reserves. Twelve of the 15 central banks are part of the European System of Central Banks, and their gold reserves are already controlled partly by the ECB. The UK and Sweden, although not members of the EMU, are also legally members of the European System of Central Banks.

-- Who will be selling the 2000 tonnes?

The Agreement limits gold sales to a maximum of approximately 400 tonnes a year and a total of 2000 tonnes in the five-year period. Only sales that have already been decided on can go ahead.

Of this total, 1,300 tonnes is allocated to the Swiss and 365 to the UK, with approx 335 tonnes for a country or countries that have already decided to sell but not as yet made an announcement. Market speculation currently suggests this is likely to be the Netherlands, or Belgium.

We understand that the quotas are not transferable, i.e. if the Swiss decide not to sell 1300 tonnes in the next five years but instead only 1000 tonnes, then no other institution can sell the remaining 300 tonnes. On the other hand, we have also been informed on good authority that the intention to sell 2,000 tonnes will be fulfilled.

-- What will happen after five years?

The Agreement stipulates that it will be "reviewed" after five years, not that it will end at that time. The WGC believes that there will be another agreement after five years. By then both the UK and Sweden may be either in or preparing to be in the euro-zone, thus bringing their reserves under ESCB control. It is also possible that Switzerland will at least have some associate membership of the grouping.

Thus the WGC believes the agreement will last for the foreseeable future - although it is too early to say whether the next agreement will continue to allow limited sales.

New Gold Market

We have now entered a new era. In effect, more than 26,000 tonnes of official gold (about 28,000 tonnes of countries covered by or associated with the agreement less 2,000 tonnes of permitted sales) has been taken out of the market, in the sense that there is no question of any of this being available either as a result of sales or lending. Much of the price falls over the last three years have been due to the fear that at least some of this official sector gold would come onto the market, a fear that has now been removed.

Of the estimated 5000-6000 tonnes on lease, about one-half is now subject to tight restriction. Many of the gold holders not covered by the Agreement are already thought to be "fully lent" or are barred from lending by domestic legislation.

-- The remaining 4,500 tonnes

There are around 75 countries outside the agreement that have official gold reserves (see attached table), and they hold nearly 4,500 tonnes (13% of the world total). The largest is Taiwan (422 tonnes) followed by Russia (411 tonnes), China (395 tonnes), India (357 tonnes), Venezuela (301 tonnes) and the Lebanon (287 tonnes).

These form a very varied group which hold gold for many different reasons. India's reserves have fallen in the last few years, but Russia, the Philippines, Poland and Romania have substantially added to theirs. The apparent decline in Venezuela's reserves is a reflection of swap activity; Venezuela has made clear it has no intention of selling.

The latest developments have greatly strengthened the case for holding gold as a reserve asset - showing that the major central banks wish to retain all of their massive gold stocks. In their view, gold clearly retains its traditional role as a store of value. With the threat of massive European central bank sales lifted, the portfolio argument for holding gold can be advanced with renewed vigour.

-- Implications for WGC policy on Switzerland and the UK

The WGC will continue to promote the advantages of holding gold as a reserve asset in both Switzerland and the United Kingdom, the two countries accounting for the bulk of the 2000 tonnes allowed by the Agreement.

The WGC will continue vigorously to develop and present the basic arguments for countries to hold gold. WGC's case will be strengthened now the European central banks have so explicitly demonstrated their continued belief in gold as a reserve asset.

-- Implications for gold demand

The impact on gold demand of the rise in the gold price should not be overstated. The WGC expects little change in the long-term trend for gold demand to rise in line with income. This view has been bolstered by the rapid recovery of Asian demand after last year's economic and financial crisis, highlighting gold's continued role as a store of value.

Therefore the current well-known imbalance between mine supply and demand will continue at over 1000 tonnes per year. With the perceived threat of central bank sales now to a great extent lifted from the market, the strength of demand should continue to underpin the market in the years to come.

