

The Role of Gold in Global Markets

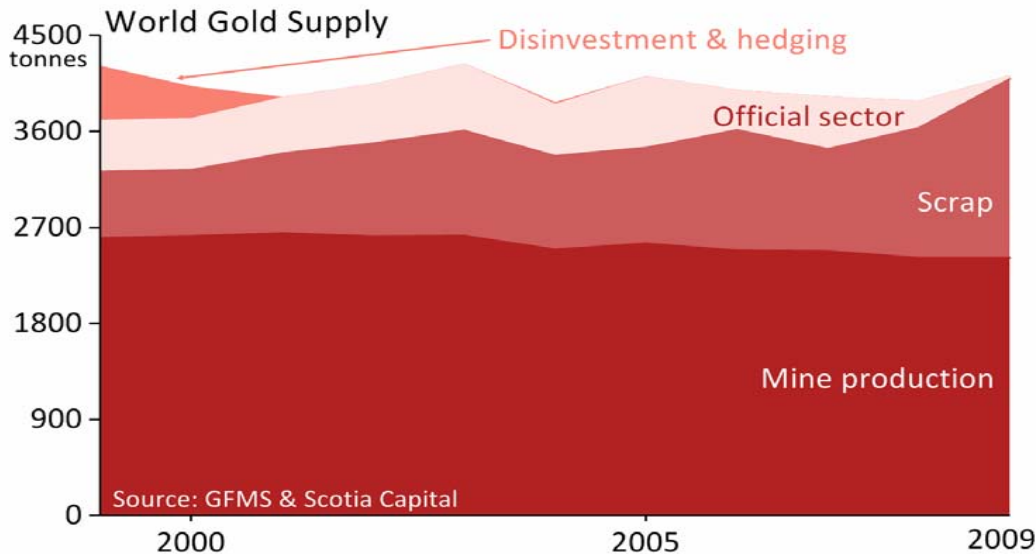
March 10, 2010

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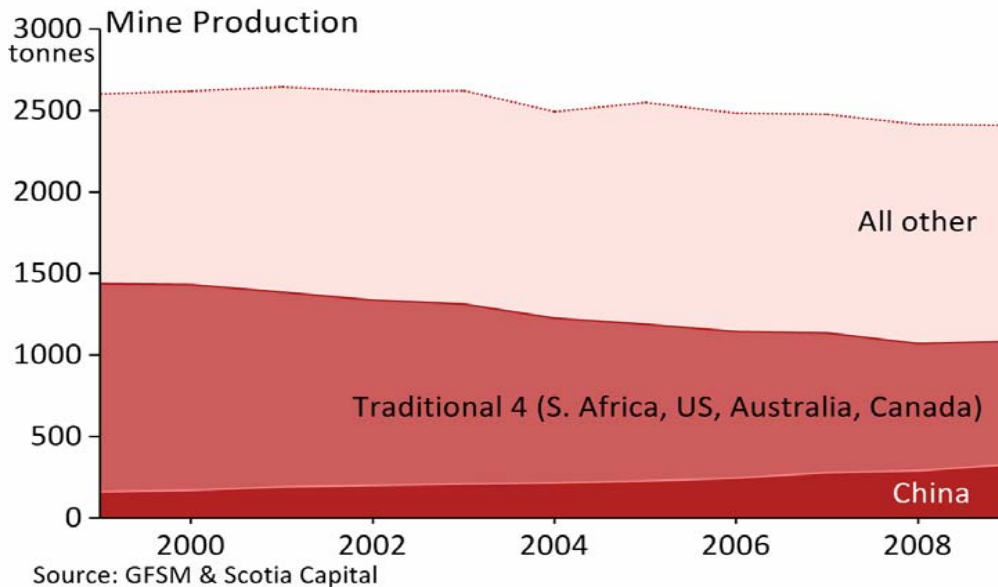
Global Head of Foreign Exchange & Precious Metals

World Gold Supply – Shifting Trends



Gold Supply in 2009

- Mine production accounted for 62% of total supply.
- Rising gold prices have seen supply from scrap increase.
- The official sector provided only 1% of total supply.

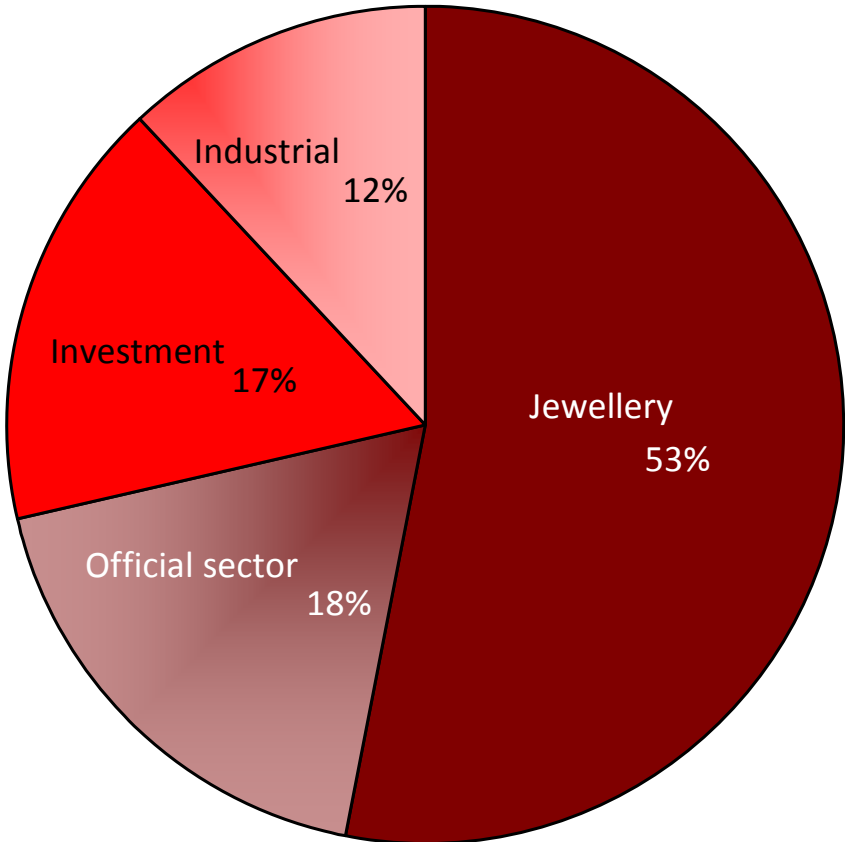


Mine Production

- Slowly declining over past 10 years.
- China is the largest mine producer, followed by Australia, South Africa, and the US.

