Gold Demand Trends

Embargo: not for release before Wednesday May 20th 2009, 0700 hrs BST

May 2009

FIRST QUARTER 2009

Executive Summary

- Tonnage gold demand in the first quarter of 2009 was up a strong 38% on the levels of a year earlier. In $US value terms, this represented a 36% rise to $29.7bn. Global economic conditions continued to take their toll on jewellery and industrial demand while underpinning safe haven demand from investors.
- The gold price averaged $US908.41 during Q1, down 2% on the Q1 2008 average. However, this relatively flat result in $US terms masks significant gains in local currency terms for consumers in several key countries, including India and Turkey.
- The biggest source of growth in demand for gold was investment. Identifiable investment demand reached 595.9 tonnes in Q1, up 248% from 171.3 tonnes in Q1 2008. Taking into account inferred investment, which in the first quarter largely reflected investor flows into bullion accounts, total investment off-take reached 711.2 tonnes, up 173% on the levels of a year earlier.
- Jewellery demand in Q1 was 24% below year-earlier levels. Most countries suffered a decline as consumers responded to the high gold price (record levels in some countries) and difficult economic conditions. The only countries to record positive growth were China and Hong Kong.
- Industrial demand also suffered under the pressure of extremely weak economic conditions. Demand was 31% lower than year-earlier levels, with the electronics sector the main contributor to this decline.
- The weakness in jewellery and industrial demand was more than offset by very strong investor inflows. Identifiable investment in Q1 was up 248% on year-earlier levels.
- ETFs were the main contributor to these investor flows. The quarterly inflow totalled 465.1 tonnes, up 540% on 72.7 tonnes a year earlier. This marked a change on the second half of 2008, when bar and coin demand was the biggest driver of investment.
- Nevertheless, bar and coin demand remained extremely strong during Q1. Net retail investment totalled 130.8 tonnes, up 33% on the levels of Q1 2008. These flows largely represented the balance of dishoarding in non-western markets and large positive investment in western markets.
- The dishoarding that occurred in non-western markets during the quarter, which was motivated primarily by a desire to realise profits, was driven largely by two countries - India (-17.0 tonnes) and Thailand (-19.9 tonnes). Only two non-western markets recorded higher levels of bar hoarding than in Q1 2008 - China and Hong Kong. The single biggest contributor to the inflows globally was Germany, totalling 59.0 tonnes in Q1.

Table of contents

gold

- The dishoarding figure for India includes the combination of genuine selling back of bars and coins by retail investors looking to cash in profits and a de-stocking by wholesalers looking to take advantage of the discount in the local gold price relative to London.

- Gold supply in Q1 was up 34% relative to year-earlier levels. The main contributor was a significant increase in recycled scrap, which reached record highs and was broadly on a par with mine production. The scrap flows reflected the response of consumers to the difficult economic conditions and high gold prices.

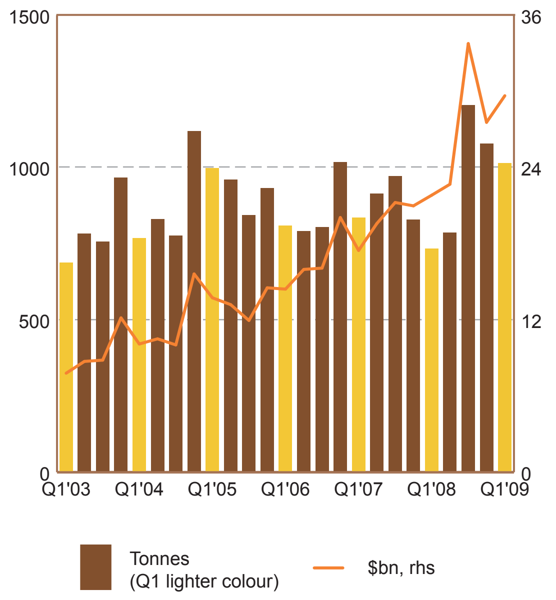
- Lower levels of producer de-hedging also contributed to the higher levels of supply, while lower levels of central bank selling had a dampening impact. Central bank sales were roughly half the levels of a year earlier at only 35 tonnes.

Outlook

The economic environment remains highly uncertain. While jewellery and industrial demand are likely to continue to struggle in this environment, investment demand should remain well underpinned. Although we have significant doubts as to the sustainability of recent signs of "green shoots", if further signs of economic recovery do emerge, inflation concerns would probably intensify, which is also gold-supportive.

Non-western markets have succumbed heavily to profit-taking activity of late. This has been manifested through lower levels of jewellery demand, higher levels of scrap and some bar dishoarding. However, we remain confident that consumers will look for opportunities to replenish their holdings. Signs of improvement have recently been seen in scrap flows, jewellery demand and investment on dips in the gold price. In India, the high levels of exchange activity (where budget conscious consumers exchange pieces to update their look) suggests continued buoyant levels of underlying demand. With central bank selling expected to remain subdued, scrap continues to be the main source of uncertainty on the supply side going forward.

Chart 1: Identifiable demand



Source: GFMS, WGC

The figures used in this report

The supply and demand data in this report are based on tonnage figures compiled independently for WGC by GFMS Ltd. Any information from alternative sources is clearly indicated. Value figures for demand and supply are calculated by WGC from the GFMS data.

We are sometimes asked why we comment on value figures for demand as well as tonnage instead of just relying on tonnage figures, as is more common in most commodity markets. There are two main reasons for this. First, over 85% of demand is discretionary spending either on a consumer product (jewellery) or as an investment. In both these markets it is customary to comment on value figures. Second, since demand (as statistically defined) has to equal supply, changes in demand can simply reflect growth or contraction in the supply of gold to the market and are thus a poor guide to consumers' or investors' appetite for gold. Commenting on both value and on tonnage provides a more holistic picture. For global or regional value figures, the US dollar is used as the measure. Apart from the fact that it is the world's major currency, most of gold's main markets are in countries whose currencies are either linked, tightly or loosely, to the dollar or where exchange rates against the dollar do not normally change greatly from year to year, other than in line with inflation differentials. The use of the US dollar is thus appropriate.

Not all investment flows can be measured and those that cannot be are proxied by the statistical residual from the supply and demand balance, known as "inferred investment"; this contains stock movements and other elements but it is usually dominated by those investment flows not susceptible to statistical capture.

Demand

Table 1: Identifiable gold demand[1] (tonnes)

	2007	2008	% ch 2008 vs 2007	Q4'07	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09[2]	% ch Q1'09 vs Q1'08
Jewellery Consumption	2404.4	2185.8	-9	572.7	446.6	517.7	673.0	548.4	339.4	-24
Industrial & Dental	461.7	435.6	-6	110.2	116.0	117.6	112.2	89.7	80.2	-31
Electronics	310.6	292.7	-6	74.9	80.5	81.3	76.4	54.5	51.3	-36
Other Industrial	93.2	86.9	-7	21.2	21.3	22.2	22.0	21.5	16.1	-24
Dentistry	57.8	55.9	-3	14.2	14.3	14.1	13.8	13.7	12.8	-10
Identifiable Investment	685.9	1183.4	73	147.2	171.3	151.9	419.7	440.5	595.9	248
Net Retail Investment	432.5	862.5	99	67.1	98.6	147.9	270.2	345.8	130.8	33
Bar Hoarding	236.5	391.8	66	30.4	49.4	92.2	126.4	123.9	-33.2	...
Official Coins	137.0	191.3	40	22.4	28.6	36.5	61.8	64.4	72.6	154
Medals/Imitation Coins	72.6	69.6	-4	8.4	10.7	14.5	25.0	19.4	2.4	-77
Other Identified Retail Invest.[3]	-13.6	209.7	..	5.9	9.8	4.7	57.0	138.1	89.0	804
ETFs & Similar Products[4]	253.3	320.9	27	80.0	72.7	4.0	149.5	94.7	465.1	540
Total Identifiable Demand	3551.9	3804.8	7	830.1	733.9	787.3	1204.9	1078.6	1015.5	38
London pm fix, $US/oz	695.39	871.96	25	786.25	924.83	896.29	871.60	794.76	908.41	-2

Source: GFMS. 1. Identifiable end-use consumption excluding central banks. 2. Provisional. 3. "Other retail" excludes primary coin offtake; it represents mainly activity in North America and Western Europe. 4. Exchange Traded Funds and similar products including: Gold Bullion Securities, (London) , Gold Bullion Securities (Australia), SPDR® Gold Shares (formerly streetTRACKS Gold Shares), NewGold Gold Debentures, iShares Comex Gold Trust, ZKB Gold ETF, GOLDIST, ETF Securities Physical Gold, XETRA-GOLD, Julius Baer Physical Gold, Central Fund of Canada, and Central Gold Trust.

Table 2: Identifiable gold demand[1] ($USm)

	2007	2008	% ch 2008 vs 2007	Q4'07	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09[2]	% ch Q1'09 vs Q1'08
Jewellery Consumption	53,696	61,073	14	14,478	13,280	14,919	18,861	14,013	9,913	-25
Industrial & Dental	10,307	12,276	19	2,785	3,450	3,390	3,144	2,292	2,342	-32
Electronics	6,938	8,270	19	1,892	2,393	2,343	2,141	1,392	1,497	-37
Other Industrial	2,078	2,437	17	536	632	640	616	549	471	-25
Dentistry	1,291	1,568	21	358	425	407	386	351	374	-12
Identifiable Investment	15,293	32,488	112	3,720	5,092	4,378	11,761	11,257	17,404	242
Net Retail Investment	9,515	23,602	148	1,697	2,931	4,263	7,572	8,836	3,821	30
Bar Hoarding	5,176	10,832	109	770	1,468	2,658	3,541	3,165	-970	...
Official Coins	3,020	5,280	75	567	851	1,051	1,731	1,646	2,121	149
Medals/Imitation Coins	1,586	1,933	22	212	319	418	701	495	71	-78
Other Identified Retail Invest.[3]	-267	5,556	...	148	293	136	1,598	3,530	2,599	788
ETFs & Similar Products[4]	5,778	8,885	54	2,023	2,161	115	4,188	2,421	13,583	529
Total Identifiable Demand	79,296	105,837	33	20,983	21,823	22,687	33,765	27,562	29,659	36

Source: WGC calculations based on data from GFMS. 1. Identifiable end-use consumption excluding central banks. This table was formerly called "End-use gold demand". 2. Provisional. 3. "Other retail" excludes primary coin offtake; it represents mainly activity in North America and Western Europe. 4. Exchange Traded Funds and similar products including: Gold Bullion Securities, (London) , Gold Bullion Securities (Australia), SPDR® Gold Shares (formerly streetTRACKS Gold Shares), NewGold Gold Debentures, iShares Comex Gold Trust, ZKB Gold ETF, GOLDIST, ETF Securities Physical Gold, XETRA-GOLD, Julius Baer Physical Gold, Central Fund of Canada, and Central Gold Trust.

