



The 11th LBMA Precious Metals Conference: 2010 Berlin

Conference Summary

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Disclaimer

This presentation is a slightly light-hearted attempt to summarise the 2010 LBMA Precious Metals Conference.

For speakers, please do not take offence of how I have mangled your views and slides.

For everyone else, please note that nothing contained herein should be construed as a view of myself or Paulson & Co (and a more thorough disclaimer will be in the printed copies of this presentation when it is eventually released).



Opening Session and Welcome



Introductory Remarks

Kevin Crisp, LBMA* Chairman

All time high price and attendance

Outlook summary

- Investment
- Challenge of jewellery
- Resurgence of scrap
- Two-way central banks
- Apparent decoupling of fundamentals

Intellectual property of the LBMA

- Not just the gold forward curve

Regulation

- "Pick our battles"; "Marshal resources"
- Churchillian language shows seriousness

* Has book



Keynote Speech: William White*, OECD

Will this crisis never end?

1,2,3... what is the answer

“The comforting school of what is different”

“The less comforting school of what is the same”

Unprecedented and Worrysome Policy Responses

* Terrifying investors since 2003
(not a book, but should be a Trade Mark)



E. The economic and financial outlook

- ▶ A near term “double dip” reflecting continuing imbalances seems most likely, but
- ▶ Green shoots, decoupling and steady progress (the IMF and OECD view) is still possible
- ▶ ...a natural and sustainable recovery?
- ▶ ...another **policy induced bubble** which, while not sustainable, could go on for a long time?
- ▶ **Deflation** more likely but **high inflation** is not impossible
- ▶ **Investors should be positioning themselves for “tail events” – but which ones?**

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Keynote Speech: George Magnus*, UBS

Is Gold The New Tea?

Countries with excessive savings rates and trade surpluses are part of the problem and must be part of the rebalancing.

- (Which country did George not mention)

Politics makes this look tricky

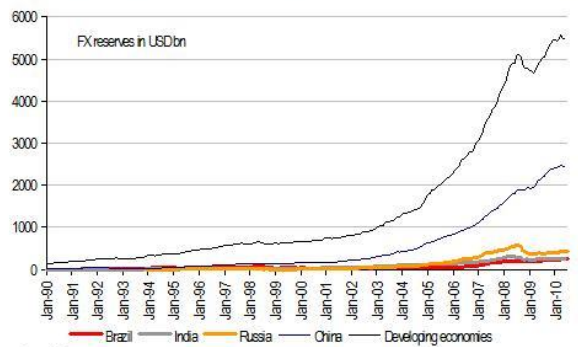
Excess savings look to endure

*has book



Good for gold?

Saving Surpluses = Build-up in FX Reserves



Source: IMF
UBS



Session 2:
Precious Metals Investment – New Paradigm?

Chairman:
Gregory Mthembu-Salter, Consultant to the UN

“Gold is the metal of choice...

...for the murderous groups operating in the eastern DRC”



Changing Exposures of Pension Funds to PM
Shayne McGuire*,
Teacher Retirement System of Texas

“Gold has always gone up in years that US equities fell by more than 10%”

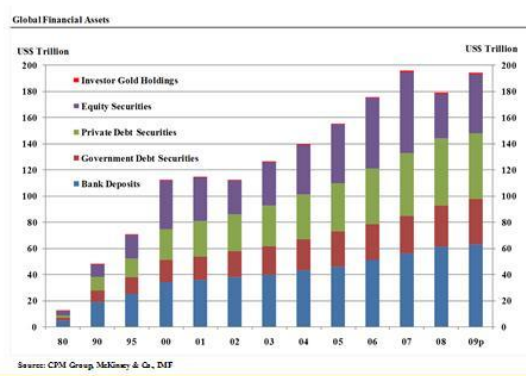
“I am less concerned with what gold is going to do compared to what it will do to my portfolio”

*has book

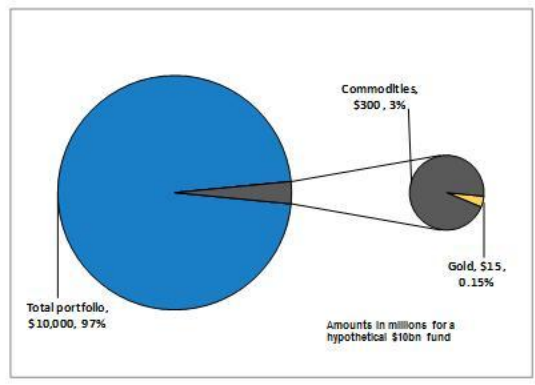


Gold was more than 20% in 1933

The World's Financial Wealth



Gold holdings at U.S. pension funds are negligible...