Keynote Speech
DENVER GOLD GROUP Mining Investment Forum 1999

by Miss Haruko Fukuda, Chief Executive Officer, World Gold Council

The Westin Hotel Tabor Center, Denver Colorado
18 October 1999

Chairman, ladies and gentlemen,

Thank you for your warm welcome. It gives me much pleasure to be here at this distinguished gathering of the Denver Gold Group Investment Forum. When Michele Ashby asked me some months ago if I would make the Keynote speech over lunch I accepted without hesitation because, even though I was new to the world of gold, I was already well aware of the splendid reputation of the annual Denver Gold Group meeting as the pivotal event of the gold industry each year. What I did not know was that we would be meeting in a dramatically changed environment of renewed confidence and optimism.

Before I speak on the latest development, I should like to pay a personal tribute to Michele for her courage and professionalism in arranging this annual event. I know how hard it is to establish and maintain the integrity of a global meeting of this scale year in and year out. She told me to keep going as the gold price declined daily to new lows in July. Today we are meeting at what will always be remembered as a landmark in the history of the gold market. As mining share analysts assess the impact of the new dynamics in the gold market on the future earnings of gold mining companies and their financial gearing strategies, I wonder how many mining companies have had to re-write their presentations during the last two weeks. I am privileged to attend this historic Denver Gold Forum and would like to ask you all to join me in expressing our gratitude to Michele for this important occasion.

On Sunday 26th September - just three weeks ago - a new era dawned for gold. For the first time in almost exactly 28 years, since convertibility of gold into US dollars for official holders was suspended on 15th August 1971, the governments with the largest gold holdings made a positive joint statement on gold. Those three decades have been a period in which gold was persistently sidelined by the official sector attempting to demonetise gold. In recent years the market has been plagued by persistent rumours of ever increasing official sector sales and each and every announcement of sale by central banks has acted as a trigger for a new downturn in the price of gold. Yet the amount of gold held in reserve by the official sector has barely declined during that period - a decline of a mere 6% in three decades. The attempt to replace gold with SDRs as a reserve asset was an abject failure.

The rationale behind the decision of the British government to more than halve its gold reserves earlier this year announced on 7th May has never properly been explained but it sparked off a fierce international debate on the role of gold as a reserve asset. In planning to bring the level of British gold reserves down to a mere 300 tons the Prime Minister told the House of Commons that gold has been 'a bad investment' and that 'other countries were selling too. The IMF is also selling.' Today that answer sounds singularly out of tune.

Acting as spokesman on behalf of 15 central banks - the ECB, the 11 national central banks in the European System of Central Banks (the Eurosystem), plus the central banks of Sweden, Switzerland and the UK - Mr Wim Duisenberg, the President of the European Central Bank, read out their historic five-point agreement on the sidelines of the IMF/World Bank Annual Meeting in Washington. The five points in the order in which they were put in the Communiqué were as follows. I read them verbatim:

- Gold will remain an important element of global monetary reserves.

- The above institutions will not enter the market as sellers, with the exception of already decided sales.

- The gold sales already decided will be achieved through a concerted programme of sales over the next five years. Annual sales will not exceed approximately 400 tons and total sales over this period will not exceed 2,000 tons.

- The signatories to this agreement have agreed not to expand their gold leasings and their use of gold futures and options over this period.

- This agreement will be reviewed after five years.

We at the World Gold Council have christened it **The Washington Agreement on Gold**. I hope you will all also use this name.

The Washington Agreement was finalised and agreed over lunch on that Sunday in Washington of the Group of Ten central bank governors, and the US Secretary of the Treasury, Lawrence Summers, and the Chairman of the Federal Reserve, Alan Greenspan, were also present. It is a remarkable achievement. It is extremely rare for independently-minded central banks to agree to co-ordination of this magnitude on reserve management. This is not just one-off joint intervention in foreign exchange markets of the kind we see from time to time, but an agreement to last at least five years. The agreement is significant in several respects. It also raises some far-reaching questions for the future.

First, although it does not have the legal force of an international treaty, it is nonetheless an international agreement signed by each central bank governor, each having legal responsibility for his country's official gold reserves. For the UK, the Governor of the Bank of England signed on behalf of HM Treasury, where that legal responsibility rests. The agreement will be monitored by the Bank for International Settlements, with a dedicated unit to be set up there for this purpose.