Jewellery

Total jewellery demand in the first quarter was hurt by the environment of high gold prices and deteriorating global economic conditions. The volume of gold jewellery demand was 24% below year-earlier levels, equating to a 25% decline in $US value terms.

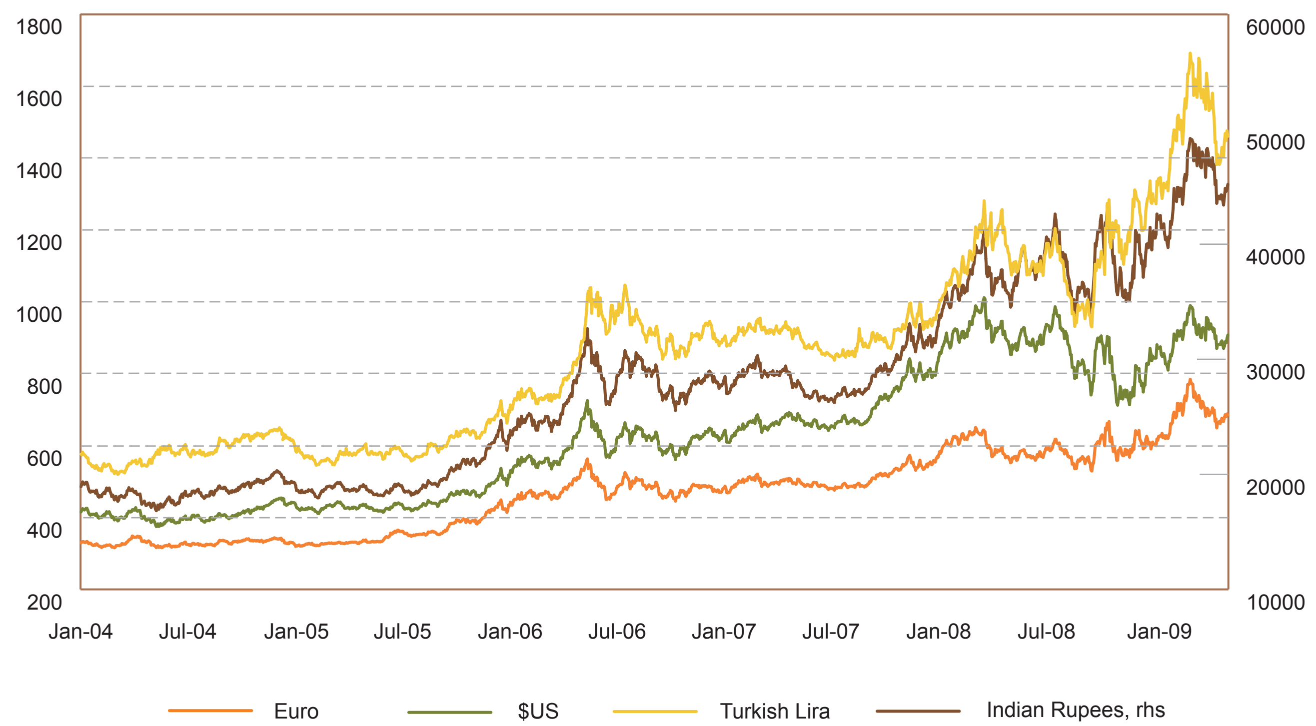
The volume measure of jewellery off-take – 339.4 tonnes – was the lowest quarterly figure since the early 1990s, although the $US value measure ($US9.9bn) was more resilient. One needs only to look back as far as Q1 2006 to find a lower quarterly value figure.

The decline in jewellery demand was apparent in both western and non-western markets, with mainland China and Hong Kong the only notable exceptions. Demand in these two countries increased by 3% and 8% respectively, despite the extremely challenging global economic conditions.

The gold price tested record highs in local currency terms in several countries during the quarter. This had a two-fold effect on jewellery demand. Primarily, the price rise stifled demand due to the simple fact that it became less affordable – particularly in light of consumer confidence and disposable income levels being adversely affected by the economic downturn. The other way in which high gold prices affected demand was due to gold jewellery's unique role as a form of investment in many countries. In markets such as India, Indonesia and some of the Middle eastern markets, high prices represented an opportunity for consumers to sell back jewellery purchases for a profit before buying again at lower prices.

By far the greatest contribution to the decline in global jewellery demand came from India, where demand fell by 52% from Q1 2008, which itself had been a relatively weak quarter. In local currency terms, the decline was 42%. Traditionally the largest market for jewellery, Indian demand was eclipsed by China as demand dried up, with consumers generally choosing to exchange or sell old jewellery rather than make fresh purchases. The global downturn has started to impact the domestic economy – particularly in terms of unemployment among expatriates, which has had a detrimental impact on income levels and, therefore, on discretionary purchases of items such as gold jewellery. Furthermore, gold jewellery fulfilled its investment role as consumers took profits on their existing jewellery holdings, which had been purchased at lower prices.

Chart 2: The five year daily gold price (per oz) in selected currencies



Source: WGC based on Global Insight data

Mainland China and Hong Kong experienced relatively buoyant conditions, although the picture is somewhat more subdued when the figures are viewed in value terms. Measured in local currency terms, demand in mainland China slipped 4% to RMB17.8bn although Q1 2008 was particularly strong and the result was still the second highest value figure on record. In Hong Kong, the $US value of demand increased by 6%. Demand in both countries was aided by the peak purchasing occasion of the Chinese New Year and other festive events, which usually stimulate spending on gold jewellery gifts.

All other markets within the Asian region underwent a drop in jewellery demand as consumers reacted to the twin effects of the high gold price: prohibiting new demand and providing an opportunity for profit-taking. Demand in Thailand suffered the largest decline (-40%) while Japan proved to be the most resilient market (-10%).

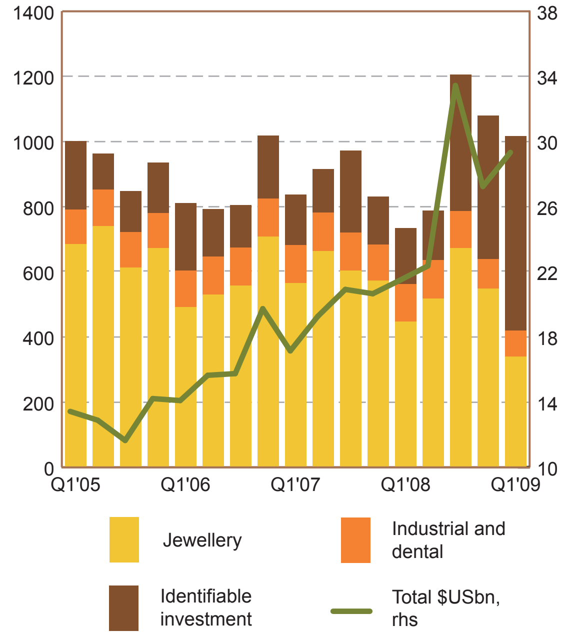
Jewellery off-take for the Middle Eastern region fell 26%, more or less in line with global demand. Within the region, Egypt (-15%) experienced the smallest decline in demand while the Other Gulf countries (-34%) suffered the largest decline, with much of the weakness coming from Kuwait. The UAE and Saudi Arabia fell by 33% and 23% respectively as tougher economic conditions and the higher gold price impacted every market across the region.

Turkey, another key market for gold jewellery demand, was the second worst performer behind India as currency fluctuations magnified the impact of the high international gold price, as well as adding to price volatility. A volume decline of 40% took demand to 16.5 tonnes, on a par with Q4 2008, which had itself been the weakest quarter since 2001. In local currency terms, demand was 19% lower than year-earlier levels at YTL800m.

European markets all suffered marked declines, including Russia (-27%), which had hitherto been the most resilient market in the region. Russian consumers responded to the environment of rising inflation and slowing economic growth by reining in their spending on gold jewellery. The premium gold jewellery segment was immune to this impact however, staging moderate growth.

In the UK it was a similar story, as a 25% drop in tonnage off-take masked a divergence between a sharp deterioration in demand for lower-carat jewellery and relative resilience in the higher end of the market. The value measure of demand however, hints at a more robust UK consumer; at £84mn demand was 2% higher than in Q1 2008.

Chart 3: Gold demand, tonnes and $USbn



Source: GFMS

The Italian market continued to suffer, falling 18% from year-earlier levels as the sector battled higher prices, gloomy economic conditions and depressed consumer confidence levels.

The US market continued its weakening trend. Demand dropped 30% as high unemployment, poor credit conditions and an elevated gold price proved a damaging combination. The sector continued to witness bankruptcies, reflecting the tough trading conditions.

Anecdotal reports suggest that jewellery demand picked up in a number of markets in the first few weeks of the second quarter, largely in response to a stabilising of the gold price at levels slightly below the highs that prevailed during the first quarter. However, given the current extraordinary global economic circumstances, a recovery in jewellery demand will probably depend only to some extent on the direction of the gold price. The prospect for many economies is for growth to deteriorate sharply this year, an outlook that suggests jewellery demand could well remain under pressure.

Industrial and dental

Gold demand in industrial and dental applications slumped 31% in Q1 2009 to just 80.2 tonnes as the global economic crisis impacted severely on all segments of demand. Electronics off-take, the key component of industrial demand, plummeted 36% as consumer demand evaporated, while gold used in the other industrial & decorative sector slipped 24%, chiefly as the result of a near 70% decline in Indian off-take. Elsewhere, dental demand declined by 10% as a higher gold price encouraged migration to more affordable alternatives.