Source: TRS





Institutional Investment

Graham Birch

Former Head of Natural Resources, Blackrock

“Gold has always been for rich people who want to stay rich – rather than for poor people who want to get rich”

Which makes gold sound nicely exclusive

“Increased investment demand will mean greater volatility than many in the room expect”



ETF Fund flows – Investor Attitudes

- Investors relatively insensitive to gold price moves. Investors are typically large institutions taking medium to long term view
- Investors say they are hedging against currency depreciation; inflation or events related to global fiscal crisis
- Greek crisis triggered a wave of gold investment from Europe much of which was reversed by success of stress tests. Not mirrored in US
- Pension Funds though still cautious and more likely to focus on a commodity basket



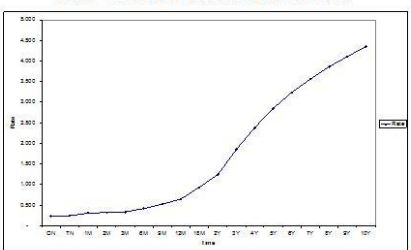
Regulation
Diarmuid O’Hegarty,
London Metals Exchange

- Strong momentum for regulatory change
- Speculation is necessary
- Excessive speculation is bad but undefined
- Something wrong in the metals markets
- Copper: **high prices = bad**
- Gold: **low prices = bad**
- Something must be done
- A lot of ‘somethings’ will be done

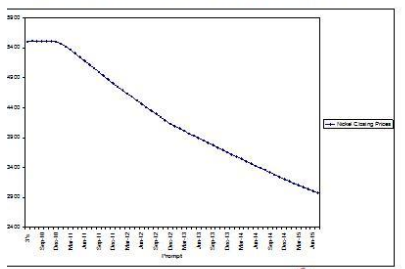


Two forward curves

GOLD FORWARD CURVE 13 APRIL 2010



NICKEL CLOSING PRICES 13 APRIL 2010



LONDON METAL EXCHANGE

LONDON METAL EXCHANGE



Session 3:
Response from the Traditional Markets

Chairman:
Albert Cheng, World Gold Council

“Without the support from the traditional markets, investment demand would not have had such an impact on the gold price”



Official Sector
Philip Klapwijk
GFMS

During the next 10 years some members of the CBGA group will sell part of their gold reserves

US sales unlikely but cannot be entirely ruled out

Potential for further IMF sales?

Other countries will in aggregate be net buyers

Overall, official sector sales & purchases activity will become less predictable but more ‘neutral’ in terms of its long run market impact



Asian Jewellery Demand

Sunil Kashyap
Scotia Mocatta

The emergence of Investment Demand in India

- 30% of gold demand is now in the (male) hands of investors, focussed on price levels and capital gains;
- 70% of buying remains in (female) hands, who buy gold for reasons of social obligation, family events and due to auspicious dates

With considerable physical holdings in the hands of investors, will they look to take profits if and when the price outlook for gold turns bearish?



Coins and Small Bars

Wolfgang Wrzesniok-Rossbach
Heraeus

Comprehensive discussion about coins and small bars (some great pictures too)





Driving forces of Bar and Coin Demand



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Session 4: Precious Metals Investment: How long will it last

Chairman:
John Levin, HSBC



Mine Production
Paul Burton
GFMS World Gold Limited

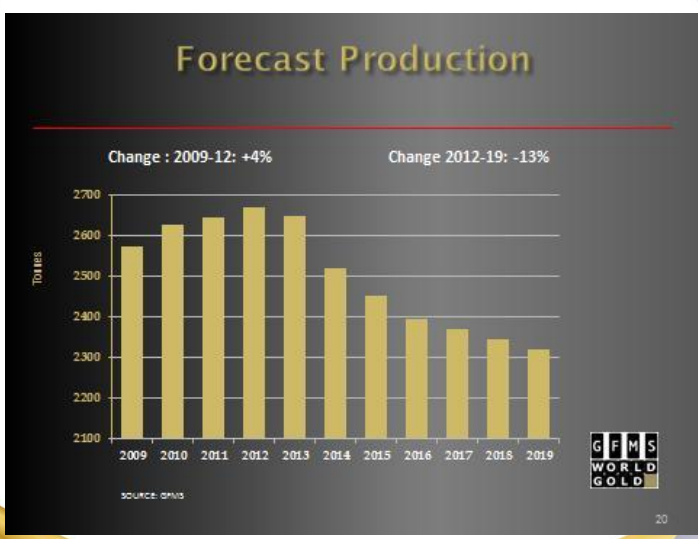
It took nine years of a bull market in gold to trigger an increase in gold supply