While the agreement is between European central banks, including the ECB, it was put together through the Group of Ten central bank governors who meet regularly in Basle on a monthly basis. It therefore has a broader dimension in that the United States and Japan have been at least present at the G10 discussions and in agreement with the spirit of the agreement. Indeed, the Japanese government issued a statement in support the following day on 27th September stating that it also will not be selling or lending gold. The United States had of course stated its intention not to sell earlier on 20th May this year and neither the US nor the IMF lend gold.

Secondly, the agreement covers nearly 50% of the world's official gold holdings as the 15 signatories of the Washington Agreement collectively hold approximately 16,000 tonnes (including the 2,000 to be sold by 2005) out of the world total official holdings of 33,500 tonnes. Adding to this the US, Japan, the IMF and BIS (both of which have stated that they will abide by the spirit of the Washington Agreement), Australia, which already said earlier in July it will not sell any more gold, and South Africa, which has been actively opposing the UK sale, we calculate that over 85% of the world official sector holdings are now out of the market.

Thirdly, the agreement to limit lending to present levels is certain to reduce substantially any new supply of gold for borrowing, given that the US, Japan and the IMF are also out of this market. We estimate that about half of the currently outstanding gold leases of at least some 5-6,000 tonnes has come under the restriction of the Washington Agreement, and many of the countries not party to the agreement are thought to be already "fully lent" or are barred from lending by domestic legislation.

Fourthly, as I have been told by signatory governors of central banks to the agreement, there is good reason to expect that the agreement is watertight. Not only do the signatory central banks have legal control over their gold reserves, their governors meet every month in Basle. Eleven out of 15 participate in Economic and Monetary Union (EMU) and their gold reserves are already controlled in part by the ECB. The UK and Sweden, though not part of EMU, are also legally members of the European System of Central Banks. It is also possible that Switzerland will have associate status with the EU in future.

By 2005 when the agreement is to be "reviewed" both the UK and Sweden might be either in or preparing to be in the Euro, thus bringing their reserves under ECB control. How strongly politically motivated this agreement has been amongst the European nations is one of the questions that will be answered in time. But it is now certain, whether by default or intent, that the Euro has equal if not greater gold "backing" than the US dollar.

My perception is that there was a congruence of various factors that gave rise to this agreement. There were certain to have been Euro-political, world-economic, and market-related reasons. Perhaps the most interesting and far-reaching question for the future that comes to my mind is whether this agreement will end up as a forerunner in some form to a return to an official price for gold. Though that is unlikely and was certainly in no way intended to lead to this, at least one of the triggers for the agreement was the price falling to a level not seen since 1978. What level of price would be appropriate and acceptable by the major official holders for valuing their gold reserves? Will any of this imply central bank intervention in the conventional sense in the gold market and will BIS continue its co-ordinating function in future to encompass all the G10 countries? It opens up ultimately a whole host of philosophical as well as practical questions about the role, nature, and the "value" of gold as a monetary asset. In any event, the world's largest holders of gold have now said that they will be keeping their chestnuts in their bag; what will other central banks do?

As if not to be outdone by European central bankers, the IMF held its Press Conference on the HIPC debt relief the very next day on Monday 27th September. The confirmation that the IMF would not be auctioning its gold to finance debt relief but will use what it has called "off-market" transactions represented a double coup for all of us who have been campaigning for many months over this issue. Though we found it gratifying to hear the IMF spokesman say (I quote from the transcript of the Press Conference) ' I think there was quite an effective campaign by the World Gold Council, and I think the World Gold Council has said on the record that actually it welcomed this proposed change because it recognised exactly that an off-market transaction does not have and cannot have any impact on the gold price' (End of quote), it was a triumph for the concerted campaign by different parts of the industry pulling together. In essence the proposal now is for the Fund to sell up to 14 million ounces of gold to member countries with payments due to the Fund for past loans. The country would buy with SDRs or usable currency just the amount of gold worth, at market value, its debt to the Fund. It would immediately settle with the Fund by returning the gold, which would then be entered in the Fund's books at market price. The Fund's gold is valued at US$48 an ounce (SDRs 35) compared with the market value of over US$300 now. A straightforward revaluation for the required quantity of gold would result only in an accounting gain; moreover, such a revaluation is inconsistent with the Fund's Articles of Association. So the Fund has shown its customary flair for ingenuity in overcoming the technical difficulty.