The electronics sector continued to be battered in Q1 by the ongoing global economic and financial turmoil, with fabrication demand slumping to its lowest level since late 2002. The 36% decline relative to year-earlier levels reflects the severity of the downturn and indicates an industry in crisis. This has hit gold through a very limited inventory build (particularly of DRAM chips, which are widely used in personal computers) coupled with an acute decline in discretionary spending by end-users. After several quarters of over-production, cash starved companies finally slashed their total output and some balance is now beginning to return to the market for DRAM chips. Cautious optimism also surrounds the market for NAND flash chips, which are used to store memory in cameras, mobile phones and digital music players. A shortage due to output cuts has boosted prices by 70-80% since the bottom was hit in December 2008.

Looking more closely at individual markets, fabrication in Japan continued to plummet, with electronics demand down a third relative to Q1 2008. Similar rates of decline were recorded in both the United States and South Korea. In addition, weaker consumption coupled with a sharp fall in export driven fabrication saw Chinese demand slip by 14%. On a brighter note, the Chinese market for flat panel TVs, including LCDs and PDPs or plasma TVs, has shown some resilience and is forecast to enjoy healthy growth despite the weaker economic outlook. While recent reports indicate a slight uptick in global semi-conductor production levels (particularly for personal computers and smart phone technology), a marked increase in fabrication demand is unlikely to be recorded until the latter part of 2009 and this largely depends on the rate of economic recovery and the effectiveness of government stimulus packages to reignite consumer spending.

Demand from the other industrial & decorative segment again fell sharply in Q1, primarily as a result of the 68% decline registered in India. However, India was not the only country to record a decline, with almost all markets within this segment recording a significant reduction in off-take for the period. Higher gold prices, accentuated by the weaker Rupee, had a significant impact on Indian demand for jari (a gold thread used in clothing) as consumers looked to other, more affordable, alternatives. There was an increase in demand for gold potassium cyanide (GPC) used in imitation jewellery (another trend stemming from elevated prices) but this was not sufficient to offset the decline in jari.

Elsewhere, declines were recorded in Europe (Switzerland fell 18% relative to year-earlier levels, for example) and East Asia, where fabrication in South Korea and China slipped 17% and 11% respectively. Much of the decline in both cases was due to a reduction in gold potassium cyanide (GPC) production as a consequence of diminishing end-user demand for the plating of costume jewellery and luxury accessories. There was, however, some mitigation from a rise in GPC used in electro-forming and the plating of imitation jewellery.

Finally, dental off-take was also weak, slipping by just over 10% relative to year-earlier levels to 12.8 tonnes. The main reason for the ongoing decline continues to be substitution by other materials. The base metals (such as cobalt/chrome) are winning market share at the expense of gold among price sensitive consumers, while the use of ceramics among more affluent end-users is rising where cosmetic preferences come to the fore. The most significant changes this quarter were in Japan (down 12%), Germany (down 8%) and the United States (down 7%). However, modest declines were recorded across all countries where data is collected.

Investment

Total identifiable investment in gold (excluding 'inferred investment') during Q1 2009 totalled 595.9 tonnes, a historical high and up a massive 248% on the levels of a year earlier. In $US value terms, this represented a net inflow of $17.4bn, up from $5.1bn a year earlier.

Continuing the theme that started in earnest in the third quarter of 2008, investor interest in the first quarter continued to reflect the desire for a safe haven. However, unlike the last two quarters of 2008 when the biggest contributor to the flows was bar and coin demand, the main driver in Q1 was demand for ETFs. Net retail investment (effectively total bar and coin demand) rose 33% from 98.6 tonnes in Q1 2008 to 130.8 tonnes in Q1

Table 3: Investment demand (tonnes except where specified)

	2007	2008	% ch 2008 vs 2007	Q4'07	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09[1]	% ch Q1'09 vs Q1'08
Identifiable Investment	685.9	1183.4	73	147.2	171.3	151.9	419.7	440.5	595.9	248
Net Retail Investment	432.5	862.5	99	67.1	98.6	147.9	270.2	345.8	130.8	33
Bar Hoarding	236.5	391.8	66	30.4	49.4	92.2	126.4	123.9	-33.2	...
Official Coin	137.0	191.3	40	22.4	28.6	36.5	61.8	64.4	72.6	154
Medals/Imitation Coin	72.6	69.6	-4	8.4	10.7	14.5	25.0	19.4	2.4	-77
Other Identified Retail Invest.[2]	-13.6	209.7	...	5.9	9.8	4.7	57.0	138.1	89.0	804
ETFs & Similar Products[3]	253.3	320.9	27	80.0	72.7	4.0	149.5	94.7	465.1	540
"Inferred Investment"[4]	-76.0	-286.1	...	190.0	89.6	14.1	-354.6	-35.2	115.3	29
"Total" Investment	609.9	897.3	47	337.1	260.8	166.0	65.1	405.4	711.2	173
"Total" Investment, $USm	14,395	24,722	72	8,522	7,756	4,784	1,824	10,358	20,772	168

Source: GFMS. Data in this table are consistent with those published by GFMS but adapted to WGC's presentation and take account of the additional demand data now available. The "inferred investment" figure differs from the "implied net (dis)investment" figure in GFMS' supply and demand table as it excludes "ETFs and similar" and "other retail investment". 1. Provisional. 2. "Other retail" excludes primary coin offtake; it represents mainly activity in North America and Western Europe. 3. Exchange Traded Funds and similar products including: Gold Bullion Securities, (London) , Gold Bullion Securities (Australia), SPDR® Gold Shares (formerly streetTRACKS Gold Shares), NewGold Gold Debentures, iShares Comex Gold Trust, ZKB Gold ETF, GOLDIST, ETF Securities Physical Gold, XETRA-GOLD, Julius Baer Physical Gold, Central Fund of Canada, and Central Gold Trust. 4. This is the residual from combining all the other data in the table. It includes institutional investment other than ETFs & similar, stock movements and other elements as well as any residual error. In previous editions of GDT it was referred to as the "balance".

2009, while ETF related gold demand rose 540% from 72.7 tonnes to 465.1 tonnes.

The strong result for net retail investment masked significant differences across the individual categories, which in turn reflected geographical contrasts. Bar hoarding, which largely covers the non-western markets, deteriorated from a net inflow of 49.4 tonnes in Q1 2008 to a net outflow (dishoarding) of 33.2 tonnes in Q1 2009. In contrast, other net retail investment, which covers bar and secondary coin demand transactions in Europe and North America, rose from 9.8 tonnes to 89.0 tonnes, an increase of 804%.

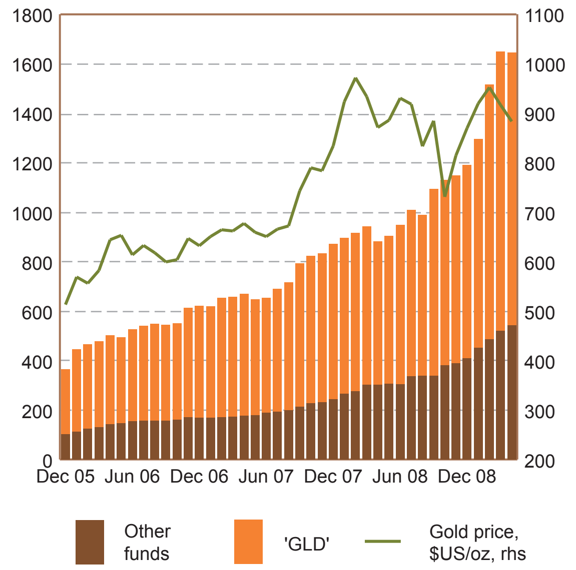
Also recording strong growth in Q1 was demand for official coins - up 44 tonnes (154%) to 72.6 tonnes from Q1 2008. In contrast, demand for medals and imitation coins fell 77% to 2.4 tonnes. Mints in several parts of the world continued to report shortages. The Rand Refinery, which mints South Africa's Krugerrand coin, doubled its production in January from 10,000 ounces to 20,000 ounces a week but nevertheless failed to keep pace with demand. The New Zealand Mint said that it was doing as much business in a day as it was doing in a month a year earlier, mainly to offshore investors.

The general theme across most non-western markets was profit-taking as investors took advantage of high levels of the gold price (record highs for some investors). Furthermore, the sharp slowing in jewellery demand and rise in scrap resulted in the local gold price in several markets trading at a discount relative to London, which provided an arbitrage opportunity for local players to export metal to be made into London Good Delivery bars.

While the degree of dishoarding in those non-western markets was sizeable it was, in fact, driven largely by two countries - India (-17.0 tonnes) and Thailand (-19.9 tonnes). Smaller levels of dishoarding occurred in Indonesia (-6.5 tonnes) and Japan (-1.0 tonne). Of the remaining non-western countries, most recorded a net inflow, albeit a much lower inflow than in Q1 2008. Taiwan and Saudi Arabia were the exceptions, recording positive rates of growth on the levels of a year earlier.

Germany was the single biggest bar and coin market in both Q4 2008 and Q1 2009. In Q1 that demand totalled 59.0 tonnes, up 400% on 11.8 tonnes in Q1 2008 and anecdotal evidence suggests that inflation concerns have been a key motivator in this region. The second largest bar and coin market was Switzerland (up 437% from 7.3 tonnes to 39.2 tonnes), although this also includes demand from non-Swiss investors. The third largest market was the US, rising 216% from 8.7 tonnes to 27.4 tonnes. While the 'other Europe' category was relatively small in absolute terms, it was the fastest growing. A significant proportion of the rise in demand from just 1.9 tonnes to 22.7 tonnes was attributable to Austria. France remained in net positive territory with demand of 1.1 tonne.

Chart 4: Holdings in Exchange Traded Funds, tonnes and the gold price, Dec 05 - Apr 09



Source: www.exchangetradedgold.com; Global Insight

During the last few quarters, significant fluctuations have occurred in the "inferred investment" category. This category is the balancing item in the supply and demand table. During the second half of 2008, there was a large outflow in this category. This outflow, which was concentrated in Q3, largely represented a general de-risking as investors liquidated speculative positions (either by choice or necessity due to the need to raise funds to cover losses in other assets) and a shift into the less risky side of the gold market i.e. ETFs and bars and coins.

The first quarter of 2009 was somewhat different. While inferred investment was positive, this was not due to a rebuilding of speculative positions. Rather, the biggest contributor to the estimated 115.3 tonne inflow in this category represented demand for larger bars (over 1kg), which are not covered under net retail investment, and bullion accounts.

