

After sharp movements in the gold price in 1999, during the year under review the spot price traded for most of the year within a range of \$20 per ounce. At \$279 per ounce, the average spot price for 2000 was effectively unchanged from the average price for the previous year. However, the overall trend for the year was an easing of the gold price down towards a tight range around \$270 per ounce. This is reflected in the closing price for the year of \$272 per ounce, compared with the opening price of \$288.

During the year the currency markets saw considerably more



gold market in stable state

strength of dollar was exaggerated in S Africa

action than the gold market. Much of this activity was driven by the strength of the dollar. The effect of the dollar's strength and consequent weaker rand was exaggerated in South Africa by regional considerations which, from time to time, generated negative concerns amongst investors and speculators about the South African currency. From an opening value of R6.13 to

the dollar, the rand weakened by almost 22 per cent to an all time low of R7.83 to the dollar in late November. Notwithstanding a weaker dollar late in 2000 and into the new year, the rand has shown little capacity to recover and, early in 2001, suffered from hedge fund speculation which saw the currency fall to a new all time low of just over R8.00 against the dollar. This

local currency movement in 2000 translated into a real improvement in the South African spot price of gold which averaged R62,130 per kilogram for the year, almost 14 per cent better than the average local spot price of R54,711 per kilogram in 1999.

The year was unusual in the gold market in that, for the first time in a number of years, gold sales by the official sector caused no evident dislocation or depression of the gold price. The Washington Agreement of September 1999 has had the salutary effect of removing

The market (continued)

from the gold market the negative speculation about official gold sales that dogged the market throughout the 1990s. In addition to the 400 tonnes of gold sold as planned by the signatories of and subscribers to the Washington Agreement, some 120 to 150 tonnes are likely to have been sold by non-signatory countries, an amount of metal which the market appears to have absorbed without difficulty.

In contrast to the price consolidation around \$270, there were two brief rallies in the price during the year. The first occurred around speculation about announcements of revised gold price hedging policies of a number

solid physical demand will provide opportunities in the **year ahead** for the price to rally

of companies in February 2000, made against the background of the firmer gold price in the early part of the year. The other rally in June and July was triggered by intervention in the currency markets on behalf of the euro, which saw short-lived buying by speculators in gold.

The physical markets for gold once again provided important support at times of price weakness, and steady offtake at other times. While final figures for the year are not yet available, it is likely that global offtake of the metal will be a little below the record high levels of recent years, with a fall off particularly in investment demand for gold. Within that global

figure there have been significant regional shifts in offtake. Gold demand in the Middle East increased materially over that of 1999, with offtake in Turkey almost doubling year-on-year. Demand in India for the first three quarters of 2000 was slightly below the figure for the previous year due to a combination of circumstances, including a weaker rupee and higher oil prices during the year. US gold offtake was also down, due entirely to the decline in gold coin sales compared with the unusual demand for gold coins in 1999. Excluding the coin market, offtake of gold in jewellery in the United States continued to rise by a modest amount. While physical demand for gold in fabrication markets worldwide does not drive the gold price on the upside, we believe that it plays an important role in underpinning the price on the downside. Firm physical demand is thus important for the long-term health of the gold price.

Looking to 2001, most commentators see the gold price in a stable state, with small likelihood now of radical weakening. Evolving circumstances in the currency and interest rate markets are likely to support the metal, but the absence of investment interest in gold remains an important factor in the current price trend for the metal.

With solid physical support underlying the market, there should be opportunities for the price to rally in response to favourable news from other markets from time to time.



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