Goldletter INTERNATIONAL

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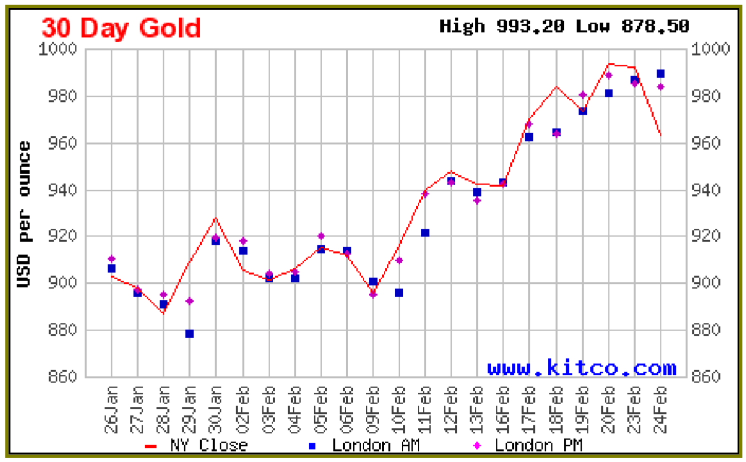
IN THIS ISSUE

Will gold's "perfect storm" above $ 1,000 be halted again ?



Particularly driven by strong physical growth in gold ETFs, small gold bars and official coins, as well as non-physical speculative gold positions on the Comex, the gold price has continued its strong recovery to a level of $ 1,000 from a 2008-low of $ 692.50 on October 24, after a 25% decline from a level of $ 918 two weeks earlier.

The US Mint sold 92,000 ounces of its popular American eagle coin in January, almost four times what it sold a year ago and more than it shipped during the whole of the first half of 2007.

Inflows into gold-backed exchange traded funds (ETFs) surged in January, pushing their bullion holdings to an all-time high of 1,317 tonnes. Last month's flows of 105 tonnes were above September's previous record of 104 tonnes, and aborted about half the world's gold mine output for January.

While the strong performance of gold is contributed to the worldwide macro-economic and financial market turmoil, with global equity markets under strain, gold was not acting as a safe haven from the moment that the financial crisis started with the collapse of Lehman Brothers on September 15, 2008. Also striking is that the dollar didn't suffer and remained stable against the euro as its major competitive currency and actually showed a relatively strong performance since year-end 2008, when also the gold price continued its increase.

What this says is that gold doesn't automatically run its own course in periods of turbulence in the global financial markets. Not doing so in 2008 and 2009 to date, this also did not happen earlier in 2005 when the euro dropped from $ 1.36 to $ 1.18 against the dollar as a result of a widening interest gap.
The current level of the euro against the dollar of $ 1.27 compares with the level at the end of 2003, more than five years ago.

Related to the currency basket of the US dollar index (57.6% in euro's, 13.6% in Japanese yen, 11.9% in British pounds, 9.1% in Canadian dollars, 4.2% in Swedish crones and 3.6% in Swiss francs), since this index went up in 1995 from a long term resistance level of 80 to a high of 120 in 2001, at the time the euro was introduced, it dropped to a low of 72 in March 2008, but has been followed by a strong upward correction to $ 87 well above the resistance level.

US Dollar Index from 1986, and 200 day exponential average in red, 200 day rate of change (ROC) green

Actually it is naïve to believe that since gold was officially demonetized in April 1971, followed by the IMF altering articles in 1978 to suspend gold as an ultimate means of settlement, it still has an active monetary function. This is underpinned by the fact that while central banks of the western world under the CBGA have been selling gold within the last ten years, the Asian central banks, particularly Japan (already in the late 1980s), China and India are fully focusing on their economic priorities rather than to buy gold as a monetary hedge.
This strategy enhanced the shift in economic wealth from the United States, Japan and the European Union to Asia, led by China.

While until the early 1970s gold still represented more than two thirds of total monetary reserve and still could be seen as a potential monetary instrument to stabilize volatility in the currency markets, today it only represents one-third of total monetary reserves. At the same time, the dollar, as the world's undisputed key currency, is actually showing strength against the euro, its major competitive currency, lately.