- Production lag

Gold production seems unlikely to increase rapidly and sustainably

- Exploration lag
- Lack of discoveries

Growth for the next few years before a decline –no peak gold





Scrap
 Jeffrey Rhodes
 INTL Commodities

High prices and a financial crisis has turned the scrap market in developed markets

From

Insignificant and even unsavoury

To

Mainstream and even 'Posh'

This appears to have triggered an interesting development, where scrap from certain markets has changed drastically



INTL FCStone

Scrap Supply – Top 10 Ranked By Growth

	Tonnes	2000	2005	2008	2009	2009 v 2000
UK & Ireland		3.7	4.5	38.7	59.4	1505%
Mexico		3.8	7.2	28.1	50.3	1224%
Iraq & Syria		3.5	14.4	21.9	35.6	917%
Vietnam		6.0	7.8	12.5	51.5	758%
Spain		2.5	3.7	10.6	20.1	704%
Germany		4.9	7.6	24.4	32.4	561%
Thailand		13.5	12.4	51.7	66.0	389%
China		24.0	41.7	70.3	102.8	328%
France		5.9	12.1	21.2	24.9	322%
Turkey		56.0	67.7	199.0	217.2	288%

Source: GFMS Gold Survey 2010



China and Japan: Changing Investment Patterns

Matthew Turner
Mitsubishi

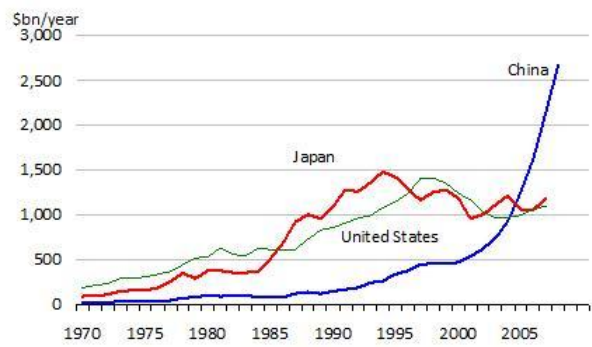
Demographics are destiny
Savings rates drive investments in precious metals



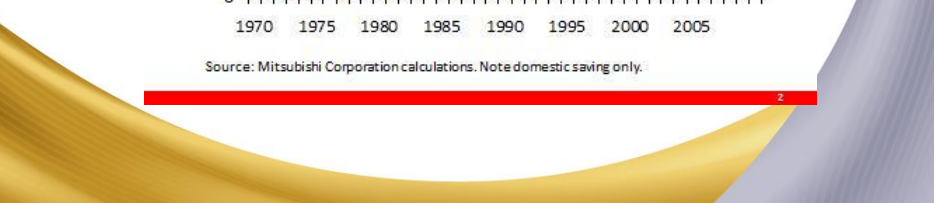
“Wow”

Mitsubishi Corporation

Opportunities: China savings rising dramatically



Source: Mitsubishi Corporation calculations. Note domestic saving only.

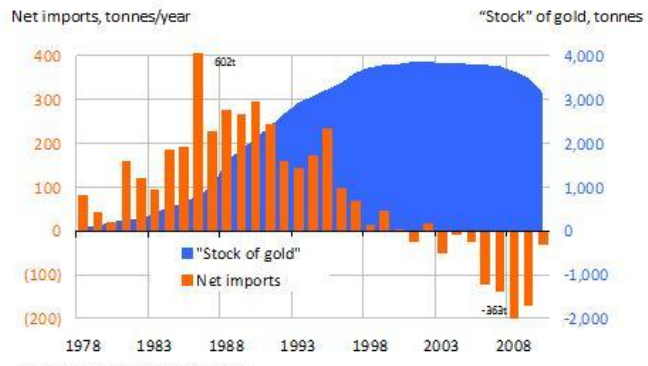




Similar to platinum

Mitsubishi Corporation

Risks: Japan becomes exporter of gold



Source: Japanese Ministry of Finance

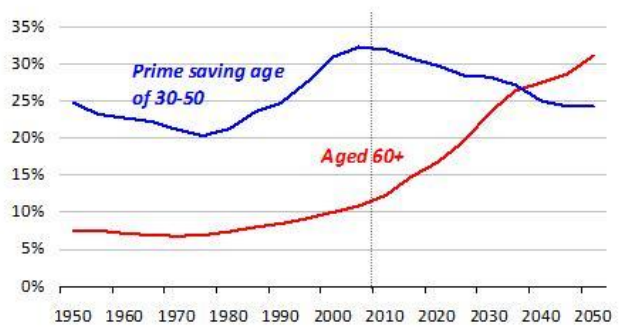
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China's Destiny...