As recently as this July, Michel Camdessus, with the backing of the Group of Seven heads of government, said that some open market sales of IMF gold would certainly be entailed in funding HIPC debt relief. It was only after the gold price hit a succession of new 20-year lows in July following the first British auction on 6th July that the Fund grudgingly admitted it was considering "several options" to make use of its gold. By then it

seemed virtually certain that the US Congress would not approve the essential US vote on open market sales on the IMF Board. Opposition from US lawmakers came broadly from three camps:

1. those who ardently oppose virtually anything the IMF does;

2. those representing gold-mining districts; and

3. those, such as Jim Leach, the influential chairman of the House Banking Committee, who were concerned about the effect on the mining industry in the developing world.

This third group, which included the Congressional Black Caucus, promised to be a growing one as the facts became more widely known - in part as a result of the circulation of the World Gold Council's study "A Glittering Future?" which no one has disputed in either substance or detail. It is worth noting that the economic research into the role of gold production in poor developing countries was started two years previously by the Public Policy Centre of the World Gold Council and that widespread dissemination of the findings of this research led to impartial observers who were concerned neither with politics nor gold interests also becoming convinced of the dangers of IMF gold sales and publicly expressing their concerns. The World Gold Council was then concerned with engaging the IMF officials in discussion on what alternative ways existed for the Fund to finance its portion of the HIPC debt relief throughout August and September. Some of you will have seen the exchange of correspondence between Mr Stanley Fischer, the First Deputy Managing Director of the IMF, and myself on the IMF and WGC web sites.

Far from gold being marginalised and finished as a monetary asset, the latest IMF proposal uses gold as money to pay back debt! What happened to SDRs, once thought to be the answer to external payment problems?

Gold is back with its customary charisma. I will tell you an amusing aside. The British Chancellor of the Exchequer may have thought he was getting rid of it. But as we speak today gold is being flown back to London in crates: Brinks Mat vans are busy delivering consignment stocks flown back from lying idle in all parts of the world to London, to the Bank of England and to other gold depositaries. Bullion banks need them for their liquidity.

What greater affirmation can there be for gold as a monetary asset than the declaration by 15 of the world's largest gold holders that 'gold will remain an important element of global monetary reserves'? Wim Duisenberg, the President of the ECB, in announcing the Washington Agreement, acknowledged generously that he and his fellow central bankers were influenced by the arguments of the World Gold Council and gold-producing countries: he had to blame it on someone! In private conversation, I have been told on good authority, Michel Camdessus too, who incidentally refers to the World Gold Council as the "Conseil de l'Or" as if this was a Byzantine institution, - it sounds grander in French - also acknowledges the role of the Council. But France and Germany who are known to have led the initiative have the tradition and natural understanding of the intrinsic value of gold. They understand that gold is no one's liability, that it is universal and eternal. They hold a large proportion of their external reserves in gold because they believe that gold is the only thing that will ultimately secure a country's monetary independence and sovereignty.