Western Central Bank gold holdings compared to non-gold monetary reserves

	1950	1965	December 2008	
11 Central Bank gold holdings (in tonnes)	26,300	31,900	20,183	*
Value of gold reserves (US$ billion)	29.5	33.4	561	**
Value of non-gold reserves (US$ billion)	5.6	12.4	903	
Gold in % of total reserves	84%	73%	38%	

*** 15 signatories to the second Central Bank Gold Agreement (September 2004 - 2009) including European Central Bank + United States**
**** based on gold price of US$ 865 per ounce (year-end 2008)**

source: IMF

Already two years ago, I warned that even under the deteriorating financial and economic circumstances in the United States, the **European Union** would become more vulnerable, particularly since having increased its membership to 26 countries, including underdeveloped countries in Central and Eastern Europe.

Not only these countries are now facing severe economic and credit problems with their currencies devaluating, but also Eurozone countries, with protectionism surfacing to deal with local social unrest.

With the membership of the European Union representing a wide range of different historical cultures all having their own characteristics, the European Union and even so the Eurozone-countries are not capable to fully compete with the United States, which have a straight federal structure. Also, the Americans are a more focused and capable to deal with a crisis, supported by more decisive leadership to be expected from President Obama than from European political leaders.

As already indicated, this view appears to be reflected in the strength of the dollar against the euro and the dollar actually acting as a safe haven being simply justified by the dollar dominating worldwide currency movements in the light of current rescue packages to restore confidence in the economic world order, as well as the dollar dominating global commodity trading, direct foreign investments and international mergers and acquisitions.

Consequently, while by far most professional market watchers are still pounding at the vulnerability of the dollar and expect a further fall to justify their bullish view on gold, they are not able to answer the question against what currency.

Not only the correlation to the dollar but also inflation has to be questioned as one of the major key elements to influence the course of the gold price.
While the gold price started to recur from a low of $ 256 in April 2001 and more than tripled in the following five years, inflation was under control during this period at a stable level around 2 ½% until the energy and food crisis fed inflation fears from the fourth quarter of 2007. This had a positive impact on the gold price, which topped at a historic record high at $ 1,030.80 on March 17, 2008.

However, while energy and base metal prices came under strong pressure since then, losing an average of more than 60% of their value, gold started to distinct itself in a positive way by running its own course to a $ 1,000 level again.

Overview metal / energy prices (in US$)

	Current	**Year end 2008**	**June 30 2008**	**Year end 2007**	**Change %** (year-to-year)	**Year end 2006**
Copper	3,190	2,902	8,775	6,676	-56	6,290
Nickel	9,460	10,810	21,675	25,805	-58	34,205
Lead	991	949	1,735	2,532	-62	1,775
Zinc	1,063	1,121	1,875	1,875	-51	4,331
Oil (Brent)	41.60	41.76	139.30	93.89	-56	60.14
Uranium Oxide (U3O8)	45.00	53.00	59.00	90.00	-41	72.00
Gold	984.15	865.00	932.75	836.50	+3.4	635.70

Since then, the mortgage crisis, with its roots in the United States, followed by an interim financial crisis culminating in a credit crunch and spreading to Europe and other parts of the world, took its toll and within three months inflation fear had turned into deflation fear.

This raises the question to what extent gold has become a real safe haven for investors right now. The answer looks easy if one only follows bullish news on net retail investments, with specifically golden coins, small gold bars, and Exchange Traded Funds booming these days. This doesn't only feed physical demand, however, but speculative demand through the Comex gold futures market which feeds volatility and a stronger price increase than fundamentally justified.
GFMS in their Gold Survey 2008-Update 2 indicates that total volume in gold futures grew markedly in 2008 to reach 38.4 million contracts equivalent to 119,355 tonnes. At year-end, open interest on the exchange stood at 306,651 contracts, equivalent to a nominal 954 tonnes or 43% lower compared to year-end 2007.

This actually reflects the liquidation of speculative investments as a result of the financial crisis, and the gold price showing a strong correction during the second half of 2008, not benefitting as a safe haven as by far most gold market watchers were expecting.

Particularly since the last few weeks the number of outstanding Comex future contracts has increased substantially again, driven by the positive news on strongly growing retail investment. However, it should be borne in mind that retail investments represents 21% of total demand only, compared to jewellery representing 58% of total demand.
In contrast to retail investment, jewellery demand became under strong pressure in the first half of 2008, but was followed by a strong recovery in the second half of the year.