Total investment demand, which includes both identifiable investment and inferred investment, rose from 260.8 tonnes in Q1 2008 to 711.2 tonnes in Q1 2009, an increase of 450 tonnes or 173%. In $US value terms, the increase between the two quarters totalled $13.0bn.

gold

Supply

Table 4: Gold supply and demand (WGC presentation)
Note: Jewellery data in this table refer to fabrication not consumption and quarterly data differ from the data in Tables 1 and 2.

	2007	2008	% ch 2008 vs 2007	Q4'07	Q1'08	Q2'08	Q3'08	Q4'08	Q1'09[1]	% ch Q1'09 vs Q1'08
Supply										
Mine Production	2,478	2,416	-3	633	544	588	633	650	560	3
Net Producer Hedging	-444	-358	...	-71	-129	-121	-60	-48	-10	...
Total Mine Supply	2,034	2,057	1	562	415	467	573	602	550	33
Official Sector Sales[2]	484	246	-49	97	77	72	81	16	35	-54
Old Gold Scrap	958	1,215	27	277	359	277	217	362	558	55
Total Supply	3,476	3,519	1	936	852	816	872	979	1,144	34
Demand										
Fabrication										
Jewellery	2,404	2,186	-9	489	475	532	695	484	352	-26
Industrial & Dental	462	436	-6	110	116	118	112	90	80	-31
Sub-Total Above Fabrication	2,866	2,621	-9	599	591	650	807	574	433	-27
Bar & Coin Retail Investment[3]	446	653	46	61	89	143	213	208	42	-53
Other Retail Investment	-14	210	...	6	10	5	57	138	89	804
ETFs & similar	253	321	27	80	73	4	149	95	465	540
Total Demand	3,552	3,805	7	746	762	802	1,227	1,014	1,028	35
"Inferred Investment"[4]	-76	-286	...	190	90	14	-355	-35	115	29
London PM Fix ($US/oz)	695.39	871.96	25	786.25	924.83	896.29	871.60	794.76	908.41	-2

Source: GFMS. Data in this table are consistent with those published by GFMS but adapted to the WGC's presentation and take account of the additional demand data now available. The "inferred investment" figure differs from the "implied net (dis)investment" figure in GFMS' supply and demand table as it excludes "ETFs and similar" and "other retail investment". 1. Provisional. 2. Excluding any delta hedging of central bank options. 3. Equal to net retail investment from Table 1 less the 'other identified retail investment' category. 4. This is the residual from combining all the other data in the table. It includes institutional investment other than ETFs & similar, stock movements and other elements as well as any residual error. In previous editions of GDT it was referred to as the "balance".

Total supply surged 34% above year earlier levels to reach 1,144 tonnes in the first quarter of 2009. The primary source of the increase was a huge wave in scrap gold coming back into the market as high prices and difficult economic circumstances encouraged record levels of recycling. Also contributing to the increased supply was a sharp slowing in levels of producer de-hedging. Lower levels of central bank selling had a dampening effect, while mine production was relatively stable.

Mine production in the first quarter of 2009 is provisionally estimated to have increased 3% relative to year-earlier levels, equivalent to a rise of 16 tonnes. A significant gain (10 tonnes) was recorded in Indonesia, which was driven by an increase in output of almost 12 tonnes at Grasberg. A strong quarter was also seen in Russia, where mine supply increased by 9 tonnes. This increase was attributable to the Kupol project, higher throughput at Olimpiada and improvements at Pioneer.

Turning to output from the traditional 'big four' countries, a neutral result was seen in both the US and Australia, while figures suggest that output from South Africa increased modestly, although the comparison is with a relatively weak first quarter of 2008. Global leader China posted continued growth, currently estimated at around 3 tonnes.

New projects provided fresh supply in several jurisdictions. Notable examples included the already mentioned Kupol mine in Russia, Goldex in Canada, Kittila in Finland, Sabodala in Senegal, Bonikro in Cote d'Ivoire and the

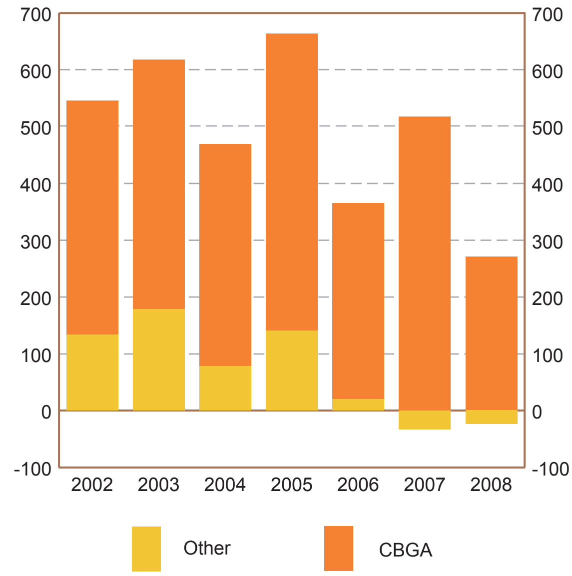
Kalsaka, Mana and Youga operations in Burkina Faso in the African continent.

De-hedging by gold producers continued to abate, and with it the dampening impact on supply. The first quarter witnessed net de-hedging of just 10 tonnes as the global hedge book has now reduced to negligible levels.

Muted central bank sales contributed just 35 tonnes to total first quarter supply, less than half the level of net sales in Q1 2008. During the quarter, the Netherlands completed the final 9 tonnes of their allocated quota of 165 tonnes under the current Central Bank Gold Agreement. This leaves Sweden and France as the only remaining declared sellers for the remainder of the agreement, which expires at the end of September. Outside of the Central Bank Gold Agreement, one or two countries including the Philippines made small purchases. China revealed after the end of the period under review that it had added 454 tonnes, purchased since 2003, to its reserves.

Scrap was the most noteworthy element of first quarter supply. Recycling of old gold reached record levels as a unique combination of high prices (in some currencies, record prices) and the deepening global economic crisis created ideal conditions for unprecedented levels of selling-back. Traditionally the domain of non-western consumers, recycling of old gold became a global phenomenon in the first quarter. Consumers in western markets were forced to sell to obtain liquidity in times of financial hardship and sharply tighter credit conditions, while non-western consumers generally reacted to the quarter's high prices by taking profits on existing holdings. Scrap supply almost equalled mine production for the first time on record. For more detail on scrap supply, please see the Focus section on page 20.

Chart 5: Supply from central bank sales



Source: GFMS, IMF, WGC

Consumer Demand[1] Trends In Individual Countries

Table 5: Consumer demand in selected countries: Q1 2009 (tonnes)

	2008			Q1 2008	Q1 2009[1]			% ch Q1 2009 vs Q1 2008		
	Jewellery	Net retail invest.	Total	Total	Jewellery	Net retail invest.	Total	Jewellery	Net retail invest.	Total
India	501.6	211.4	713.0	107.2	34.7	-17.0	17.7	-52	...	-83
Greater China	355.9	75.7	431.6	111.9	95.8	18.0	113.8	2	-2	2
China	326.7	65.9	392.7	103.3	89.1	16.1	105.2	3	-4	2
Hong Kong	17.0	1.0	18.0	4.3	4.4	0.2	4.7	8	0	8
Taiwan	12.2	8.7	20.9	4.2	2.2	1.6	3.8	-19	10	-9
Japan	28.2	-39.4	-11.2	-31.9	6.7	-1.0	5.7	-10	...	...
Indonesia	55.9	2.9	58.7	14.6	10.8	-6.5	4.3	-24	...	-71
South Korea	24.8	1.2	26.0	6.1	4.6	0.2	4.8	-20	-20	-20
Thailand	16.3	42.7	59.0	2.1	3.0	-19.9	-16.9	-40	...	...
Vietnam	19.6	96.2	115.8	43.8	4.6	10.4	15.0	-12	-73	-66
Middle East	317.9	28.4	346.4	72.2	49.5	4.1	53.6	-26	-28	-26
Saudi Arabia	108.9	13.5	122.4	21.0	15.0	1.6	16.6	-23	8	-21
Egypt	74.3	2.5	76.8	19.0	14.9	0.1	15.0	-15	-96	-21
UAE	100.0	9.5	109.5	24.2	14.6	2.0	16.6	-33	-15	-31
Other Gulf	34.8	2.9	37.7	8.1	5.0	0.4	5.5	-34	-14	-32
Turkey	153.2	57.1	210.3	35.8	16.5	4.2	20.7	-40	-49	-42
Russia[2]	91.4	...	91.4	19.2	14.1	...	14.1	-27	...	-27
USA	188.1	78.9	267.0	48.2	27.8	27.4	55.2	-30	216	15
Italy[2]	50.3	...	50.3	8.2	6.7	...	6.7	-18	...	-18
UK[2]	37.2	...	37.2	5.5	4.1	...	4.1	-25	..	-25
Europe ex CIS[3]	...	242.7	242.7	17.1	...	122.0	122.0	...	615	615
France	...	-3.1	-3.1	-3.9	...	1.1	1.1	...	...	...
Germany	...	114.8	114.8	11.8	...	59.0	59.0	...	400	400
Switzerland	...	89.0	89.0	7.3	...	39.2	39.2	...	437	437
Other Europe	...	42.0	42.0	1.9	...	22.7	22.7	...	1,124	1,124
Total Above	1,840.4	797.7	2638.1	459.8	278.9	141.9	420.8	-25	59	-8
Other	345.5	64.8	410.3	85.4	60.5	-11.1	49.5	-20	...	-42
World Total	2,185.8	862.5	3048.4	545.2	339.4	130.8	470.2	-24	33	-14

Source: GFMS. 1. Provisional. 2. Jewellery only. 3. Net retail investment only.

India

The first quarter of 2009 was an exceptional one for India, as a 'perfect storm' of events resulted in the lowest quarterly demand for gold jewellery in at least 20 years, while retail investment (as defined by the GFMS figures used in Gold Demand Trends) turned negative for the first time on record. The volume of total first quarter gold demand was 83% below year-earlier levels, equivalent to a decline in value of 80% in local currency terms.

Demand for gold jewellery was hit by a combination of record local prices and the deteriorating global – and increasingly, domestic – economic environment. Indian GDP growth is forecast to slow to around 5% during the year ended March (from an estimated 6% in 2008/09 and 9% in 2007/08). Although this compares favourably with most other Asian countries, the prominent export sector is likely to be further affected by the downturn in its major destination markets. Rising unemployment among expatriates, who are returning home to India, put further pressure on the general economic outlook.