The Chairman of the Federal Reserve, Alan Greenspan, said on 20th May to the House Banking Committee soon after Britain announced its decision to sell gold that (I quote) 'gold still represents the ultimate form of payment in the world. Germany in 1944 could buy materials during the war only with gold. Fiat money in

extremis is accepted by nobody. Gold is always accepted.' (End of quote) But even amongst friends, between Britain and America, gold played a crucial role in Britain's war efforts. Sir Martin Gilbert writes in his classic biography of Churchill that at the end of December 1940 (I quote): 'Relations with Roosevelt had reached a difficult point, almost a breaking point. Many of Churchill's most urgent requests for war supplies had failed to win the President's approval. Britain's inability to pay was proving a serious stumbling-block. Arms purchases for December, January and February amounted to US$1,000 million, but her gold reserves and dollar balances had been so depleted by a year of war expenditure as to total only $574 million. The Americans offered to provide the equipment for ten British divisions but, Churchill told his War Cabinet colleagues, wanted $257 million paid in advance out of these rapidly dwindling gold reserves. Roosevelt had gone so far as to send an American warship to the Simonstown naval base near Cape Town to collect the $50 million of Britain's gold reserves held in South Africa.' (End of quote) Roosevelt was clearly being advised by the US Treasury and the Fed that if Britain sued for peace the pound sterling would become valueless. Sir Martin Gilbert continues, referring to January 1941 (I quote): 'Even as Churchill and Hopkins talked, Roosevelt was announcing the financial solution; the United States would build what Britain needed and then lease it to her, on a rental basis, with payment to be delayed until after the war. But before this Lend-Lease arrangement came into force, Britain must pay all the debts she could in gold, and by the sale of British commercial assets in the United States. It was a hard bargain, depriving Britain of what was left of her economic strength. ' (End of quote)

Gold is, then, held in official reserve not just as an investment as the British Prime Minister asserted, but partly at least for the rainy day. Our Asian friends understand this well. During the recent financial crisis the South Korean government asked its people to hand in their gold to help the national economy. In 1991 the Indian government used its gold reserves to raise US$1 billion to avoid default. The Chinese, the Indian and Middle Eastern ladies hold on to their high caratage gold jewellery lest their husbands desert them. The World Gold Council has recently collaborated with the government of Indonesia, where the domestic currency has depreciated by over 80% against the dollar to introduce last month gold coins for saving to pay for the pilgrimage to Mecca. Gold comes into use at unexpected moments but when it does it outshines all else for its universal acceptability.

Now the pendulum has swung away from the extreme situation into which the gold debate had plunged. So what about the market? All of you are of course greatly better qualified to speak on this than I am. In any case the gold market is thick with its own private agenda and I am not really party to these. But I would like to comment on the more general aspect of the market - the part you would say ordinary lay people like myself can understand. Well-known, respected analysts have been saying "gold is finished", frequently misquoting John Maynard Keynes. Keynes, for instance, never wrote that gold is a "barbarous relic". What he wrote was (I quote): 'In truth, the gold standard is already a barbarous relic' (My italics; End of quote) - a very different concept. Keynes well understood the complexity and the multiplicity of the role of gold in economics. He understood too that gold meant different things to different people at different times and that its "value" is relative to other things - as the value of anything always is. Writing in 1923, rejecting the arguments to return to a gold standard, in his Tract on Monetary Reform he said (I quote): 'The value of gold has not depended on the policy or the decision of a single body of men; and a sufficient proportion of the supply has been able to find its way, without any flooding of the market, into the Arts or into the hoards of Asia for its marginal value to be governed by a steady psychological estimation of the metal in relation to other things. This is what is meant by saying that gold has "intrinsic value" and is free from the dangers of a "managed" currency.' (End of quote)

Today the dominant theme in the gold market is the impact of the Washington Agreement on the demand and supply balance; analysts and commentators talk as though the price movement of the last three weeks is entirely the responsibility of the European central bankers. But we all know that markets are made up of many independent forces and the determinants of price are not always immediately visible. On high levels of physical gold demand, the World Gold Council is confident of its analysis as it tracks in detail demand patterns in the major consuming countries. But as Keynes well understood gold has something to do with the stability of internal domestic prices and the stability of external exchange rates (and the two are of course linked). The Washington Agreement came at a time when commodity prices led by oil are rising faster than at any time for more than a decade. This could feed through to higher wage demands in time. Global economic prospects have picked up substantially with world GDP growth likely to exceed 3% for 1999; the US dollar has recently weakened with a growing trade deficit, and long bond yields have been rising. We are not here today to debate the prospects for inflation. But I would not totally discount the possibility that inflationary expectations may be a factor in the market. The Washington Agreement was certainly a trigger, a big trigger, for market participants to reassess their understanding of the marginal value of gold in relation to other things. We cannot yet judge whether the recent price movement in gold is indicating a wholesale change in the structure of relative prices. Many analysts still believe, though, that when the current panic short covering comes to an end the gold price will resume its downward spiral.