Above Ground Gold Stocks Are Worth \$6.3tn

Above Ground Gold Stocks



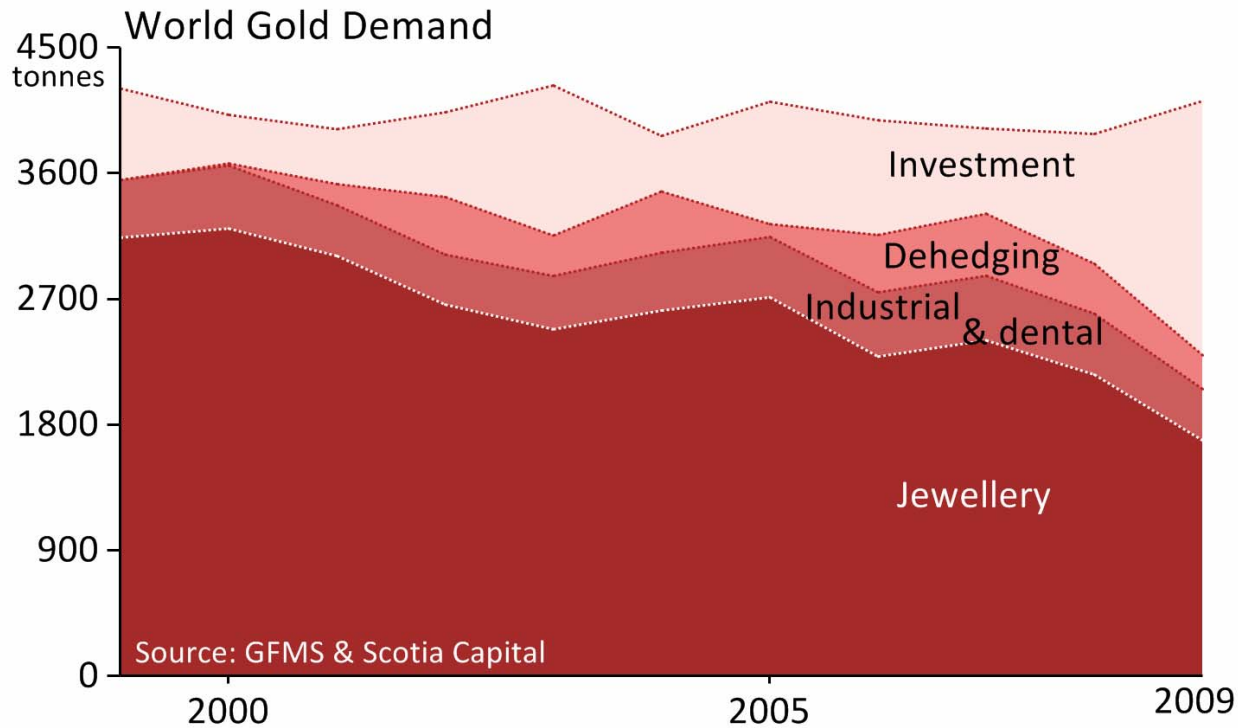
Source: WGC & Scotia Capital, as of 2008

Gold Stocks

- Total above ground stocks stood at 163,550 tonnes as of the end of 2008.
- This equates to \$6.3tn (with gold priced at \$1,100/oz).
- As of 2005, the major gold producers reported in-ground reserves at 22,000 tonnes*. This equates to 14% of above ground stocks.
- New finds have helped to keep reserves stable over the last number of years.

*WGC & Metal Economics Group

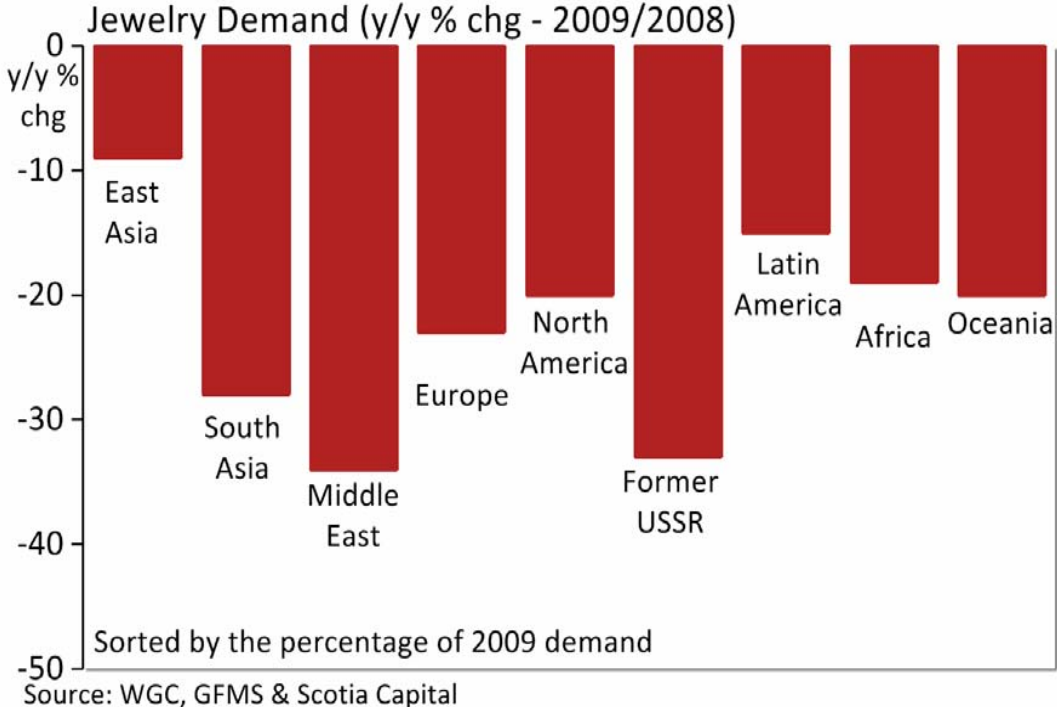
World Gold Demand – Shifting Trends



Gold Demand in 2009

- Jewelry demand fell significantly and accounted for 1,687 tonnes or 41% of total gold demand.
- Safe haven demand turned into momentum buying and supported a doubling in investment demand. Global investment accounted for 1,820 tonnes or 44% of total 2009 demand.
- De-hedging, led by Barrick Gold, accounted for 242 tonnes or 6% of total 2009 demand.