[1] Consumer demand is gold bought by individuals i.e. as jewellery and net retail investment. Unless otherwise specified all data in this section refer to tonnage figures and growth rates are comparisons with the same period of the previous year.

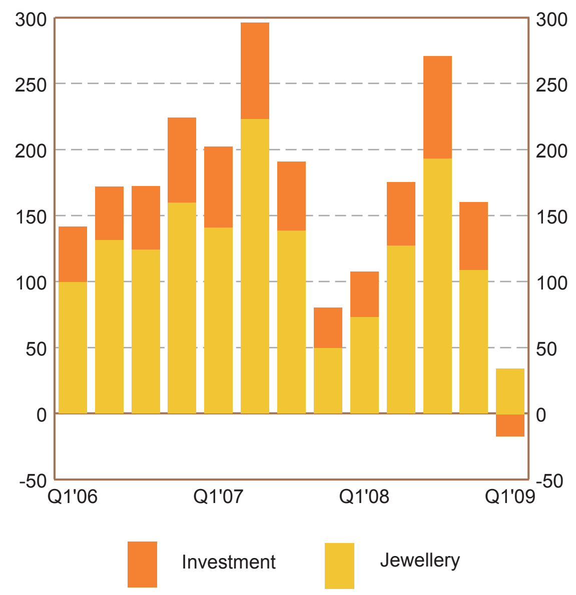
In Rupee terms, gold peaked at an all-time high of Rs.15,780 per 10 gms in the Mumbai market on 24th February as a weaker Indian Rupee exacerbated the rise in the international price of gold. This had the dual impact of discouraging new demand for jewellery (since the high prices made it considerably less affordable) and also encouraging the selling-back of older pieces. Indian consumers have long viewed gold jewellery as a key investment vehicle and store-of-value, to be relied upon during times of difficulty and/or higher prices. This function of gold clearly came to the fore in the first quarter as recycling of gold jewellery soared.

An important feature of the jewellery market in the first quarter was the extent to which consumers met their jewellery needs in ways other than simply purchasing new product. Exchange of old jewellery for new pieces; melting down and re-making older pieces; and exchange of old jewellery for newer items of lesser value (with the remainder in cash) were all key sources of demand for gold jewellery during the quarter, being a cost effective method of updating of updating jewellery pieces in a market where gold prices were high and consumers were cautious in their spending. However, this jewellery exchange activity is not reflected in the demand figures as it does not represent a net addition to the stock of jewellery held by Indian consumers.

The fall in jewellery demand had a knock-on effect on the retail investment market, where demand was similarly quashed during Q1. Low levels of demand for gold jewellery and large scrap flows helped to push local gold prices to a discount below international prices, providing a profitable opportunity for wholesalers, who became exporters of gold. Consequently, the Indian market witnessed net negative investment for the first time.

In discussing the scale of Indian disinvestment during the first quarter, it is important to clarify the definition of 'retail investment'. The net investment flows for India that are shown in Tables 5 and 6 include stocking and de-stocking by wholesalers as well as the usual flows of investment and disinvestment by consumers. In Q1 2009, the 17.0 tonnes of dis-investment that occurred undoubtedly includes some profit-taking by retail investors; however, it also includes some de-stocking by wholesalers. Left with swollen inventories due to the sharp drop in demand and increase in scrap, and faced with a profitable arbitrage opportunity, wholesalers chose to export their stocks for conversion into London Good Delivery bars. This resulted in India exporting a significant 20 tonnes of gold during the quarter – the first time that India has been a net exporter of gold.

Chart 6: Indian gold demand in tonnes



Source: GFMS, Global Insight, WGC

Expectations for the second quarter are for an improvement over the exceptionally low first quarter, with a number of festivals (including the key buying occasion of Akshaya Thritiya) and the summer wedding season likely to provide some support to jewellery demand, provided that prices remain relatively stable and below their recent highs. Indications are that the Akshaya Thritiya Festival was reasonably positive, but the depressed economic environment will undoubtedly continue to take its toll on gold demand in this all-important market.

Greater China

Gold demand in Greater China was broadly stable in the first quarter; 2% firmer than Q1 2008. This minor gain was solely the result of an increase in jewellery demand, partly offset by a 2% decline in the investment sector. There was a notable lack of common themes across the region; the greatest contribution to higher regional jewellery demand came from mainland China, while investment demand displayed the greatest resilience in Taiwan.

Consumer demand in **mainland China** amounted to 105.2 tonnes, a gain of 2% over year-earlier levels. This

Table 6: Consumer demand in selected countries: Q1 2009 ($US value)

	2008			Q1 2008	Q1 2009[1]			% ch Q1 2009 vs Q1 2008		
	Jewellery	Net retail invest.	Total	Total	Jewellery	Net retail invest.	Total	Jewellery	Net retail invest.	Total
India	14,014	5,894	19,908	3,188	1,013	-497	517	-53	...	-84
Greater China	9,964	2,115	12,079	3,327	2,797	525	3,322	1	-4	0
China	9,148	1,844	10,992	3,073	2,602	471	3,074	1	-5	0
Hong Kong	476	29	504	129	129	7	136	6	-2	6
Taiwan	340	242	582	125	65	47	112	-20	8	-10
Japan	792	-1,230	-438	-949	194	-29	165	-11	...	...
Indonesia	1,575	80	1,656	434	315	-190	126	-26	...	-71
South Korea	691	34	724	180	135	6	141	-22	-21	-22
Thailand	464	1,156	1,620	61	88	-580	-492	-42	...	...
Vietnam	551	2,747	3,298	1,301	135	304	439	-14	-73	-66
Middle East	8,926	786	9,712	2,148	1,447	119	1,566	-27	-30	-27
Saudi Arabia	3,068	367	3,435	624	438	47	485	-24	6	-22
Egypt	2,078	71	2,149	565	435	1	437	-17	-96	-23
UAE	2,804	267	3,071	719	426	58	485	-34	-16	-33
Other Gulf	976	81	1,057	240	147	13	160	-35	-15	-34
Turkey	4,333	1,623	5,957	1,065	482	122	604	-41	-50	-43
Russia[2]	2,548	...	2,548	571	411	...	411	-28	...	-28
USA	5,198	2,144	7,343	1,433	812	801	1,613	-31	211	13
Italy[2]	1,372	...	1,372	244	196	...	196	-20	...	-20
UK[2]	1,011	...	1,011	162	120	...	120	-26	...	-26
Europe ex CIS[3]	...	6,461	6,461	507	...	3,563	3,563	...	603	603
France	...	-106	-106	-116	...	32	32	...	...	...
Germany	...	3,067	3,067	351	...	1,712	1,712	...	391	391
Switzerland	...	2,390	2,390	217	...	1,145	1,145	...	427	427
Other Europe	...	1,111	1,111	55	...	663	663	...	1,102	1,102
Total Above	51,440	21,811	73,251	13,672	8,145	4,144	12,289	-26	56	-10
Other	9,678	1,792	11,470	2,539	1,768	-323	1,445	-22	...	-43
World Total	61,118	23,602	84,720	16,211	9,913	3,821	13,734	-25	30	-15

Source: GFMS. 1. Provisional. 2. Jewellery only. 3. Net retail investment only.

was equivalent to a 5% decline in local currency value terms as local prices were comparatively lower thanks to strength in the Chinese Renminbi.

China's economy, although unquestionably suffering from a sharp deceleration, nonetheless remained very strong relative to most other economies. The annual GDP growth rate was 6.1% in the first quarter and retail sales were also firm. This enabled China to avoid the slump in jewellery demand seen in many other countries; in fact demand was 3% higher in volume terms. Further supporting demand was the fact that the first quarter is a traditional festive season in China and purchases of gold jewellery for gifts were commonplace during Chinese New Year (particularly 24 carat gold) and Valentine's Day (concentrated in 18 carat K-gold). Nevertheless, it is clear that the 24 carat market, which has been a savings vehicle for Chinese consumers for some time, has shown the most resilience over recent quarters. It would also appear that there was a geographic diversity to gold jewellery demand, with demand relatively weaker in coastal areas (where export businesses, which have borne the brunt of China's economic slowdown, tend to be located) while inland areas were more buoyant.

Q1 retail investment demand in mainland China weakened in both volume and value terms, slipping 4% and 5% respectively. In a trend that emerged across much of the non-western world, retail investors in China chose, on balance, to take profits on holdings of gold bars and coins as the price returned to levels close to $US1,000/oz, despite continued buying at lower price levels. Furthermore, the large buyers who stoked investment demand last year have found themselves with less liquidity available to pour into gold investment purchases. An additional factor suppressing investment demand was the absence of commemorative gold bars launched in the first quarter (the bars launched to commemorate the Olympics last year were very well received).

The first quarter saw jewellery demand in **Hong Kong** jump 8% from year-earlier levels, in stark contrast to the declines witnessed in every other country except China. This translates into a rise of 6% in $US value terms, as gold jewellery purchases were buoyed by the peak Chinese New Year purchasing season and solid tourist-buying by visitors from the mainland. A more detailed look at the figures shows that the first two months of the quarter were particularly strong, with demand falling back somewhat in March, indicating that festive purchases relating to CNY played a significant role in driving demand. Additionally, there is an awareness among consumers that gold jewellery can also play a strong role as a 'store of value', with the result that discretionary spending on this category has been less affected than other items by the economic downturn.

Retail investment in Hong Kong was stable in the first quarter, unchanged from year-earlier levels at 0.2 tonnes (equivalent to $US7mn in value terms). As in other countries in the region, the sector experienced a degree of profit-taking at near-record prices, which was counter-balanced by demand re-emerging at lower prices.

In **Taiwan**, gold jewellery demand suffered as the domestic economic scenario worsened, with unemployment reaching record levels and GDP growth contracting sharply. The volume and value measures of demand both slumped – by 19% and 20% respectively – as higher gold prices further deterred consumers whose confidence had been severely hampered by the difficult economic conditions. Despite the Chinese New Year being a traditional time for purchasing gold jewellery, demand fell away.

