

Session 7: Delegate Feedback & Conference Summary

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Thank you, Stewart. I'd like to thank you all to have the opportunity to wrap this conference up again. It's a real pleasure to get almost no sleep on Monday night and have to remain sober at the dinner. I did promise Stewart that I would do this twice, so we are genuinely looking for volunteers for next year.

As usual, the disclaimer, this is meant to be a bit light-hearted, it's meant to make people a bit interested – please take no offence of anything that is said here, and if you were a speaker, I apologise in advance. I'd also like to thank, on a serious note, UBS, because after I resigned a couple of weeks ago, they did allow me to do this wrapping up role. I was personally hoping to get black bagged so I could take a few weeks off, but anyway I will have the opportunity to do this.

Kicking off with the opening session, orientation from Stewart Murray, Chief Executive of the LBMA, noting that this is the 10th LBMA Precious Metals Conference. The first in the UK, and more importantly from Stewart's perspective, it's the first in Scotland. I'd also note that it's not taking place in Peru this year in case you hadn't noticed. It's also oversubscribed, which I think is quite amazing. When we were debating about whether to move the conference from Peru, because of the credit crunch, we were really concerned about the numbers of people who were going to attend and we thought that by bringing it back to the UK, which we always said we would do if times got bad in the precious metals market, we thought that we could ensure a successful conference and that we'd have enough people to turn up so that we'd do ok. Well, we've certainly done better than that, and I think it shows a lot about the interest in the precious metals market at the moment, that for the first time I think ever, we've

actually had to turn people away because we literally can't get them in this room.

I did enjoy Stewart's explanation of how to use the keypad. I would suspect that by next year that we won't need to go into quite as much detail; I do admire the person who managed to put in "what is the fastest land animal" because that's certainly more than I can type with a text message style device.

Moving swiftly on, introductory remarks from Kevin Crisp, who is Chairman of the LBMA. He is a new Chairman, during a time of change for the LBMA. He's also the first non market-making Chairman of the LBMA, which apparently did raise some questions in the press. These changes are necessitating an addition to staff – so no signs of empire-building here Mr Crisp, we're not really trying to take the world on are we?

We've got a new Data Committee, a benchmark forward curve, and I think the call for a stronger collective voice for the industry is quite a clear one and it did remind me as well that this conference is "by the industry, for the industry". That is the way we should always remember it, is that this is the Precious Metals Conference of the LBMA, it's your conference and it's what you want to make of it. The PAC of the LBMA under Edel and the other members of the Public Affairs Committee have done a very good job in putting this programme together, but if you've got any suggestions, please contact them.

Moving onto the keynote speech, Paul Mercier, Principal Adviser in Market Operations at the European Central Bank. He gave a long and detailed speech about gold from a Central Bank perspective, talking about the eternal role for gold, looking at the past, how in fact gold predates central banks, although it's not the original form for currency and it's certainly not the most unusual form of currency. As a chain smoker myself, I was very interested to see that tobacco had been legal tender in Virginia for 200 years; I did know however that that is where the expression a 'quid' comes from. Silver had a much more important monetary role, and it's only really from about 1870 onwards that gold had a monetary role and central bank gold holdings peaked at only about 38,000 tonnes in the 1960s, which at that time was about half of all the gold that had ever been mined. Gold was the anchor of currencies but, ultimately, it fell down because the gold exchange standard contained no link between paper money supply and gold, so in 1971, the gold exchange standard failed.

The present, for all the talk of sales that we've heard at the Central Bank, they still own about 30,000 tonnes of gold, and the Eurosystem has got about 10,800 tonnes of gold and the value of that gold has increased over the last seven years despite the fact that the absolute volume of gold owned has declined. The share that gold makes up of

central banks' balance sheets has declined sharply, mainly because central banks' balance sheets have increased a lot. Some good reasons in there and some consequences of the global financial crisis that we've seen. The Eurosystem is still selling its gold, however, and Mr. Mercier described it as "optimising its holdings". Gold used to be really important in terms of central banks and it's much less so now, so it's not a surprise that they are selling.