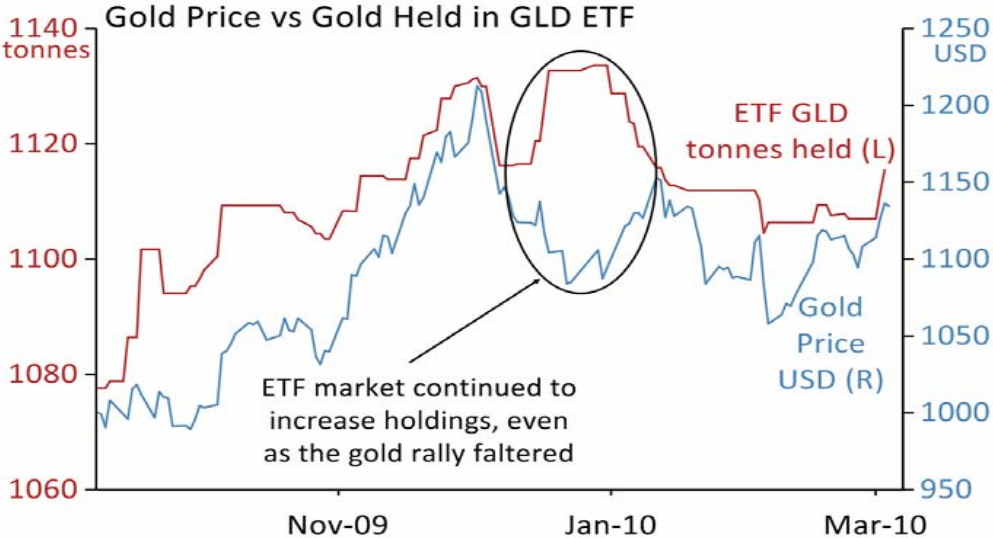
Retail Gold Demand – Geographic Breakdown



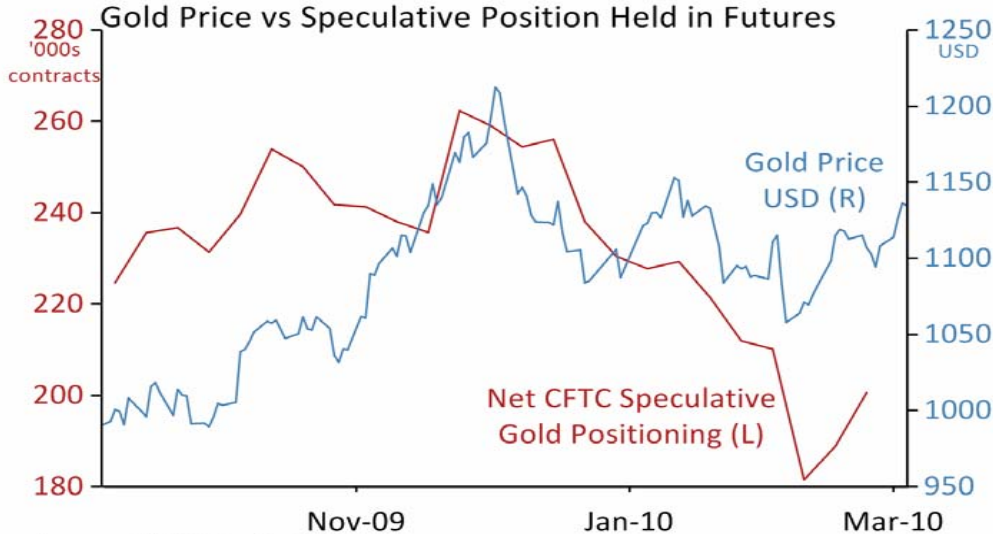
Jewelry Demand in 2009

- Jewelry demand fell to a 21-year low and dropped 23% year-over-year.
- East Asia (including China) was the largest jewelry buyer, followed by the South Asian Subcontinent (mainly India).
- The large drop in jewelry demand is partly attributable to the 24% increase in gold prices as well as the global economic slowdown.

Retail & Institutional Investor Demand for Gold



Source: Exchange Traded Gold (WGC) & Scotia Capital



Source: CFTC & Scotia Capital

The Importance of the ETF Market

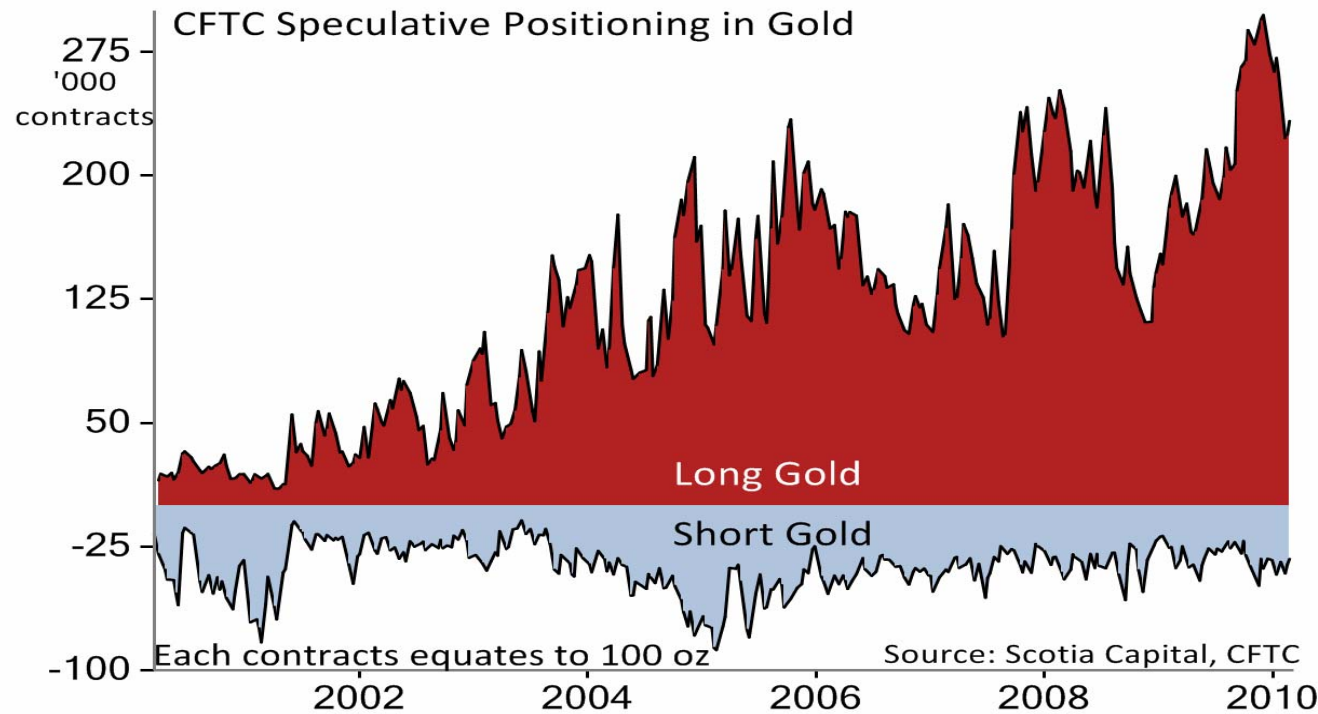
- There are 14 ETFs globally that are tied to gold prices.
- The largest gold ETF, GLD, held 1,115 tonnes (or \$39.5bn) of gold as of March 3rd 2010.
- GLD alone is the 6th largest holder of physical metal.
- Investors who use the futures market (bottom chart) versus the ETF market (top chart) react differently to changes in the gold price.