On the other hand, retail investment demand was relatively stable, marginally increasing by 0.1 tonne (equivalent to a rise of 10% in volume terms and 8% in $US terms). The Gold Piggy Bank – a monthly gold saving plan aimed at retirees, launched by the Bank of Taiwan in December – attracted keen interest among investors and the promotion of this product resulted in around 200,000 new accounts being opened in the first quarter (compared with 80,000 in Q1 2008).

Looking ahead to the second quarter, jewellery demand is likely to be sluggish across the region without the support provided by Chinese New Year-related purchasing. The prospects for investment demand are mixed, as demand comes under the conflicting influences of the high gold price (encouraging selling-back) and the uncertain economic environment (encouraging 'safe haven' purchases).

Other East Asia

Total tonnage off-take in **Japan** remained positive in Q1 2009, although well below the exceptional levels seen the previous quarter. Gold demand amounted to 5.7 tonnes compared to net negative demand of 31.9 tonnes a year earlier. The jewellery segment was the source of this decline as net retail investment improved markedly on Q1 2008 levels.

Q1 GDP data, due for release soon, are widely expected to confirm that Japan's economy weakened significantly over that period and annual GDP is expected to contract by around 6.5% in 2009 as a whole. The March Tankan survey revealed a record level of pessimism among both manufacturers exposed to international markets and the more domestically oriented non-manufacturing companies. Industrial production and retail sales decreased sharply in February, while unemployment jumped.

Retail investors were pulled in different directions, with the high price prompting a wave of selling-back while the sharp deterioration in the state of Japan's economy generated heightened public interest in gold as a safe haven. The two effects more or less cancelled each other out, resulting in net disinvestment of 1.0 tonnes. This compares very favourably with Q4 2008, when profit-taking saw net disinvestment surge to -39.3 tonnes.

The ailing economy kept a lid on jewellery demand, which was 10% down on Q1 2008. In volume terms, the market was relatively resilient when compared with the global decline of 24%, possibly because a continued strengthening of the Yen ensured that the local price of gold remained well below last year's peaks of above ¥100,000/oz. In local currency terms, off-take of ¥18.2bn represented a 21% decline in value.

Total consumer demand for gold in **Vietnam** was down by two-thirds from year-earlier levels. At 4.6 tonnes, jewellery demand was relatively robust, declining by 12% from Q1 2008 at a time when global jewellery demand fell by 24%. It was a different story for retail investment however, which slumped 73%.

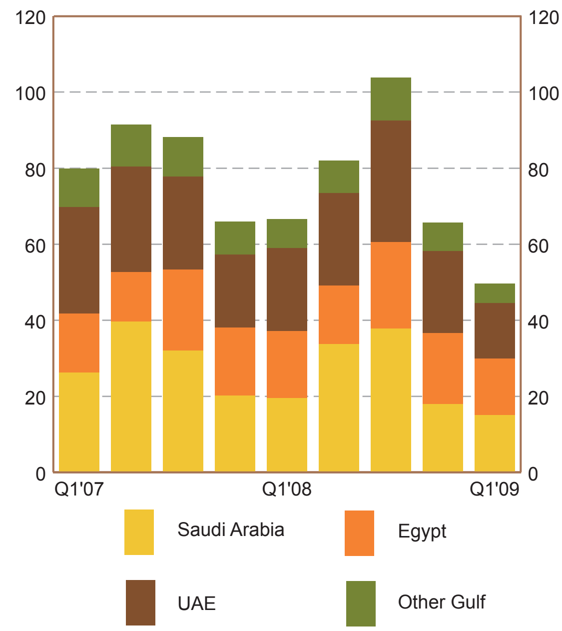
Although jewellery demand was negatively affected by relatively high prices, consumption was somewhat supported by festive purchases. The first quarter is a traditional festive season, with the Vietnamese Tet New Year, Valentines Day and Women's Day all falling within this period. Consequently, demand for gold jewellery was relatively robust, even in the face of high prices, indicative of the strong investment motive behind gold jewellery purchases.

Investment demand fluctuated with the price of gold during the first quarter as the near-record price levels reached mid-quarter encouraged a surge of profit-taking. With local prices at a discount to international prices, the State Bank of Vietnam granted a number of licenses to export gold, which resulted in around 20 tonnes of gold bars being officially exported during the quarter. On the other hand, there was also evidence of unofficial imports resuming as prices dipped back to US$900/oz. The net result was that investment demand totalled 10.4 tonnes compared with 38.5 tonnes in Q1 2008. The first months of the second quarter have seen a resumption of unofficial imports as the domestic price discount turned into a premium.

In **Indonesia**, consumer demand fell sharply in the first quarter as investors took the opportunity to take profits on their holdings as prices again approached $US1,000/oz. Total demand was 71% below year-earlier levels, largely due to a sharp swing toward disinvestment, which more than wiped out cumulative investment purchases made over the previous four years. Selling-back amounted to 6.5 tonnes as holders of gold bullion (largely the middle classes) took advantage of the rally in prices; a move that was exacerbated by continued weakness in the local currency.

On the jewellery side, demand declined 24% - in line with the global trend – as higher prices negatively impacted the consumer. Jewellery held by poorer people in Indonesia tends to be used as an investment vehicle, so the higher prices were likely responsible for a degree of selling-back of jewellery among this demographic contingent.

Chart 7: Middle Eastern jewellery demand in tonnes



Source: GFMS and WGC

Gold demand in **Thailand** during the first quarter was notable for the fact that, similar to many of the non-western markets, the retail investment component reflected a trend towards profit-taking at higher price levels. Investment swung sharply to -19.9 tonnes, more than reversing the previous quarter's 17.5 tonnes of investment purchasing. Throughout the latter stages of 2008 and into 2009, a great deal of activity has been witnessed in both the buying and selling of gold bullion in Thailand. This activity is dominated by speculators who can respond quickly to price fluctuations and export or import gold accordingly. In Q1 2009, while strong buying emerged on price dips, the selling pressures dominated.

Middle East and Turkey

Middle East

Total gold demand in the Middle East in Q1 2009 was down 26% on the levels of Q1 2008. During the first quarter, the jewellery sector made the largest contribution to the decline in tonnage off-take, although both jewellery and investment recorded similar declines in percentage terms (-26% and -28% respectively). Around 90% of total consumer off-take in the region is in the form of jewellery.

Total tonnage off-take in the **UAE** fell 31% from 24.2 in Q1 2008 to 16.6 tonnes in Q1 2009. Jewellery off-take declined 33% from 21.9 tonnes to 14.6 tonnes, while net retail investment recorded a more modest 15% decline from 2.3 to 2.0 tonnes. The Other Gulf Countries recorded a decline in total tonnage of a similar magnitude to the UAE (-32%), with Kuwait being the main source of weakness.

The Dubai Shopping Festival early in the quarter delivered mixed results. Several key companies that engaged in promotion activity recorded positive growth rates on last year, but sales for companies that weren't part of this promotion were disappointing. Sales were also negatively affected by lower tourist inflows. There was some improvement in consumer confidence and sales during the month of March, reflecting the slightly lower average gold price, although consumers generally remained cautious. The June quarter will bring the wedding season and Akshaya Thritiya - an auspicious time for buying gold for the Indian community, which is significant in the UAE. Some purchases relating to pre-vacation gifting could also help lift the Q2 result.

Investment flows in the UAE were generally sensitive to changes in the gold price. Demand was lower in January and February as the price strengthened, before re-gaining some momentum in March as the international price corrected back towards US$900/oz.

Egypt and Saudi Arabia each recorded a decline in total off-take of 21%; however the patterns across the sectors were quite different. **Egypt** had the most resilient jewellery sector in the region, recording a 15% decline relative to year-earlier levels. Nevertheless, this was a worsening on the second half of last year, when Egypt was still recording positive growth rates. This worsening largely reflects tougher economic conditions. It was announced recently that over 140,000 Egyptians had lost their jobs in the Gulf. Furthermore, tourist flows have been negatively affected by both the global recession and the situation in Gaza.

Approximately 15-20 tonnes of scrap gold were exported from Egypt during Q1, reflecting both profit-taking and a discount in the local market, which provided arbitrage opportunities. Profit-taking was also evident by consumers, who were selling gold coins and lower value added 21 carat products at price levels of around $US940/oz and higher.

Investment demand in Egypt fell 96% from 1.4 tonnes in Q1 2008 to just 0.1 tonnes in Q1 2009. However, the percentage decline was inflated by a very strong Q1 2008 result – first quarter investment off-take averaged 0.2 tonnes between 1999 and 2007. Investor flows in Q1 2008 were boosted significantly by media coverage speculating about an increase in the gold price.

In **Saudi Arabia**, Q1 jewellery off-take was down 23% on year-earlier levels but net retail investment rose 8%. While the 1.6 tonnes of net investment in Q1 2009 was well down on the levels of Q4 2008, this largely reflected the very high Q4 figure (+6.8 tonnes). As in other parts of the Middle East, economic conditions and the sharp fall in equity markets over the last year or so have impacted on consumer confidence.

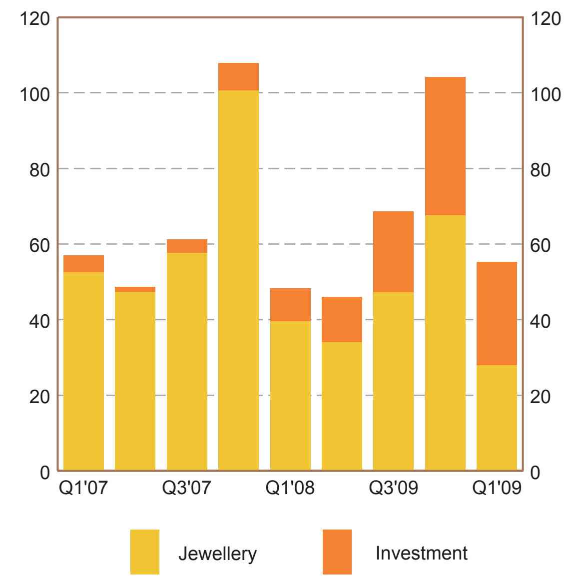
Given that the gold price has exhibited much greater stability since the final weeks of the first quarter, the prospects for second quarter jewellery demand across the region may be more encouraging. However, the exceptional circumstances of the prevailing global economic crisis make for a highly uncertain outlook.