The future, well, Central Bank Gold Agreement signatories hold 50-55% of their foreign exchange reserves in gold, non-signatories much smaller holdings, 2-4%, and I think the key statement here, and one that has been reinforced by moves that have taken place overnight, is that Paul said, "I would not conclude that gold holdings will continue to decline", which is about as strong a statement for central bank gold as I've heard from a senior central banker. After the news overnight that the IMF has managed to sell half of its gold already to India, I think that's a pretty good indication that Mr. Mercier is on the right track. There was something else that he said though, which I think is important; he said, "now, the value of paper money, the notes and coins in our pockets, is only faith", and I guess that's one of the big things that's been driving the gold market in the last 12-18 months. Gold investors by and large have less faith in money and certainly in the last 12 months have had a reduced amount of faith in money.

On the role of the Bank of England, we heard from Michael Cross who is Head of Foreign Exchange. I guess the way I'd summarise it is that the Bank of England doesn't do as much as it used to do. It's stopped selling gold; it's stopped lending gold, both its own gold and other people's gold, yet it remains at a very important part of the gold market. I didn't know, although I was told afterwards that it is in the Annual Report, that the Bank of England had 400,000 gold bars. That's an awful lot of gold. I did know that it manages the UK

gold reserves, although the major decisions are taken by HM Treasury, so we don't blame the Bank of England for selling the gold at \$275 an ounce. One thing, and please take it in the spirit that it's meant, I think that to have intelligence functions at central banks is a good thing and should be encouraged.

Moving on the Session 2: The Impact of the Financial Crisis Chaired by Stephen Lowe, of ScotiaMocatta, London. First up, Issues Facing Producers by Mark Lynam, Executive Officer of AngloGold Ashanti. I thought that this was a good way to see just how large a player AngloGold Ashanti is in the world, it's the third-largest miner and for reasons that will become apparent, the best-performing major gold stock this year. I thought it interesting that the issues facing producers had nothing to do with cost: there was no mention here about the difficulties of finding new gold deposits, there was no mention here of aging mines, deepening shafts, safety records, political interference, strength of domestic currencies. The one theme that Mark brought out was that of financing. I think that shows you how much the world did change around a year ago; it didn't matter what you did, it didn't matter the quality of your operations, didn't matter the success of whether it was a gold mine or a company that makes widgets in Wichita, but if your balance sheet needed refinancing, it got very difficult last year because the credit market seized up.

AngloGold Ashanti had a billion dollar convertible bond due for maturity in February of 2009, they had stressed bank counterparties and eventually were able to successfully refinance this convertible in November, and Mark said they learned a lot of lessons about counterparties and about how you must focus on the balance sheet. This is the reason I think, it's fairly clear to me that this was why AngloGold Ashanti has been such a strong performer. It had question marks about its balance sheet, it was able to successfully refinance and, as

you can see from here, significantly outperformed other gold shares.

It takes me back to a conversation I had with Paul Galloway, who was a mining equity analyst at UBS, now departed. "We're all credit analysts now," he said in the first quarter of this year, because all the traditional drivers of equity valuations didn't really matter anymore, it was all about how strong is your balance sheet, how much refinancing do you need to do?

Finally, I'd just like to point this out as I noted this down very carefully. AngloGold Ashanti's stated policy is: the hedge book is going to zero over a number of years.

Secondly, Issues Facing the Jewellery Industry from Arum Shishmanian, the CEO of the World Gold Council. What I liked about his presentation is the bold way that he started it: "I'm not going to talk about that." Rather what we had was the seven major factors driving the gold market at the moment. He spoke about preservation, how investors and savers are worried about hanging on to what they've got. About relevance and how important it was to keep gold relevant in a jewellery form, particularly in the emerging markets. How to restore desirability, the third point. He spoke about tarnished passion for gold in the US and Europe. And responsibility, I liked the idea of conscientious consumption, compared to conspicuous consumption and I was a little bit concerned by the fact that over the next few weeks there's a *60 Minute* programme that's going to be focusing on blood gold and the artisanal illegal mining that is taking place in the DRC. On the innovation side, new applications for gold, we heard about how gold is going to be used in catalysts for auto-catalysts, which was also spoken about later and in terms of the Q & A. At the end, we heard also how gold is going to cure global warming and the common cold. On the intervention side, Arum said quite clearly that central banks are going to be net buyers of gold, but it has been proved right within 24 hours, which is

better than most of my forecasts. Finally, a new axis, and even one that George Bush had never recognised: India, China and the Middle East.