Major Reported Holders of GLD ETF

	Amount Held (\$mil)	Outstanding GLD shares
Paulson & Co	3,496,500	8.6%
BoA	715,617	1.8%
Blackrock	708,180	1.7%
Soros Fund	685,758	1.7%

Source: 13F filings as of December 2009

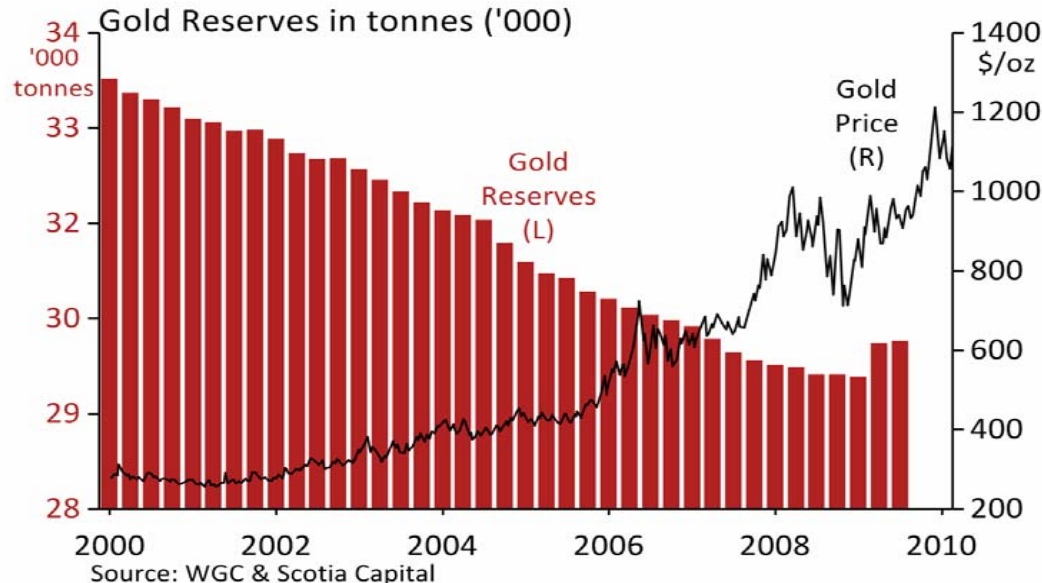
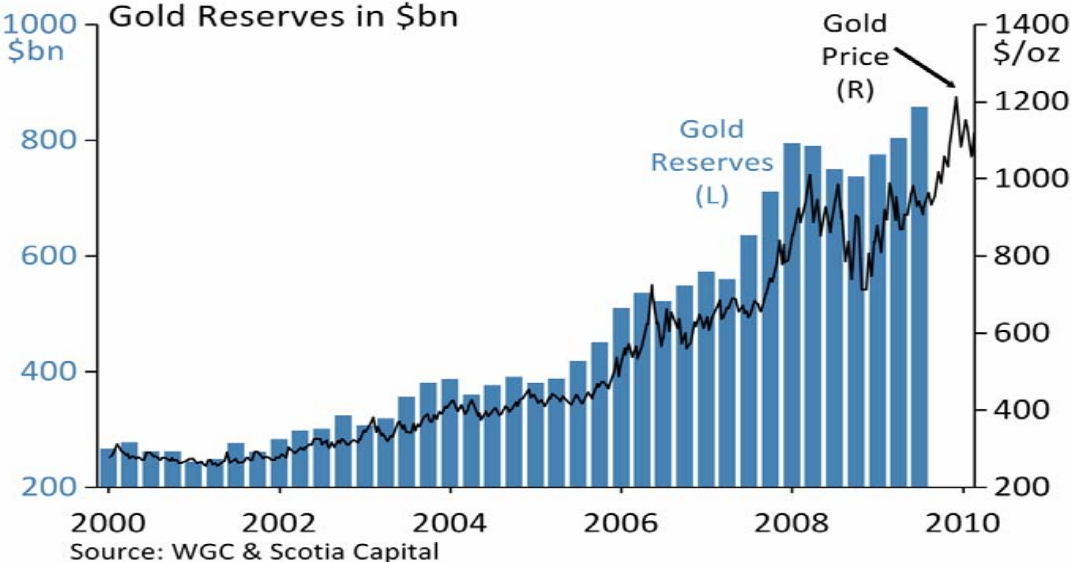
Speculative Positioning in Gold



Speculators in the Gold Market

- Speculators played an important part in the late 2009 gold rally.
- Over the last three years, there have been only subtle changes in the short gold position.
- As gold prices have come off their highs, traders have decreased their long exposure.