Turkey

Turkey is a price sensitive market and demand during the last two quarters has been negatively affected by the combination of gold price volatility, volatility in the local currency and economic uncertainty. The central bank has cut interest rates by 700 basis points since November of last year in an attempt to stimulate the economy, but official interest rates remain relatively high in absolute terms at 9.75%. The sharp fall in local interest rates has placed pressure on the local currency, with the Turkish Lira weakening by 17% against the dollar during the fourth quarter of 2008 and by a further 7% during the first quarter of 2009. The combined effect of the higher $US gold price and the lower Turkish Lira resulted in a 35% increase in the average Lira gold price since Q1 2008.

Total tonnage off-take in Turkey during Q1 was down 42% on the levels of the previous year. While the decline in $US value terms was similar at 43%, it was less severe in local currency terms (-22%).

Net retail investment demand improved slightly in Q1 after virtually grinding to a halt (just 1 tonne) in Q4 2008. However, at 4.2 tonnes, investment demand in Q1 was nevertheless 49% below the levels of a year earlier. Arbitrage activity was evident in the kilo-bar market, reflecting the local price discount.



Source: GFMS, WGC

Jewellery off-take was down 40% on the levels of Q1 2008. The 45 TL/gm level appeared to be a significant price point for the local market. As the gold price rose above this level early in the quarter, jewellery demand dropped significantly and recycling volumes increased markedly. Conversely, recycling appeared to reduce as the gold price moved back under 45 TL/gm in April. With jewellery demand also showing some response at those levels, the second quarter started on a more positive note than the first quarter. Nevertheless, given local economic conditions, the sustainability of this improvement will depend on movements in the gold price, the direction of the Turkish Lira and the economic situation.

USA

The total volume of gold off-take in the US in Q1 2009 was 15% higher than the levels of Q1 2008. In value terms, total gold off-take was up 13%. Notably, this marked an improvement in the underlying trend. During calendar 2008, total volume off-take was down 3% on the levels of 2007.

While difficult economic conditions continued to weigh heavily on jewellery demand, those same difficult conditions underpinned investor inflows. Evidence of green shoots in the economy has so far done little to alleviate investor concerns surrounding asset markets and the banking sector. Bar and coin demand during Q1 was more than triple the levels of Q1 2007. In addition, there were significant inflows by US investors into gold ETFs.

Since the recession began in December 2007, 5.1 million jobs have been lost in the US, with almost two-thirds of the decrease occurring since November 2008. In March, the unemployment rate reached 25 year highs. Consumer spending on discretionary items, including gold jewellery, continued to suffer in this environment - jewellery off-take in Q1 2009 was down 30% in volume terms on the levels of a year earlier.

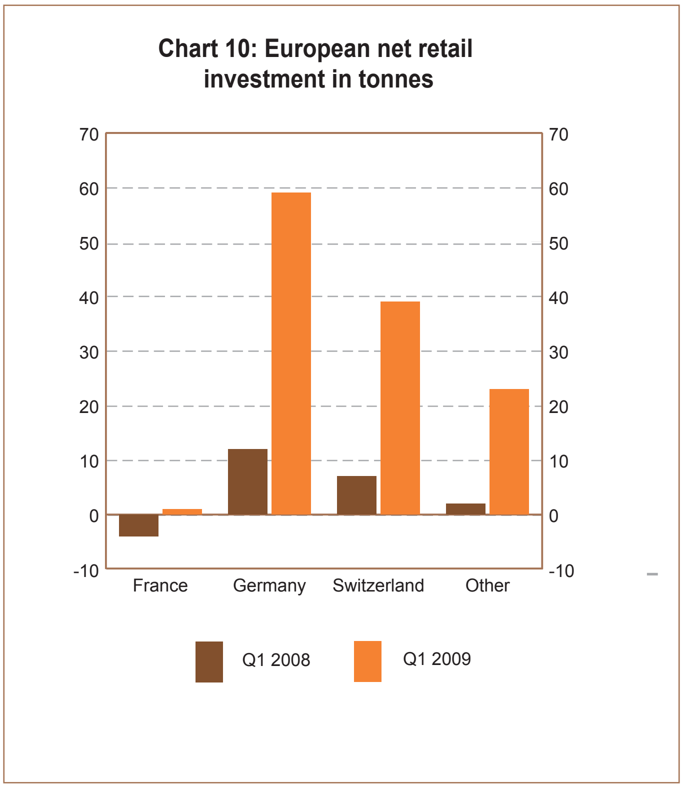
During Q1, the US market was also a source of gold supply in the form of scrap. The increase in scrap levels partly reflected an increased recognition by consumers of the ease of recycling through increased promotion and advertising, however there was also an element of distress selling due to difficult economic conditions.

The Christmas shopping season marks the peak in demand (and therefore earnings) for jewellers. However, the 2008 Christmas season was very disappointing, leaving retailers financially stretched and with bloated stocks. With funding conditions also being extremely tight, the pattern of closures and liquidations in the jewellery sector continued. During the March quarter, Fortunoff, a New York based retailer focussing on homeware, jewellery and furniture, went into liquidation. Finlay Fine Jewelry, a retailer and operator of licensed fine jewellery departments in department stores, announced that it is exiting its department store business. Finlay has a total of 674 jewellery outlets located inside department stores.

It is unlikely that jewellery demand will recover significantly in the next few quarters. Even if the “green shoots” lead to more concrete signs of recovery, high unemployment is likely to continue to weigh on consumer confidence and discretionary spending for some time yet. However, in this environment, we expect investment demand for gold to remain well underpinned.

Europe

The highlight for Europe during Q1 was the continued surge in investor inflows into gold. Net retail investment excluding the CIS countries soared by 615% from 17.1 tonnes in Q1 2008 to 122.0 tonnes in Q1 2009. In value terms, this represented a $US3.1bn increase from $US0.5bn to $US3.6bn.



Source: GFMS, Global Insight, WGC

These increased investor inflows were driven by Switzerland, Germany and Austria (which comprises the largest part of the "Other Europe" category). Net investment in France remained in positive territory for the second consecutive quarter.

The net retail investor flows for Germany, at 59.0 tonnes in Q1, were larger than that for any other country, including Switzerland (39.2 tonnes) and the US (27.4 tonnes). It is also worth noting that the country level data represents the location of the transaction rather than the location of investor - the Swiss result, in particular, is likely to reflect some demand from investors in other countries. While safe haven concerns have been apparent throughout Europe, inflation concerns have also been a significant motivating factor for German investors. Although hyperinflation is not on the agenda, the country's poor inflation history has nevertheless left investors wary.

Similar to the experience of other western countries, jewellery demand in both Italy and the UK during Q1 was negatively impacted by the depressed economic environment. Both countries have entered recession and unemployment is rising. The EU is forecasting the Italian economy to contract by 4.4% in 2009, and the outlook for the UK is similar with a forecast decline of around 3.75%.

In **Italy**, Q1 2009 tonnage jewellery off-take was down 18% on the levels of the previous year, equivalent to a decline of 8% in Euro terms. Notably, this 18% decline was smaller than the global average decline of 24%. Nevertheless, tough trading conditions have seen several companies close down, while some manufacturers have shifted into cheaper gold-plated bronze and brass and 9 carat gold. Scrap levels have increased, and refiners are channelling some of this additional supply into the production of London Good Delivery bars, where demand is strong. While Italian manufacturers have recently reported some improvement in demand from Dubai, Israel and Europe, it is clearly too early to draw any firm conclusions. Conditions for the sector are expected to remain tough.

Tonnage jewellery demand in the **UK** in Q1 2009 was down 25% on the levels of Q1 2008, in line with the global average. Hallmarking statistics suggest that the decline was most severe in the 9 carat segment and least severe in the 22 carat segment. This preference towards jewellery with a higher gold content was not unique to the UK during Q1, and reflects both a willingness among consumers to continue to pay for premium product in the higher end of the market, as well as a desire to own pieces that are able to be recycled most easily. Notably, gold jewellery continued to maintain its share of consumer wallet. In £ terms, the value of jewellery off-take was up 2% on the levels of Q1 2008 at £84mn.

Russian jewellery demand in Q1 2009 was down 27% on the levels of a year earlier. The economy has entered a period of stagflation. While monthly inflation outcomes have become smaller, the annual inflation rate remains relatively high at around 5%. Furthermore, economic activity has deteriorated significantly. After posting GDP growth of 5.6% in 2008, economic activity contracted 9.5% in the first quarter year-on-year. Consumers have responded by shifting into cheaper silver jewellery and lighter weight gold articles with no gemstones. Demand for diamonds, in particular, has suffered a significant hit. At the same time, however, there has been reasonably strong growth in the high-end gold jewellery segment, which appears somewhat contradictory, unless one considers the investment motive behind gold jewellery demand. On a more positive note, deteriorating local economic conditions spurred bar and coin demand, with mints struggling to keep pace.