On to Issues Facing Refiners and Fabricators, we heard from Mehdi Barkhordar, Managing Director at PAMP and, unfortunately, typical Swiss secrecy, he managed to pdf his presentation and take all the slides out so I couldn't steal any pictures. Anyway the highlights from here I thought were very interesting, it was an interesting perspective to bring up in the last 12 months. Effectively, the Western world has moved towards a traditional Asian mindset. Distrust governments, currencies, financial systems, monetary stability. Trust only gold. That's a very Asian way of looking at gold. Whereas the Asian market was business as usual pretty much. The gold price goes up, jewellery dried up, scraps surged and the trade, which I think is an important thing that we should remember, the jewellery and the manufacturing industries were severely hurt by this. Investment demand in Asia did hold up well, however. Finally, the new challenges, and again we come back to some of the changes that have happened in the markets over the last 12 months because of the global financial crisis. A problem with insurance capacity, storage capacity, and vaulting and its advantages and the desirability for physical gold has really come across many times in this presentation. The facts about shipping and logistics. The point that the refineries were running at peak production in the first quarter because they were so busy doing everything, and that is a natural limitation on the amount of scrap that can come back to the market. You can't bring the whole 90,000 tonnes of jewellery that's out there back to the gold market in one go. But I think the way that Mehdi summed it up would echo a chord of many of the speakers – there's been a fundamental shift in the gold market over the last 12 months and it's come mostly from investment.

Into the third session, Chaired by James Cross, Chairman of the Swiss Gold DMCC. The macro outlook was presented by David McWilliams, an economist. How to summarise Mr McWilliams' presentation gave me considerable difficulties at about 5am this morning. He has what I would say is a fine UBS tradition of making what are hopefully entertaining presentations but a bit short on facts. I first came across Mr McWilliams when I was watching television about three months one evening, and there was a programme called *The Pope's Children*, all about what was taking place in Ireland back in 2006 when they were in the middle of one of the biggest bubbles of all time. It was the way he introduced the series that made me interested, because he spoke about how the pope had visited Ireland about 25 years ago and how a new generation of children had been conceived. He used the example of one of his sister's friends who had lost her virginity under the stands of the pope's mass in Ireland, as an example of how this new generation was going to come along. I thought well, anyone who can actually bring that into an economics debate first up is probably worth talking to and seeing whether he'd like to present at our conference. When he was going on about "don't you want me baby", which was a ring tone associated with leaving your mobile phones off, I did wonder whether that would precursor something about gold, but it turned out it didn't. Mr McWilliams was bullish on all commodities and I've heard of peak oil, I've heard of peak copper, but I've never heard of peak 'everything' before. Something that I'm not necessarily a believer in myself, but it is an interesting idea I suppose. As far as Mr McWilliams is concerned, the dollar is toast and Ireland is going to get toasted, and we did debate towards the end whether Ireland would actually drop out of the euro and come back with currency to sterling again, which David said to me afterwards he thinks will be the biggest issue in Ireland in two years' time. Nothing related to gold, but I thought it interesting. Inflation could be a big problem in three to five years and

that's important because of the implications for the next section.

On the ETF Market, we heard from Stephan Mueller, Executive Director of Bank Julius Baer and a lawyer who is a product designer. Now I've been following ETFs right from the beginning, I was involved in some of the very early discussions at the World Gold Council before they got any of these off the ground. I was very interested in some of the definitions that came out of here, I wasn't aware that the word 'fund' was actually legally protected. I think it's interesting to differentiate between a fund and a product. One of the things about buying gold for safe haven is you do not want to take balance sheet risk, which is something he made very clear. However, the second part of it I found quite interesting. Currency hedging must not be a privilege. I thought that that was interesting, working in a foreign exchange business as well as precious metals. It explains some of the questions that I've had over the years from Swiss clients. I often get a question from a client advisor in Switzerland, saying that their client would like to buy gold. They take Swiss francs and they buy gold. Afterwards the question would be how did they hedge the currency and I'd say, "pardon? You don't have currency – you've taken Swiss francs and turned it into gold! Where is the currency risk?" and it's only after a very protracted argument with Andy Maag, who runs UBS' Swiss Sales department and coming back from a presentation in Geneva by car that I actually understood what the idea is. People don't want to turn Swiss francs into gold, they want to buy XAU USD, they want to long of gold and short of dollar. So in other words, you take your Swiss franc, turn it into gold you then sell dollar Swiss on top of that as well. It's a very important element to gold investment within Switzerland, it is a shame it took me 12 years to work it out.