In the November-2008 issue of **Goldletter International**, I noted that the rebound of physical demand in the third quarter of 2008 justified a recovery of the gold price.
This view was particularly related to jewellery demand with a share of two-thirds being the key element in total demand in 2007.

Identifiable gold demand (in tonnes)

	2008 *	2007	2006	Second half 2008	First half 2008	Change
Jewellery consumption	**2,137.5**	**2,400.6**	**2,284.8**	**1,190.5**	**947.0**	**243.5**
Industrial & Dental	**430.4**	**461.2**	**459.4**	**207.1**	**223.3**	**-16.2**
Identifiable investments	**1,090.7**	**663.7**	**664.7**	**747.6**	**293.1**	**454.5**
of which:						
Net retail Investments :	***769.3***	***410.4***	***404.5***	***552.9***	***216.4***	***336.5***
►Bar hoarding	378.3	236.3	235.2	243.3	135.0	108.2
►Official coins	197.7	137.0	128.9	131.6	66.1	65.5
►Medals/Imitation coins	60.5	72.6	59.4	38.4	22.1	16.3
►Other Identified retail Investments	132.8	-35.5	-19.0	139.6	-6.8	146.4
ETFs and similar products	***321.4***	***253.3***	***260.2***	***244.7***	***76.7***	***168.0***
Total Identifiable Demand	**3,658.6**	**3,525.5**	**3,408.9**	**2,195.1**	**1,463.4**	**731.7**
in % of total Identifiable Demand	**2008 ***	**2007**	**2006**			
Jewellery consumption	58	68	67			
Industrial & Dental	12	13	13			
Net Retail Investments	21	12	12			
ETFs and similar products	9	7	8			
	100	100	100			

** provisional*

source: GFMS

As such, jewellery demand is also the key element in the price sensitivity of gold, with the booming gold price in the second half of 2007 and the first quarter of 2008 having severely affected demand, and in conjunction also net retail investment demand. According to data published by GFMS, this resulted in a 23% decline of gold demand in the first half of 2008 to 1,125 tonnes from 1,466 tonnes, compared with the corresponding period of 2007.

Most notable was the fall in total consumer demand (jewellery and net retail investment) in India, being the main driver in demand in the last few years, from 498 tonnes for the first six months of 2007 to 263.5 tonnes in the first half of 2008, a decline of 47%.
This clearly demonstrated uncommon high price sensitivity at gold prices above $ 800, enhanced by India's economic growth dampening.

With market sentiments already exaggerating, the strongly increased volatility determining the course of the gold price in 2007 and 2008 made it anybody's guess where physical demand and supply would balance, also hindered by a strong increase in non-physical speculative demand, particularly in the futures market.

While having expected the gold price to recover from a level of $ 700-750, the big question right now is whether the even stronger rebound of physical gold demand in the fourth quarter of 2008 and recent signs of record sales in coins and ETFs are fundamentally justifying the return to the price level of $ 1,000 again.

Demand in major consumer countries (in tonnes)

	2008 *	2007	2006	2008 *	2007	2006	2008 *	2007	2006
	jewellery			net retail			total		
India	469.7	551.7	526.2	190.5	217.5	195.7	660.2	769.2	721.9
China	326.7	302.2	244.7	68.9	25.6	14.9	395.6	327.8	259.6
Middle-East	311.4	325.5	296.1	28.2	20.1	19.2	339.6	345.6	315.3
USA	179.1	257.9	306.1	77.8	16.6	32.4	256.9	274.5	338.5
Turkey	153.2	188.1	165.3	57.1	61.1	59.9	210.3	249.3	225.2
Vietnam	19.6	21.4	22.1	96.2	56.1	69.5	115.8	77.5	91.6
Japan	28.2	30.6	32.8	-39.4	-56.3	-45.7	-11.2	-25.7	-12.9
Other	649.6	732.2	689.7	290.0	279.8	53.0	939.6	792.7	742.7
World total	2,137.5	2,400.6	2,283.0	769.3	410.3	398.9	2,906.8	2,810.9	2,681.9

***** *provisional*

source: GFMS

With jewellery demand declining in the first quarter of 2009 as a reaction to the gold price having increased by more than 30% since a price level of $ 750 early-December 2008, and the supply and old scrap (recycled gold) increasing, the negative impact on the balance of demand and supply could be compensated for by increasing demand for ETFs and official coins.