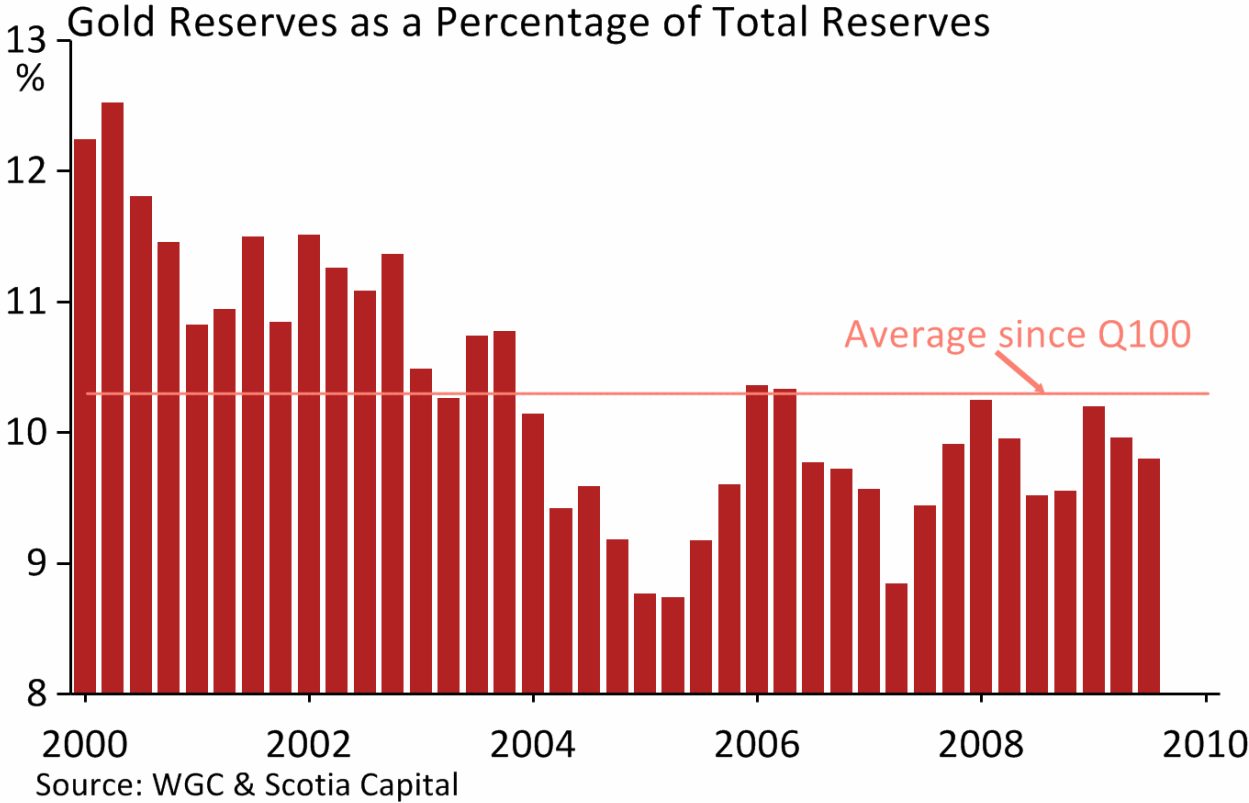
Gold Reserves in Dollars and Tonnes Tell Two Different Stories



Gold Reserves

- Gold reserves account for 18% of above ground stocks.
- Measured in US dollars, reserves have trended higher over the last 10yrs.
- Measured in tonnes, they were trending lower, until a sudden increase in Q209.
- Since 1999, Western European central banks have been major sellers. The CBGA (1) signatories sold 3,520 tonnes (+/- \$25bn) of gold between Q100 and Q309.
- India, China and Russia have recently been adding to gold reserves.

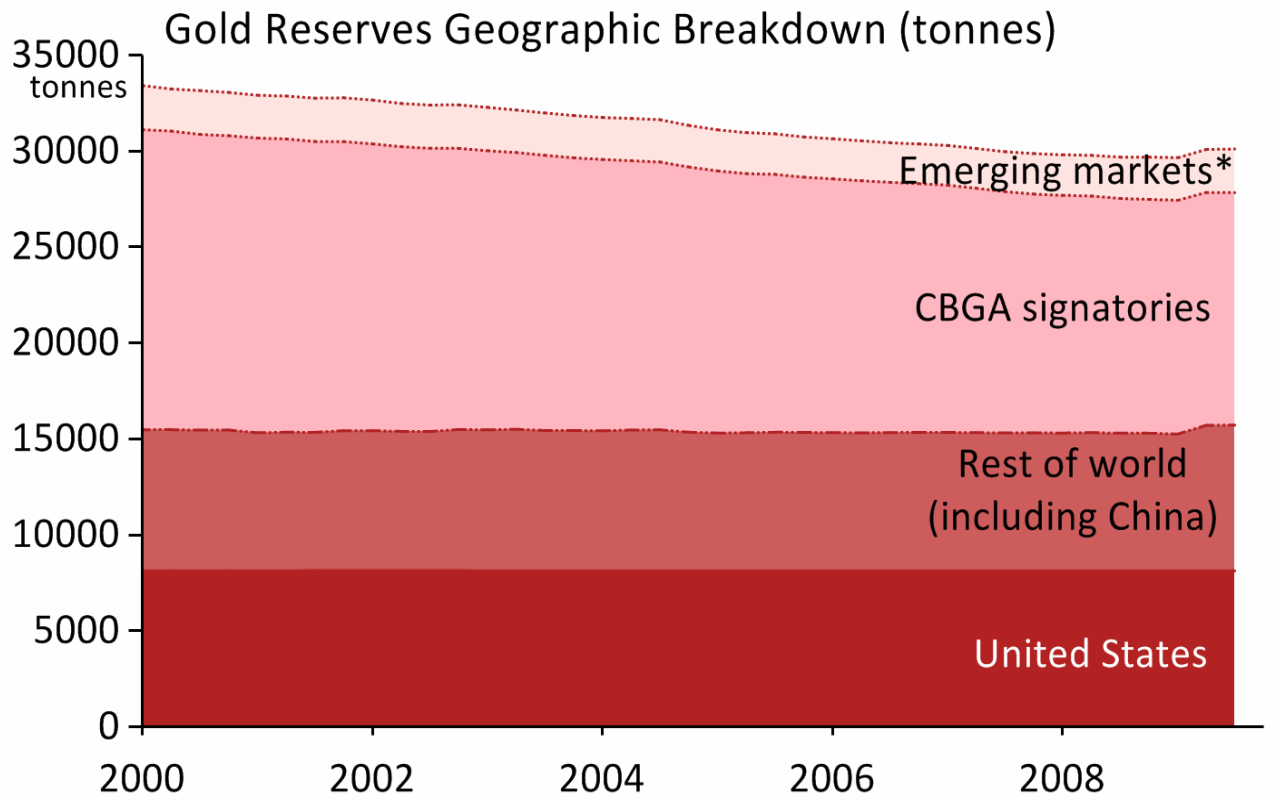
Gold as a Percentage of Total Reserves is Dropping



Gold as a Percentage of Total Reserves

- As total reserves have grown, the percentage held in gold has dropped.
- As of Q309, 9.8% of total reserves were held in gold; in Q100 gold accounted for 12.2%.