Moving on to another speaker from UBS, Larry Hatheway, Chief Economist, Head of Asset Allocation. I've seen this presentation before because when Larry built it for the

specific institutional client, he had a little input from me, not very much I hasten to add. But then I took it afterwards, and the report that it came from, and have been representing it around the world to various clients. The way I've summarised it in those presentations is really quite simple. Gold's role in a portfolio is an interesting one because it has actually very little strategic role. If you look at the long-term returns of gold over the last 36 years, you end up with a target asset allocation of 1.1% from a strategic perspective, but the tactical asset allocations vary a lot. During certain periods of macroeconomic performance, gold does well, it specifically does well when the US dollar is weak, but it would really do well when inflation is high and one of the things that Larry didn't mention but he did conclude the report by it, is that gold does well when you need it. This is another fine UBS tradition of putting too much information on the slides so you can't actually read it, but what I would point out to you is if you look at the circle here for gold, 99.95% target asset allocation towards gold during periods of high inflation, hence the gold smiley face. That to me is the takeaway from this particular presentation. US dollar weakness is what's been driving gold over the last eight years. Now, you might have guessed by now that most people that were concerned about the weaker dollar have probably worked out that gold is the place to be. If we are going to see gold attract orders of magnitude increases in gold investment, the only thing you'd need to see happen is higher inflation. It certainly is what investors have been asking me about all year in terms of the meetings I've been having, UBS does not see any inflation problems, certainly over the next two years and I don't think many people do. The three to five year area though, there's a lot more shall we say, two-way debate on that... And if inflation fears do increase dramatically then gold will trade much higher.

Onto Session 4: PGMs Looking Forward, Chaired by Edel Tully, Head of Precious Metal Research at Mitsui Precious Metals.

First of all we had the Auto-Catalyst Market – the Next Decade from David Jollie, who is the Manager of Precious Metals Marketing at Johnson Matthey. An attempt to summarise a lot of information, the trends for the platinum market and the palladium market over the next decade. I think the way you can summarise it is if you say there are quite a few green arrows that go up in both cases, it's a complicated outlook, there's lots of moving parts but it's generally a positive one for demand for PGMs in auto-catalysts over the next 10 years, and indeed if you look at the conceptual projection of how much platinum group metals are going to be used, apart from a necessary uncertainty for this year because Johnson Matthey haven't released their 2009 numbers yet, you can see that this is a broadly positive trend.

On the Chinese market though, we heard from Phillip Klapwijk, who is the Executive Chairman of GFMS. This I like a lot as a slide. If you think about industrial commodities in general, China is generally 20-30% of most industrial commodity demand now, with exception of oil where it's around 10% but growing rapidly, and clearly from this chart with the exception of gold and silver. So the fact that China is, and Phillip said during the presentation, more than 25% of the global platinum market isn't out of context with what you see in steel, cement, copper, etc. So to me, platinum is in line with the market, it's actually gold and silver that have the potential to catch up there arguably. This is the slide that has certainly been commanding my attention in the platinum market this year, the fact that we're going to see substantial increases in platinum jewellery demand, platinum jewellery sales in China this year. I've actually got a higher estimate than this, and Phillip said that after a recent marketing trip, they would be upgrading their numbers as well. We shouldn't forget cars either, because even though most of the platinum that goes into China is for the jewellery market, this is now the biggest car-selling market in the

world, 12 million vehicles this year. Ok, the US will probably recover somewhat, but China is a big economy with a lot of people and it's growing fast. This will become a very important auto market and therefore a very important auto-catalyst market going forward.