But when and how will the short covering "come to an end"? Nobody really knows the extent of the supposed gigantic short positions that have built up over the recent years, possibly even posing a new threat of instability related to those gold derivatives. What does seem certain to me is that the dynamics of the gold derivative markets have changed dramatically as a result of the Washington Agreement limiting central bank lending. The World Gold Council some months ago commissioned a major study on the international market in gold derivatives which we believe will continue to play a significant role in bullion in the future. We expect to complete this study early next summer. With this and in other ways we strive for greater transparency and to encourage all those concerned to make a balanced assessment of the role of gold in our economies.

If the Council has had an influence on this historic agreement, it is a result of work we have carried out over a number of years. I would like to mention in particular our work with central banks, where we have endeavoured to position gold as a reserve asset in the context of the changing environment facing central banks and the pressures on them, including the pressure to increase the yield on their reserve portfolio. This involves putting the case for gold in the language of modern portfolio management as well as in its broad historical context. It involves understanding how central bankers view the world.

But it is true also that central bankers do not live in a political or social vacuum. They themselves are influenced by broad currents of opinion as well as political realities. And one of these realities is that gold is still held in high esteem by electorates throughout the world. The people want their central banks to hold on to their gold. We have made sure that central banks do not forget that.

Today I have not talked about our extensive work at the World Gold Council through our field operations across the globe, keeping closely in touch with governments and public opinion, engaging in effective marketing of jewellery and gold products through retail support, design improvements, technical assistance in up-to-date manufacturing techniques, promoting gold banking and removing fiscal barriers to trade.

Last week I launched the first-ever international competition for excellence in gold jewellery design, Gold Virtuosi. The first prizes will be given in June 2000 in Vicenza - a Renaissance town in northern Italy, best known for the works of Andrea Palladio, the eternal elegance of whose architectural creations has been an

everlasting inspiration for artists and architects the world over for successive generations. It is certainly the grandest public enterprise the World Gold Council has ever mounted. But gold has been given a tremendous endorsement in the twilight days of this century. As the Millennium dawns, gold is poised on the threshold of a new era, promising as ever to bring excitement into our lives. Arousing always human passions, its mystique will never fade. As a Renaissance courtier counselled his ducal master "Cherish the ancient, cherish the golden, you will not be an antiquarian but a man of gold."

Haruko Fukuda
18 October 1999

Press Conference: Second Quarter 1999 Gold Demand Trends
Hong Kong, 18 August, 1999

Gold demand continued to grow in the second quarter of 1999, rising 16% from the corresponding period of last year. Demand in the countries monitored by the World Gold Council was 810 tonnes, a record for the second quarter and a new all-time high for any three-month period, just above the previous peak set in the fourth quarter of 1998.
These numbers for the second quarter are very strong, and they helped to lift gold demand for the first half of 1999 to a record 1,598 tonnes. That was no less than 35% higher than in the opening six months of last year, when the demand statistics were hit by dishoarding in several countries in Asia as a result of the economic and currency crisis. The growth of more than one-third in worldwide gold demand in the first half of this year is a clear demonstration that the recovery continues.

--- George Milling-Stanley, Manager, Gold Market Analysis, New York

Developing Countries in East Asia [Excerpts]
by Albert Cheng, Regional Director, East Asia, Singapore

Good Afternoon, members of the press, friends from the gold trade, ladies and gentlemen. It's a great honour for me to come back to my home turf, Hong Kong, to participate in the launch of the second quarter Gold Demand Trends of 1999. A first in Asia together with our new Chief Executive, Miss Haruko, from London, and my colleague, George from New York in my new capacity of Regional Director, East Asia. I am particularly pleased that I have chosen the right timing to embark on this first initiative in Asia as we have good news, which has happened in this part of the world, to share with you.