Historical Data for Identifiable Gold Demand

Table 7: Historical data for identifiable gold demand[1]

	Tonnes					$bn				
	Jewellery	Net Retail Invest	ETFs & Similar	Industrial & Dental	Total	Jewellery	Net Retail Invest.	ETFs & Similar	Industrial & Dental	Total
2000	3,204	166	-	451	3,822	28.75	1.49	-	4.05	34.28
2001	3,008	357	-	363	3,728	26.21	3.11	-	3.16	32.47
2002	2,660	340	3	358	3,361	26.48	3.39	0.03	3.56	33.45
2003	2,483	301	39	382	3,206	29.00	3.52	0.46	4.46	37.32
2004	2,617	349	133	414	3,512	34.54	4.46	1.83	5.41	46.24
2005	2,712	393	208	432	3,745	38.73	5.50	3.03	6.17	53.43
2006	2,288	416	260	459	3,423	44.57	8.10	4.94	8.93	66.54
2007	2,404	433	253	461	3,551	53.70	9.51	5.78	10.31	79.30
2008[2]	2,186	863	321	430	3,800	70.99	27.42	22.47	14.62	135.50
Q1'05	684	122	89	106	1001	9.40	1.68	1.22	1.46	13.76
Q2'05	741	112	-2	111	962	10.18	1.54	-0.02	1.52	13.22
Q3'05	613	88	38	108	847	8.67	1.24	0.53	1.53	11.97
Q4'05	673	71	84	107	934	10.48	1.10	1.30	1.66	14.55
Q1'06	492	93	113	112	810	8.76	1.65	2.01	2.00	14.42
Q2'06	530	97	49	115	792	10.70	1.96	0.99	2.33	15.98
Q3'06	558	112	19	116	804	11.15	2.23	0.38	2.32	16.08
Q4'06	708	114	79	116	1,018	13.96	2.25	1.56	2.29	20.06
Q1'07	566	118	36	116	836	11.81	2.47	0.76	2.43	17.47
Q2'07	663	135	-3	118	914	14.22	2.89	-0.05	2.54	19.59
Q3'07	603	112	139	117	972	13.19	2.46	3.05	2.55	21.25
Q4'07	573	67	80	110	830	14.48	1.70	2.02	2.79	20.98
Q1'08	447	99	73	116	734	13.28	2.93	2.16	3.45	21.82
Q2'08	518	148	4	118	787	14.92	4.26	0.12	3.39	22.69
Q3'08	673	270	149	112	1,205	18.86	7.57	4.19	3.14	33.77
Q4'08[2]	548	346	95	90	1,079	14.01	8.84	2.42	2.29	27.56
Q1'09[2]	339	131	465	80	1,015	9.91	3.82	13.58	2.34	29.66

Source: Tonnage data are GFMS; Value data are WGC calculations based on GFMS data.
1. See footnotes to Table 1 for definitions and notes. 2. Provisional

FOCUS ON RECYCLED GOLD

A key focus for both analysts and the media over recent months has been the surge in the levels of gold scrap coming back to the market. With mine production and central bank selling generally on a declining trend and the outlook for both relatively benign, scrap levels are likely to remain the primary supply-side uncertainty over the short to medium term.

A close analysis of recent events suggests that the term recycled gold would be more appropriate than "scrap". The Websters dictionary defines scrap as waste, and the gold that has come back to the market is clearly not waste. Selling-back of gold jewellery has provided consumers with access to much needed funds during these very difficult economic times. In the price sensitive markets, the profit-taking motive behind recycling activity has been very strong, highlighting the intrinsic value of jewellery and the strength of the savings/investment aspect of gold jewellery purchases.

Bouts of profit-taking in the jewellery sector have been commonplace during the long-term uptrend in the gold price that started back in 2001. Once the gold price has stabilised, jewellery buyers have typically returned and recycling activity has waned. Furthermore, the price level that has both encouraged those jewellery buyers back to the market and tempered the recycling activity has progressively been rising over that 8 year period. The profit-taking motive has been a significant driver of flows of recycled gold over the last 6 months. In several of the more price-sensitive markets, including India and Turkey, the gold price has not just been high; it has tested successive new highs.

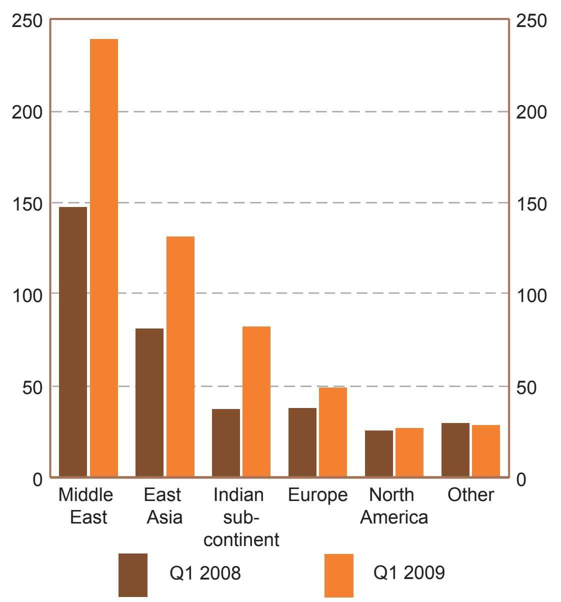
However, the most recent wave of recycling activity has also been somewhat different to previous waves, in that the motive this time is not just price and profit-taking; there has also been an element of distress selling due to severe economic conditions. Financial difficulties have forced consumers to sell some of their assets, including their jewellery, to raise much needed cash. What is also atypical is that the increase in recycling activity has been both a western and non-western phenomenon, although volumes in the non-western markets have continued to dominate.

Although there has been an element of profit-taking and distress selling in both western and non-western markets, the relative balance between the two motives has differed. In western markets, the primary motivation behind recycling of gold has been distress selling, while in the more traditional non-western markets, the primary motive has been profit-taking.

Research by World Gold Council suggests that jewellery buyers across the world recognise that gold jewellery is both a store of value as well as a means of adornment. Nevertheless, the investment and adornment motives tend to overlap most strongly in traditional markets such as the Middle East (including Turkey) and India, largely due to the very strong cultural underpinning behind jewellery ownership; bar and coin demand in these regions comprises a relatively modest proportion of total demand for gold.

Reflecting the large jewellery collections that many consumers own, jewellery recycling is commonplace following spikes in the gold price as consumers take profits. Jewellery exchange is also relatively common when the gold price is high, being a cost-effective way of updating jewellery pieces for a newer, or simply a different look. The fact that exchange activity has remained strong in the current environment (buyers have not pulled away entirely) shows an ongoing interest by consumers in owning jewellery and suggests that buying activity will

Chart 10: Supply of recycled gold in tonnes



Source: GFMS

return at more favourable prices. During these tough economic conditions, jewellery has also played a role as a means of liquidity for financially stretched consumers, although this appears to have been secondary to the profit-taking motive.

The profit-taking motive has been particularly strong of late, reflecting record high gold prices in local currency terms in several key markets, including India and Turkey. In India, this profit-taking activity has been evident at the wholesaler as well as the consumer level. Wholesalers have been taking advantage of a discount to the London market by running down stocks and exporting. This situation is unusual for India, as it is traditionally a net importer of gold.

In western markets, jewellery recycling is less common. Although the store of value motive behind jewellery buying is still evident, gold investing is generally done through bars and coins and ETFs. This is not surprising as jewellery tends to have a lower carat content than it does in the more traditional markets, the retail mark-up is also higher, and investors are generally more financially literate and aware of products such as ETFs.

While the surge in jewellery recycling that has occurred in western markets during the last 6-9 months has come off a low base, it has nevertheless been substantial. The main motivator has not been profit-taking; consumers have been motivated by the need to raise funds during difficult economic conditions. Furthermore, consumers have become more aware of the ease with which recycling can be done, and this has been particularly apparent in the US. Advertising has been commonplace in newspapers, websites, billboards, radio and TV. This advertising has led to a growing recognition by consumers that the gold jewellery that they own has an intrinsic value that makes it worth recycling.

The outlook for recycling activity remains uncertain. One could argue that as long as the gold price remains high, recycling activity is also likely to remain high. However, one could equally argue that the next wave of recycling will require a higher price to trigger jewellery owners into action. Many of those little bits and pieces that are surplus to requirements (the second earring where one has been lost, the broken necklace, the piece of jewellery that in hindsight you wish you hadn't bought or are now a little tired of) have probably now been sold. The next wave of recycled jewellery could therefore become more difficult to attract; once the old bits and pieces have been sold, the emotional attachment to the remaining items is likely to be much stronger. They may include part of dowry, a birthday present from a loved one or a spouse, or the family heirloom that has been passed down through the generations.

The wave of recycling activity that we have seen over the last 6-9 months shows clearly that used jewellery is not 'waste' product. It has also shown that gold jewellery is not a just a luxury consumer item or a means of adornment. The store-of-value motive that underpins jewellery buying and ownership is a valid one in all major consumer markets around the world.

Notes and definitions

All statistics (except where specified) are in weights of fine gold.

Tonne = 1,000 kg or 32,151 troy oz of fine gold.
N/A = not available
… = not applicable

Mine production. Formal and informal output.

Net producer hedging. The change in the physical market impact of mining companies' gold loans, forwards and options positions.

Official sector sales. Gross sales less gross purchases by central banks and other official institutions. Swaps and the effect of delta hedging are excluded.

Old gold scrap. Gold sourced from old fabricated products which has been recovered and refined back into bars.

Jewellery. All newly-made carat jewellery and gold watches, whether plain gold or combined with other materials. It excludes second-hand jewellery, other metals plated with gold, coins and bars used as jewellery and purchases funded by the trading in of existing jewellery.

Retail investment. For the three bar, coin and medallions categories this comprises individuals' purchases of coins and bars defined according to the standard adopted by the European Union for investment gold. Medallions of at least 99% purity, wires and lumps sold in small quantities are also included. In practice this includes the initial sale of many coins destined ultimately to be considered as numismatic rather than bullion. It excludes second hand coins and is measured as net purchases.

"Other" retail investment refers to Western Europe and North America. It includes net investment in physical bullion as defined by the EU (other than new coins which are included in the two coin categories), individuals' paper transactions with a direct physical counterpart plus Over The Counter activity and changes in metal account holdings where measurable and retail targeted.

Consumer demand. The sum of jewellery and retail investment purchases for a country – ie the amount of gold acquired directly by individuals.

Industrial demand. The first transformation of raw gold into intermediate or final products destined for industrial use such as gold potassium cyanide, gold bonding wire, sputtering targets. This includes gold destined for plating jewellery.

Dental. The first transformation of raw gold into intermediate or final products destined for dental applications such as dental alloys.

Tourist purchases and "luggage trade". Purchases by foreign visitors which are normally for their own use or for gifts are included in demand in the country of purchase. Bulk purchases by foreign visitors ("luggage trade") which appear to be intended for resale in the visitors' country of origin or a third country are attributed to the country in which they are resold.

Revisions to data. All data may be subject to revision in the light of new information.

Historical data

Data covering a longer time period will be available on Bloomberg from February 18th; alternatively contact GFMS Ltd (+44 (0)20 7478 1777; gold@gfms.co.uk).

Sources, copyright and disclaimers

Issued by:

World Gold Council
55 Old Broad Street
London
EC2M 1RX
United Kingdom

www.gold.org

Tel: +44 (0)20 7826 4700
Fax: +44 (0)20 7826 4799

For further information, contact:

Matt Graydon, Head of External Relations
World Gold Council

Tel: +44 (0) 20 7826 4716
E-mail: matt.graydon@gold.org

Rozanna Wozniak, Investment Research Manager, World Gold Council

Tel: +44 (0) 20 7826 4758
E-mail: rozanna.wozniak@gold.org