On to the Investor Arena, we heard from Mike Sheehan, Portfolio Manager at Red Kite. I found it interesting that nobody else spoke about the production problems in the South African platinum industry. Maybe it's because we take it so much for granted. But as Mike has shown here, and I've extracted two charts from this presentation, the first shows the fact that at current prices, there's a good chunk of the South African platinum industry that is negative on a cash cost basis, so ignoring the investment for future growth, but also these issues of labour and electricity, which are going to keep production under pressure, and keep costs moving higher. Investors have not forgotten South African platinum production challenges and I suggest as participants in the PGM market, nor should we. The other factor and the key theme towards Mike's presentation is that platinum, like gold and arguably slightly more than gold over the last 12 months, is a hedge against US dollar weakness. It's clear that Mike's a big US dollar bear, and I think based on the comments and the conversations we've had from this room so are an awful lot of people too. So if the dollar is going to fall, the gold price is going to go up and the platinum price is going to go up as well. That combined with strong demand and limited supply really summarises the investment story for platinum.

Onto the Silver session, which was Chaired by Michael DiRienzo, Executive Director of the Silver Institute. We heard first from Jessica Cross on Prospects for Silver Supply and Demand. She's CEO of the VM Group. I must admit I don't pay enough attention to silver. It's a market that I've looked at supply and demand drivers in the past, I've looked at some of the well-known

weaknesses, which were alluded to in the presentation, and I concluded that the only thing that seems to move silver is what goes on in Comex. It is interesting though, if you look at the new silver applications that were highlighted in the presentation. We're looking at potentially an extra 350 million ounces of new application for silver going forward. Compared to a market of 700 million ounces, this really will change the silver market going forward, if even half of these applications come true. So the future according to Jessica will be a much healthier supply and demand balance than in the past. Robust industrial off take and then of course the re-emergence of silver as an asset class in the minds of the investors and expecting the gold silver ratio price to narrow, and that the price rises that we have seen to be sustainable.

On London's Role in the Silver Market, James Steel who is Precious Metals Analyst at HSBC, managed to undermine a lot of the speech Philip Clewes-Garner was going to give in the final session and for that we can say "Thank you, James". It is difficult to summarise the presentation and, for the benefit of the people who are trying to wrap this up, it really helps if you have pictures to steal. We didn't have any pictures so I tried to grab some bullet points on the back of this. Why London? Well, it goes back to the decline of the Spanish empire, which saw London seize the silver market, and London has never let go, despite a number of occasions and predictions that the US would take over. I think it comes down to a lot of the strength of the London bullion market and the associated facilities around that; the fact that the clearing, the vaulting, the personnel, the legal and financial services, mining finance, Good Delivery, policing and networking; the fact that London does exist as the centre of the silver market does show the strength of the London bullion market and something that you all in this room should be proud of.

On Mining in Peru, we had Roque Benavides, CEO of Buenaventura. For any

South Africans in the audience, I would like to use the left-hand graph of what should happen during a commodity boom. The value of your commodity export should go up a lot.

Mining in Peru has done very well, it's in an excellent competitive position. You can see why we chose Buenaventura and Peru as a theme for the silver session. Number one. And number one in some other metals and certainly important in gold and some other base metals too. And very difficult again to go through all of the factors that Roque made about Peru, but as I was listening to it, I was trying to summarise what I saw as the positives from that presentation. We clearly have a bountiful geological setting. Investment grade sovereign rating equal to that of Brazil. I didn't know that one, and I was surprised and pleased to hear that. A solid legal system, a steady tax regime, a favourable investor climate – all the sorts of things that the UK would benefit from at the moment. Mining is a cornerstone of the economy in Peru. It's taken seriously. They are environmentally sensitive and they are looking at a sustainable focus for mining.

Session 6: The Future of the London Precious Metals Market, Chaired by Stephen Branton-Speak from Goldman Sachs, Head of Metals Trading and Partner. It was a presidential style debate. The panel: Phil Clewes-Garner, HSBC and also LPPM; Raymond Key of Deutsche Bank; and Neil Clift of JPMorgan Chase.