The recovery in East Asia except Japan continues, as indicated by the strong Q2 demand, particularly Indonesia, Thailand, South Korea, Taiwan, and Vietnam, even though post-festive Q2 is normally the lowest quarter of the year. The strong offtake of 181.4 tonnes recorded in East Asia was 66% higher than same quarter last year, the strongest since the outbreak of the Asian Economic Crisis.

[...]

The recovery in Indonesia was very strong during the second quarter. Demand was 65% higher than in the opening three months of 1999 and a record for the second quarter. Allow me to spend a few minutes to talk a little bit more about the background of the recovery story from Indonesia, the star performer in East Asia in the last quarter.

Gold in Indonesia, as in some other Asian countries, is primarily bought as a store of wealth by the rural community. This practice had some interesting consequences during the recent economic crisis.

The crisis led to the Rupiah plummeting against the dollar, reaching at one stage nearly Rp17,000=US$1.00 compared to the pre-crisis level of Rp2,500=US$1.00. Conversely the local price of gold soared from around Rp20,000 per gram to reach Rp130,000 per gram. While urban residents with savings in Rupiah suffered badly, rural residents benefited from the soaring gold price. Many sold their jewellery at this stage and used the proceeds to buy land or cattle or to finance new businesses. Along with distress sales, illegal mining and retail stock liquidation, it is thought that as much as 100 tonnes of gold were exported during January-April 1998. There was thus a net increase in wealth in rural areas, which may explain why they were largely unaffected by the civil riots and looting of May 1998.

In August 1998, harvests were good and farmers started to purchase gold once more despite the high price - although quantities bought were smaller than in pre-crisis days. An improving economic and political environment towards the end of the year resulted in the Rupiah gaining ground against the dollar and the local gold price of gold become cheaper. Rural gold purchases rose sharply, reaching 80% of pre-crisis levels. Buying increased further in the first half of 1999 with the continuing relative strength of the Rupiah and the fall in international gold prices.

Elsewhere in the region, second quarter demand in Thailand was four times the level of the same period of last year, in Malaysia there was a 21% gain year on year, while demand in Vietnam was up 18%. The pace of recovery in Singapore continued to lag behind the other countries in the region, with second quarter demand rising 4% only. Singapore remains an important regional distribution centre, however. Gold imports during the second quarter rose no less than 147%, reflecting the strength of demand throughout the region.

That completes the survey of trends in gold demand around the world. The rate of recovery in the global demand statistics from the extraordinary events of the early months of last year is very encouraging. The rise in investment demand during the second quarter of 1999 was especially remarkable.

The lessons of the Asian economic and currency crisis have not been forgotten. During the first quarter of last year, there were people in Indonesia and other Asian countries who were only able to buy food and other necessities because they had some gold they could sell.

I want to close today with just one example from a survey we conducted late last year in Indonesia. Mrs. Latiyem told our interviewer, and I quote:

"I didn't have anything that is why I sold my gold necklace to buy essentials. I bought things like coconut oil, soap and a paddy field. Once I have sold the rice, I may be able to buy back my gold with the profits."

Mrs. Latiyem and anyone who has heard her story will not forget this powerful demonstration of gold's traditional role as a store of value and an asset of last resort.

In fact, the numbers we have been presenting today about gold demand all around the world show quite clearly that this lesson has not been forgotten. The steady growth in gold demand, especially among those Asian countries hardest hit by the economic and currency crisis, provides solid evidence that the people who sold gold in the first quarter of 1998 started to buy it back as early as the second quarter of that year. The

buying grew steadily through the remainder of 1998, and continued to grow throughout the first half of this year as well.

The big story in investment over the past decade has been all about the accumulation of wealth. As a consequence of the economic shocks of the past year and a half, the big investment story is starting to be about the preservation of wealth. In their search for ways to achieve that goal, investors are turning increasingly to gold.

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The World Gold Council is an international organization formed and funded by leading gold mining companies from around the world to increase the demand for gold.

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