Geographic Breakdown of Gold Reserves



Source: WGC & Scotia Capital

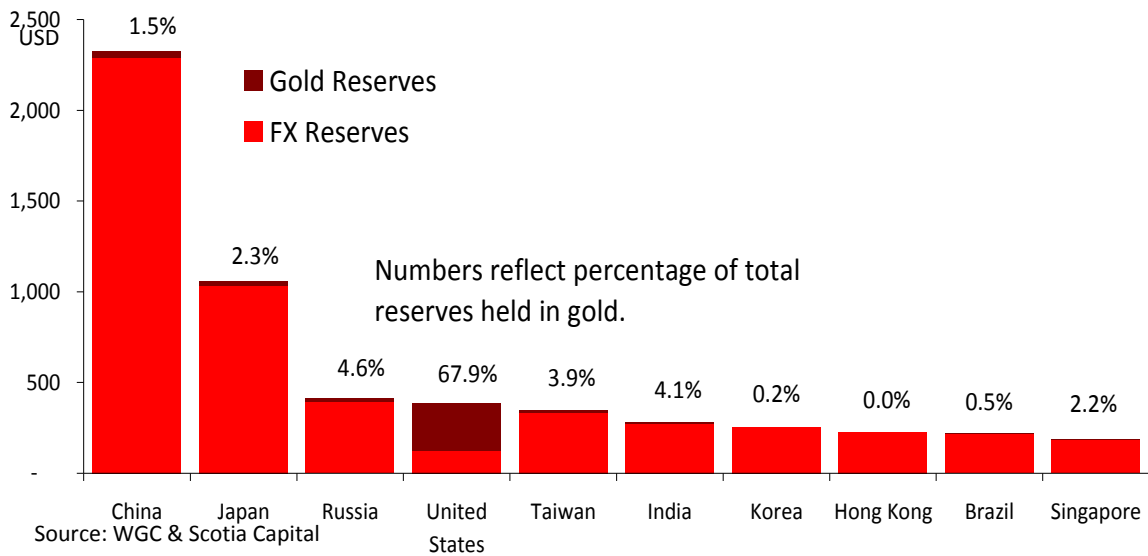
*EM as defined by MSCI, includes 28 countries

Geographic Breakdown of Gold Reserves

- The CBGA signatories are the largest holders of gold reserves (12,113 tonnes), however the US is the largest single holder (with 8,133 tonnes).
- Since 2000, Europe has been the largest seller of gold reserves; while Asia and Russia have been the largest buyers.