But because of jewellery demand dominating physical demand, the gold price might show a 5-10% correction to a price level of $ 900-950 in the short term.

While the public opinion on the direct correlation of the course of the gold price to the dollar and inflation is dated being based on hard facts, the same applies to for primary gold production on the supply side.

In the last few years there has been some pressure on production but according to data provided by GFMS this has been limited to just 13 tonnes in 2007 and 16 tonnes in 2008, partly due to temporary production set-backs, particularly at Freeport-McMoran's Grasberg operations in Indonesia, owing the world's largest copper and gold mine in terms of reserves.

Of significant influence to global gold production is the decline in South Africa, having been passed by China as the world's prime gold producer in 2007, and a further decline in gold output in 2008 estimated at approximately 38 tonnes to 270 tonnes, and China now ranked number three, being also passed by the United States. Ten years ago, South Africa's gold production still represented almost 500 tonnes or 19% of world gold output compared with 10% to date.

In contrast, China's gold production is estimated to have increased by approximately 8 tonnes to 288 tonnes in 2008.

Consequently, it is not a decline in gold production but the shift from traditional to emerging countries that dictates actual primary gold supply. This geographical move has also a direct impact on the strategy of major gold producers diversifying from their home markets to emerging gold regions, thereby also lowering their production costs, which in general are higher in traditional gold producing countries which are showing strongly increasing costs in the last few years.

Shift in world gold production from traditional to emerging countries (in tonnes)

	Traditional countries					**Emerging countries**			
	2007	**in %**	**1998**	**in %**		**2007**	**in %**	**1998**	**in %**
South Africa	269.9	10.9	496.9	19.3	China	280.5	11.3	165.2	6.4
Australia	246.3	9.9	310.1	12.0	Peru	169.6	6.9	92.1	3.6
United States	239.5	9.7	366.0	14.2	Russia	169.2	6.8	127.3	4.9
Canada	101.2	4.1	164.3	6.4	Indonesia	146.7	5.9	139.1	5.4
					Ghana/Mali	127.4	5.1	96.2	3.7
	856.9	34.6	1337.3	52.0		893.4	36.1	619.9	24.1
World production	2475.8	100.0	2574.0	100.0		2475.8	100.0	2574.0	100.0

Geographic gold production (tonnes)

	2007	**in %**	**1998**	**in %**
Asia	597.1	24.1	444.9	17.3
Africa	510.8	20.6	666.4	25.9
Latin America	472.2	19.1	337.6	13.1
North America	340.7	13.8	530.3	20.6
CIS (incl. Russia)	283.0	11.4	243.9	9.5
Oceania (Australia)	255.2	10.3	323.6	12.6
Europe	16.8	0.7	27.3	1.1
World total	2475.8	100.0	2574.0	100.0

Based on the estimates of the world's major gold producers, it is expected that the relatively small decline in gold output in the last few years will be halted in 2009.
Actually, particularly higher estimated gold production for Gold Fields, Newmont, Freeport-McMoran, Kinross, Zijin, Buenaventura and Lihir will contribute to Goldletter International's estimate of an production increase of an aggregate of approximately 1 million ounces or 31 tonnes to approximately 37 million ounces (1,150 tonnes), representing 46% of total world gold production.

It is one of the myths to think that future gold supply will not match demand. Apart from total gold demand over a 10-year period not having increased or even stabilized, but showing a decline of approximately 9% or 368 tonnes to 3,832 tonnes in 2008, this compares to a decline of 7% or 196 tonnes for primary supply (mine production),.
In the meantime, gold reserves have increased substantially and secure a mine life at an average of more than 20 years.