Mitsubishi Corporation

China - Demographics good...for now



Source: Mitsubishi Corporation from UN data

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Session 5:
Platinum Group Metals

Chairman:
Sandy Wood, Anglo Platinum & IPA



Platinum and Palladium FAQ
David Jollie
Mitsui

“Don’t say anything stupid”

Its largely about palladium at the moment

It is also a rhodium story

Already back at 2007 levels of car production globally

31 million cars to be produced per annum in China



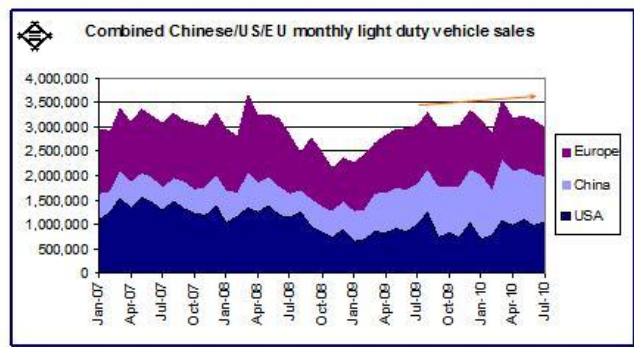
The 2008 car market



MITSUI GLOBAL PRECIOUS METALS
Sydney • Hong Kong • Tokyo • London • New York



Auto: global



MITSUI GLOBAL PRECIOUS METALS
Sydney • Hong Kong • Tokyo • London • New York



Auto: can China keep growing?



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PGM Investment
Michael Jansen
JP Morgan

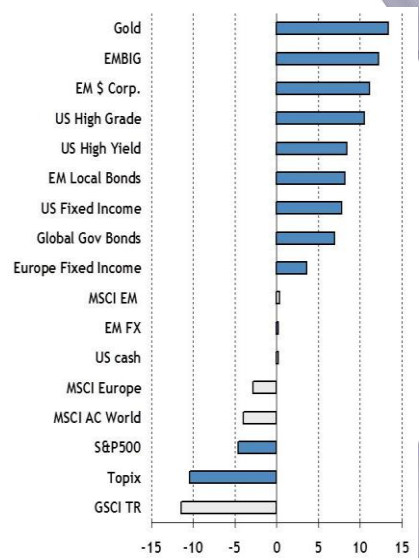
The jigsaw – a nice way of summarising the PGM argument

Platinum as an effective hedge of inflation

Inflation expectations the key to higher inflation – debt monetisation

- Inflation or default

2010 ytd returns





The Investment Case

Demand – bullish, underpinned by EM income related demand, limited substitution short term

Supply – reserves considerable, production constrained, key country risk acute

Inventories – moving into ETFs, futures under-funded, state stock depletion, secondary volumes improving. Commercial inventories still low. How much owned by HNW, retail?

Liquidity – enough to put on a position, inventories “tied up” – held in tight hands, market vulnerable to technical tightness

Relative value – bounded to the downside by gold

Implementation

- Physical long
- ETFs
- long vs. gold
- Long v equity
- Sector RV



Southern Africa

Emma Townshend

Renaissance Capital BJM

Made a very strong case for:

- Difficulties of producing PGMs in South Africa
- Very strong cost pressures in the industry
- No material respite likely from a weaker rand

Not all bad news for the miners

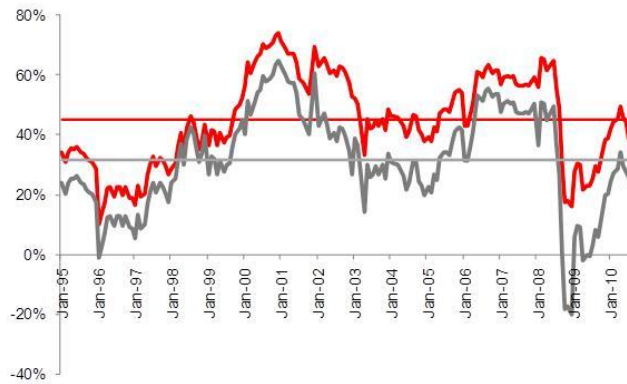
- Restructuring
- Grade declines not necessarily a drag on profits
- Newer mines are better quality, lower costs

Positive on SA Supply Growth in near term

PGM Prices need to increase for I/t supply



50th percentile Cash and Capex Margins



PGM prices need to rise



Session 6:
Presidential 'Style' Debate

Chairman:
Steve Branton-Speak, Goldman Sachs

Panel:
Jeremy East, Standard Chartered Bank
David Gornall, Natixis
Gerry Schubert, ABN AMRO



Session 7:
Closing Session and Audience Participation