Global Gold and FX Reserves – Major Holders

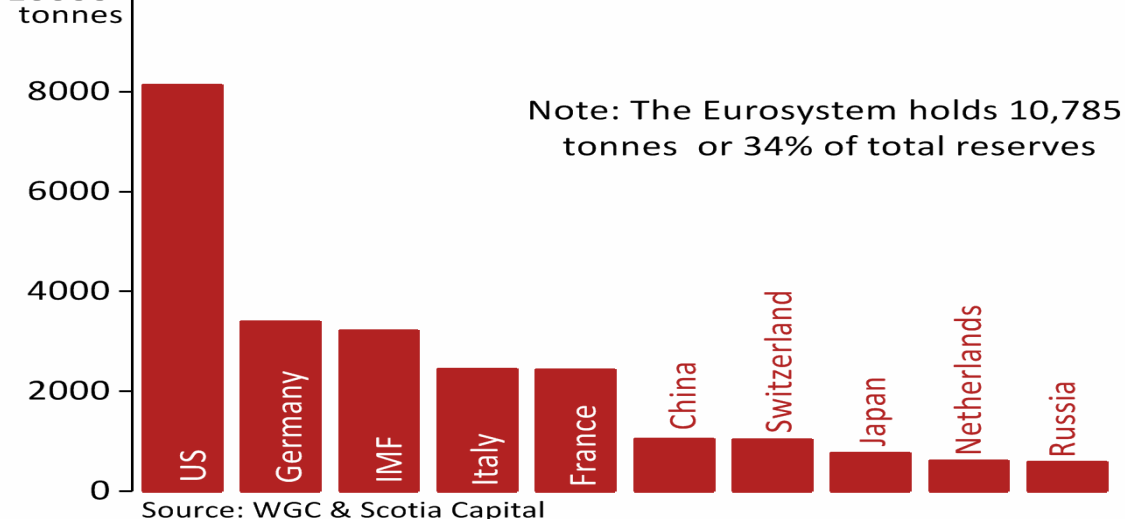
Largest Holders of Gold and FX Reserves



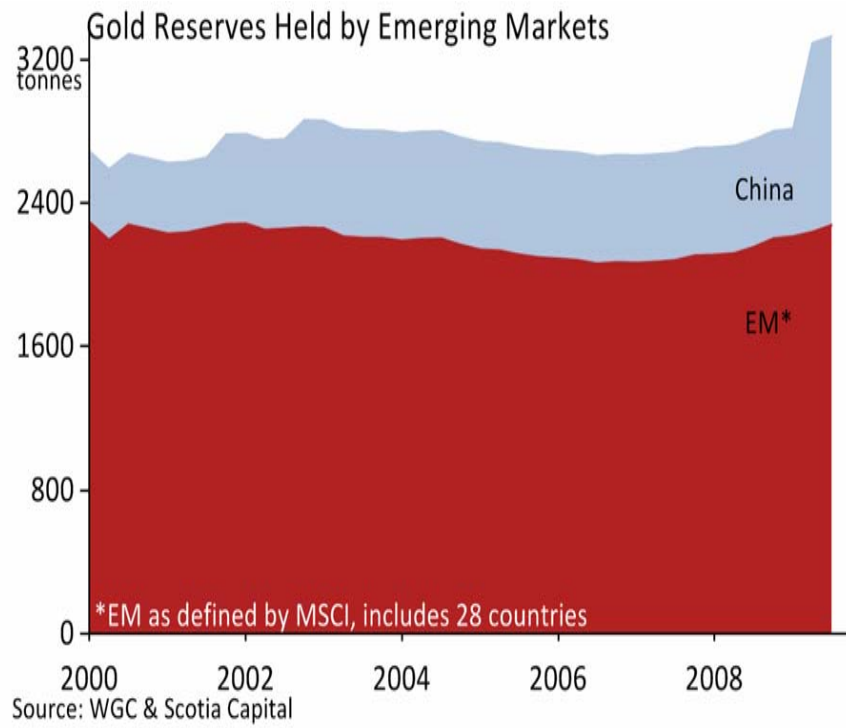
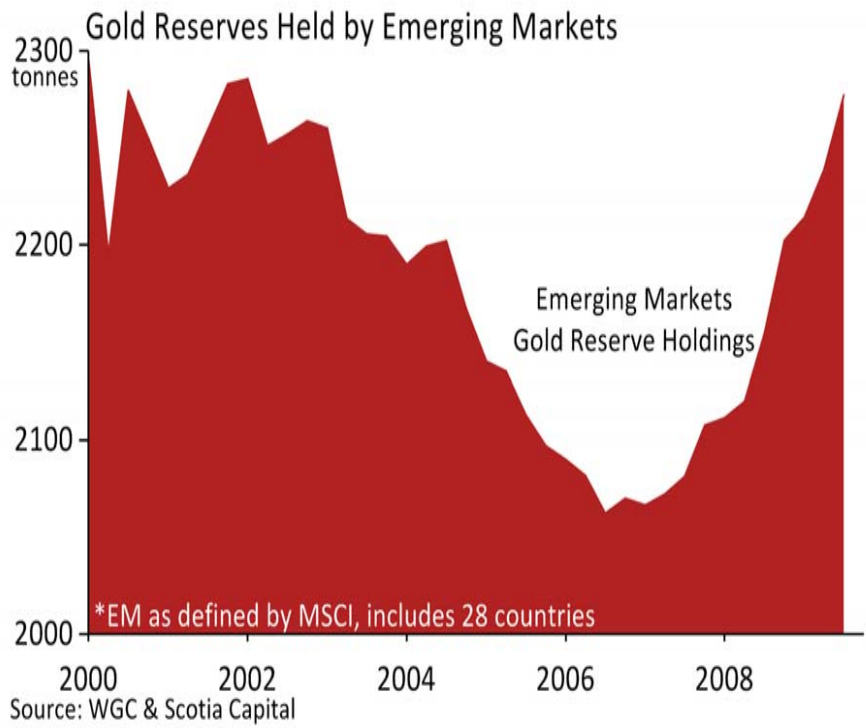
Why Central Banks Hold Gold

- Economic security
- Unexpected needs
- Notion of confidence
- Risk diversification

Top Ten Holders of Gold Reserves



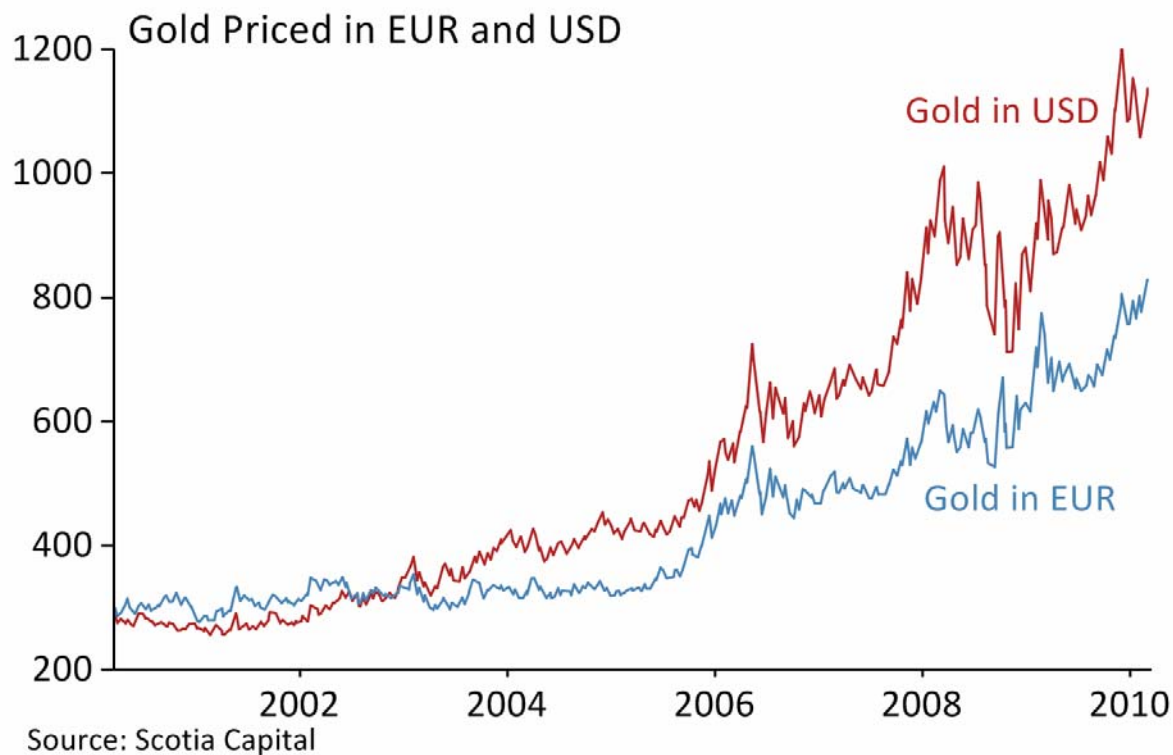
Emerging Markets and Gold Reserves



Emerging Market Gold Reserves

- Dropped from 2000 to 2006 due to selling from Brazil, the Philippines and Chile.
- Increased over the last three years mainly due to Russia.
- India bought 200 tonnes from the IMF in Q409, which is not reflected above, but substantially increases the amount held in the emerging markets.
- China (only included in the right hand graph) increased gold reserves materially in 2009.