Annual gold output and reserves of the world's major gold producers

(million ounces)

Country	Company	Production 2009 E	Production 2008	Production 2007	Reserves Year end 2008	Mine life Reserves (in years)
South-Africa	*AngloGold Ashanti*	4.9 - 5.0	4.98	5.48	73.1	14.7
	Gold Fields *	3.9 - 4.0	3.64	3.97	83.0	22.8
	Harmony *	1.6 - 1.7	1.55	1.75	50.5	32.6
US	*Newmont Mining*	5.2 - 5.5	5.18	5.32	85.0	16.4
	Freeport-McMoran 1)	2.1 - 2.2	1.31	2.30	36.2	
Canada	*BarrickGold*	7.2 - 7.6	7.66	8.06	138.5	28.1
	Goldcorp	2.3	2.32	2.29	43.4	20.0
	Kinross Gold	2.4 - 2.5	1.84	1.59	45.6	24.8
Australia	*Newcrest Mining* *	1.6 - 1.7	1.78	1.78	40.0	22.5
China	*Zijin Mining*	2.0	1.80 E	1.68	19.8**	11.0**
Peru	*Minas Buenaventura 2)*	1.3 - 1.4	1.20 E	1.09	13.3	11.8
Russia	*Polyus Gold*	1.2 - 1.3	1.22	1.21	74.1**	60.7**
Papua New Guinea	*Lihir Gold*	1.1 - 1.2	0.88	0.70	21.8	24.7

** per 30/6/08*
*** based on reserves and resources*

1) leading market positions in copper and molybdenum
2) reserves and resources at year-end 2007

source: Goldletter International

Appendix: 1

Measuring the new gold bull market

	London trading in US$	change in %	
December 1, 2003	400.00		
December 2, 2005	500.00	+25	(2 years)
April 14, 2006	600.00	+20	(3 ½ months)
May 10, 2006	700.00	+17	(- 1 month)
May 12, 2006	725.25	+20	(- 1 month)
October 6, 2006	560.75	-23	(5 months)
Year-end 2006	635.75	+14	(3 months)
April 20, 2007	691.40	+9	(4 months)
June 27, 2007	642.10	-7	(2 months)
September 18, 2007	714.75	+12	(2 ½ months)
Year end 2007	836.50	+17	(3 ½ months)
March 17, 2008 (H)	**1,030.80**	**+24**	**(2 ½ months)**
May 1, 2008	853.00	-16	(1 ½ months)
July 16, 2008	977.50	+15	(2 ½ months)
September 11, 2008	740.75	-24	(2 months)
October 10, 2008	918.00	+24	(1 month)
October 24, 2008 (L)	692.50	-25	(2 weeks)
Year end 2008	865.00	+25	(2 months)
February 20, 2009 (H)	**989.00**	+14	(-2 months)

(Interim high New York $ 1,006.30)

Appendix: 2

GOLD DOESN'T RUN ITS OWN COURSE					
		Gold ($)	€/$	Oil $/barrel	Gold/Oil ratio
Year-end 2001		276.50	0.88	19.80	14.0
Year-end 2002		342.75	1.05	28.13	12.2
Year-end 2003		417.25	1.26	30.17	13.8
Year-end 2004		438.00	1.36	40.25	10.0
Year-end 2005		513.00	1.18	58.87	8.7
May 12, 2006	1)	725.75	1.29	68.05	10.7
October 6, 2006	2)	560.75	1.27	58.86	9.5
Year-end 2006		635.70	1.32	60.14	10.6
January 16, 2007	3)	627.05	1.29	51.31	12.3
June 30, 2007		650.50	1.35	72.82	8.9
September 18, 2007	4)	714.75	1.39	77.58	9.2
Year-end 2007		836.50	1.47	93.89	8.9
January 15, 2007	5)	921.25	1.47	91.18	10.1
March 17, 2008 (High)		1,030.80	1.58	102.82	10.0
April 30, 2008	6)	853.00	1.55	109.78	7.8
June 30, 2008		930.25	1.58	139.30	6.7
July 9, 2008	7)	927.50	1.57	141.70	6.5
July 16, 2008		977.50	1.58	134.54	7.3
October 8, 2008	8)	903.50	1.37	83.18	10.9
October 24, 2008 (Low)		692.50	1.26	60.41	11.5
October 29, 2008	9)	764.00	1.30	64.93	11.6
November 6, 2008	10)	754.50	1.28	57.20	13.2
November 24, 2008		822.50	1.28	52.19	15.8
December 4, 2008	11)	773.25	1.28	41.27	18.7
December 5, 2008	12)	749.00	1.27	39.23	19.1
December 16, 2008	13)	838.25	1.37	44.11	19.0
Year-end 2008		865.00	1.40	41.76	20.7
January 15, 2009	14)	810.00	1.31	44.50	18.2
Current		984.25	1.28	43.60	22.6