I'm not going to try and run through all of the summaries for the questions. I thought in terms of the opening statements, the things that I picked out are Stephen described the LBMA as "highly opinionated industry that dislikes change". Phil Clewes-Garner spoke at length about the past, present and future of the London Precious Metals Market from perhaps a relatively narrow focus; Neil Clift spoke about how physical and allocated was very much the centre of many of the conversations that he was taking place; also the zero yield for

commodities; how credit, counterparty and concentration were an issue for the LBMA and that new exchanges could potentially be a threat to the London bullion market via fragmentation. He also spoke about a return to hedging, which surprised me at first, but I thought the description of it and the concept of investors' sovereign wealth funds, etc. as surrogate producers owning gold and looking to take advantage of both the forward curve but also the forward vol curve was a very interesting one. And then Ray Key coming back to this theme, it's a time of change in the bullion market, it presents both threat and opportunities, and some of those threats and opportunities from the ETFs from the regulatory side. There are good reasons why we should be positive about the London bullion market and the LBMA is one of them with the Delivery List, which is a very common theme that came out of these conversations, the vaulting and the clearing, etc.

Market makers do need to look at themselves though, London has a role and needs to maintain this role going forward.

I'd summarise that the debate and themes coming out of this is really coming back to this idea of change and challenge. There seems to be a consensus certainly among the delegates in the room that the London bullion market needs to change the way that it does things, and I was interested to see that 60% of the voters think that a big bang approach towards something different, and we didn't really qualify what something different was, but encompassing the activities of the fixing members, of data provision, potentially a move towards something connected to or that might look like the London Metals Exchange. So I think it's clear that the Executives and the Management Committee of the LBMA will be facing further debate about the future of the LBMA going forward.

That's the end of this particular presentation. I'm going to move on now to the questions.

Three questions that I asked last year, and I'm going to ask two of them this year and a similar one. The first one is:

At the time of the next LBMA, which takes place at the end of September 2010, will the US dollar be stronger or weaker?

Almost 60%/40% again. It looks like the same people who were in Kyoto have turned up in Edinburgh. Well, the 62% of you that did vote for a weaker dollar last year were correct. I was looking this morning from my colleagues and I think the number's both about 5% weaker both against the dollar basket and in terms of euro/dollar being higher.

At the time of the next LBMA Conference, will G7 inflation be higher or lower?

Again, congratulations to the average delegate from Kyoto last year because, indeed, we have had much lower inflation, now that we did 12-13 months ago and I think it's a broad consensus amongst economies that we will see inflation moving higher, so two things that may well support the gold price.

I'm not going to ask you this, it was one of the questions from last year. At the time of the next LBMA Conference, will the financial crisis be worse, the same or better. I think it's fairly clear to say that from the depths of despair that we faced following the collapse of Lehmann brothers, things have indeed improved.

A new question: At the time of the next LBMA Conference will global economic growth be stronger, about the same or weaker?

Interesting. So we are looking at certainly no V-shaped recovery priced in here. The majority of people are expecting global growth to be about the same, with slightly more people expecting stronger than weaker growth.

Moving on, this is a question that Stewart asked earlier and we're going to ask it again.

At the time of the next LBMA Conference what will the US dollar gold price be? We have restricted the upper end of the range to \$2,000 an ounce. So between \$400 and \$2,000 an ounce, please vote now.

The average \$1181.3, so let's see how that compares to yesterday. And again, we have proved for the second year in succession that there is absolutely no purpose in attending any of the lectures, speaking to any of your clients or, indeed, doing anything here at all. What I could say is that last year, we voted and said that the gold price would be \$965 per ounce, and I think certainly I personally at the time thought that that was quite a positive or bullish outlook. It's turned out to be what – \$1,060 now? So if that's anything to go by, you should be looking to buy \$1,250 calls for next time, because we were too pessimistic about gold last year.

Moving on to silver: Vote in the range of \$6-\$30.

Answer: \$18.10 per ounce. And last year, we said \$13.80, so again somewhat too pessimistic.

Moving on to platinum: Between \$2,500 and \$4,000 for next year, please vote now.

Answer: reasonably positive – \$1,629, and last year we said \$1,488, so we were more positive about platinum than we actually got.

Finally, onto palladium: between \$100 and \$1,000.

Answer: \$476 per ounce, and last year we said \$390, so we were more bullish than we should have been about the PGMs and less bullish than we should have been about gold and silver.

Thank you.