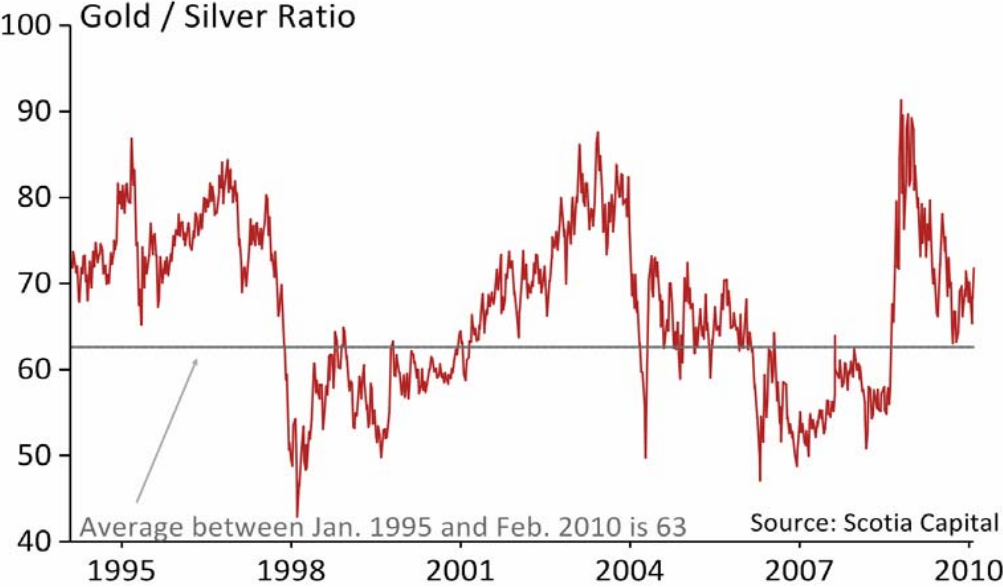
Gold Priced in EUR and USD



The Price of Gold

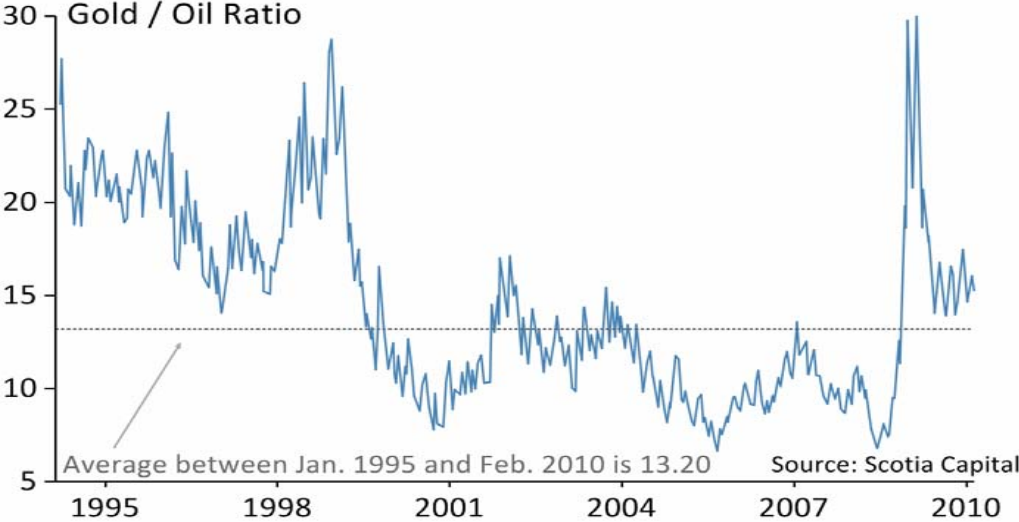
- Gold priced in US dollars has increased for 10 consecutive years.
- Gold priced in euros has risen for five consecutive years and reached a new high of €833 in March 2010.

Gold, In Relation To Other Commodities, Is Not At Extremes

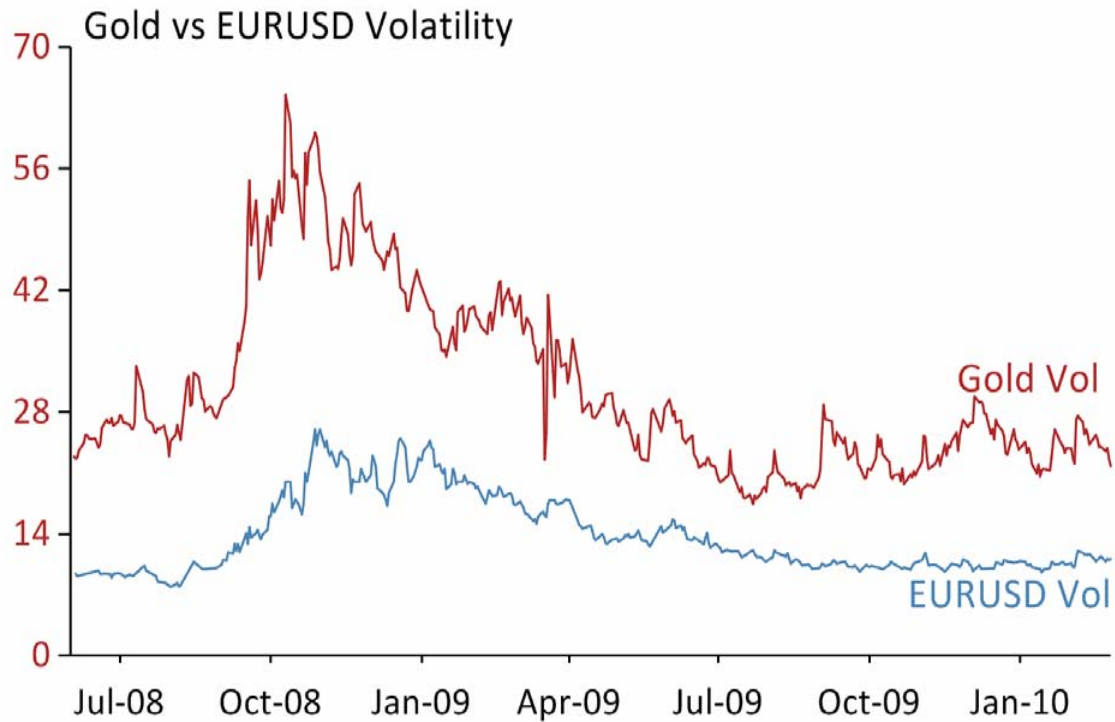


Gold Ratios

- Gold ratios (including gold/silver, gold/oil and gold/copper) are trading only marginally above their 15-year averages, although there have been sharp spikes in valuation.
- This implies that it is commodities generally that have rallied and that gold in relation to other commodities remains at reasonable levels.



Gold Volatility



Source: Scotia Capital

Volatility

- Gold is a more volatile “currency” than the major liquid currencies. This can result in sharp spikes in price.

The Outlook for Gold – Bubble versus Sustained Rise

Gold drivers are now more mixed than they were in 2009.

General Drivers

- Safe haven demand
- Inflation fears
- The US dollar
- Portfolio diversification into commodities is an ongoing trend

Supply Drivers

- Official sector – sales expected to remain well below their ceiling
- Mine production – uncertain

Demand Drivers

- Jewelry – trend is negative
- De-hedging – essentially complete
- Investment – ongoing demand for diversification into commodities

Forecast

- As of February 2010, Scotia Economics forecasts gold to average \$1,050 in 2010 and \$1000 in 2011.