1) 2006 high of gold price
2) 2006 second half low of gold price after correction oil price
3) interim low of oil price 2006/07
4) Fed funds rate lowered for the first time (0.50% to 4.75%)
5) power outages South Africa
6) Fed funds rate lowered (0.25% to 2.00%)
7) ECB rate lowered (0.25% to 4.25%)
8) Fed funds and ECB rates lowered 0.50% to 1.50% and 3.75%, respectively
9) Fed funds rate lowered (0.50% to 1.00%)
10) ECB rate lowered (0.50% to 3.25%)
11) ECB rate lowered (0.75% to 2.50%)
12) 2008 low of oil price
13) Fed funds rate lowered (0.75-1.00% to 0.00-0.25%)
14) ECB rate lowered 0.50% to 2.00%

Appendix: 3

World Gold Supply and Demand (in tonnes)

SUPPLY	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Mine production	2,407	2,473	2,486	2,551	2,493	2,620	2,612	2,645	2,620	2,603
Official sector sales	279	485	370	674	469	617	547	520	479	477
Old gold scrap	1,146	977	1,129	886	849	944	841	713	616	615
Net producer hedging	-	-	-	-	-	-	-	-	-	506
Implied net disinvestment	-	-	-	-	34	-	-	16	303	-
Total supply	**3,832**	**3,935**	**3,985**	**4,111**	**3,845**	**4,181**	**4,000**	**3,894**	**4,018**	**4,201**
DEMAND										
Fabrication:										
Jewellery	2,138	2,401	2,285	2,707	2,614	2,482	2,660	3,008	3,204	3,139
Industrial & Dental	430	461	459	575	552	213	481	474	557	592
Total Fabrication	**2,568**	**2,862**	**2,744**	**3,282**	**3,166**	**2,695**	**3,141**	**3,482**	**3,761**	**3,731**
Bar hoarding	378	236	235	263	257	180	264	261	242	269
Net producer de-hedging	363	447	410	86	422	255	412	151	15	-
Implied net investment	523	390	596	480	-	751	184	-	-	200
Total demand	**3,832**	**3,935**	**3,985**	**4,111**	**3,845**	**3,881**	**4,001**	**3,894**	**4,018**	**4,200**
Gold price (London PM, US$/oz	*871.96*	*695.39*	*603.77*	*444.45*	*409.17*	*363.32*	*309.68*	*271.04*	*279.11*	*278.57*

source: GFMS

Appendix: 4

World official gold holdings and total monetary reserves

Western countries

(December 2008)

	Gold reserves tonnes	*Total reserves (bln $)*	*Gold as % total monetary reserves**
United States	**8,134**	**251**	**76**
Germany	**3,413**	**125**	**64**
France	**2,509**	**100**	**59**
Italy	**2,452**	**93**	**62**
Switzerland	**1,040**	**102**	**24**
Netherlands	**621**	**25**	**58**
Portugal	**383**	**10**	**86**
United Kingdom	**310**	**52**	**14**
Spain	**282**	**18**	**37**
Austria	**280**	**16**	**42**
Sub-total	**19.424**	**792**	
All countries	**26.354**		**10.00**
***World** (incl.institutes)*	**29.697**		
ECB	**534**	**63**	**20**
IMF	**3.217**		
BIS	**125**		

** based on gold price of $ 731 per troy ounce (end-October 2008)*

Source: IMF/World Gold Council/Goldletter International

Asia			
	Gold reserves tonnes	*Total reserves (bln $)*	*Gold as % total monetary reserves*
China	**600**	**1,750**	**0.8**
Japan	**765**	**946**	**1.9**
Korea	**14**	**329**	**0.1**
Singapore	**127**	**166**	**1.8**
Taiwan	**423**	**276**	**3.6**
India	**358**	**280**	**3.0**
Total	**2,287**	**3,747**	

Other countries			
	Gold reserves tonnes	*Monetary reserves (bln $)*	*Gold as % total monetary reserves*
Russia	**496**	**530**	**2.2**
Venezuela	**356**	**36**	**23.4**
Lebanon	**287**	**24**	**28.4**
Libya	**144**	**97**	**3.5**
Saudi Arabia	**143**	**29**	**11.4**
South Africa	**124**	**32**	**9.0**
Australia	**80**	**30**	**6.3**
Total	**1,630**	**778**	