GFMS

Quarterly Newsletter June 2010 - Issue 36

Brazilian Gold Demand "Decouples"

by Philip Klapwijk, Executive Chairman

A recent trip to Brazil revealed that the country's gold market is experiencing quite different trends to most others. Whereas the big picture in nearly all western markets is the weakness of jewellery and the strength of investment demand, the South American giant presently sees quite the opposite.

Take first of all jewellery demand, where current estimates point to year-on-year volume gains of well over 20% in 2010. Moreover, this is not simply a recovery from a slump the previous year, as Brazilian consumption in 2009 fell by a relatively light 10% to an estimated 27 tonnes.

Growth in jewellery consumption this year reflects a number of positive developments tied to the strength of the economy and the related appreciation of the local currency, the real. First quarter GDP growth recorded a stunning 9%, much of it driven by a substantial increase in consumer spending. An ever greater share of the population is now enjoying sufficient disposable income to purchase gold jewellery, especially via monthly instalment programmes.

(Continued on next page)

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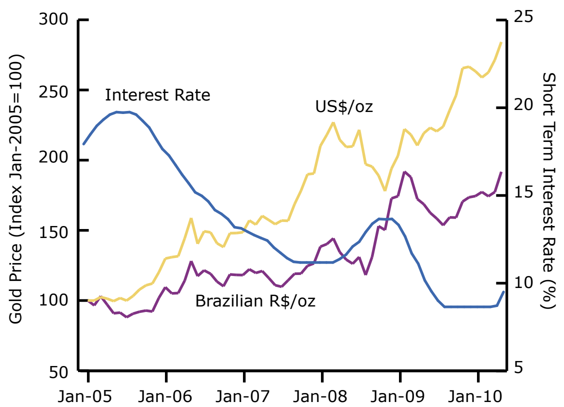
Demand has also been supported by the strength of the real against the dollar: the Brazilian currency has over the last six years gained around one-third against the greenback and this has moderated the rise in local gold prices.

The more sober growth in domestic than in dollar gold prices has on the other hand provided little stimulus to gold investment. In fact, investor interest in the country is remarkably slight, with for example none of the scramble for bullion from private investors that we have seen of late in Europe and the United States.

It would seem that a more important explanation for this than the relatively modest gains in local gold prices over recent years has been the high level of interest rates available to investors in the local market. At present, for instance, following a recent rise, official short term rates are at 9.5% compared to inflation running at some 4.5%. Real interest rates at such levels are most attractive to Brazilian investors who also have confidence in stable and healthy local banks where they can deposit their savings. Brazil's experience does raise the interesting question as to how robust would investor interest in gold be in western countries if real short term interest rates in dollars, euros and yen were likewise strongly positive.

__Philip Klapwijk__ is the Executive Chairman of GFMS. In his capacity as an analyst, he continues to cover the official sector, investment and fabrication demand in North America, Latin America and much of Europe. Philip holds degrees in economics from the London School of Economics and a Master's degree from the College of Europe in Bruges. Philip was appointed Group Economist at CGF in 1987, where he was responsible for developing the group's economic scenarios as well as participating in the work for the annual Gold Survey. He has worked for GFMS as part of the gold research team since 1989.

Brazilian Gold Price and Short-Term Interest Rates



Source: GFMS, Thomson Reuters

NEW AT GFMS

Latest Developments from GFMS Mine Economics: PGM Mines; Gold Company Analysis and Flexing Model

by Mark Fellows, Managing Director

Gold Mine Economics - More Coverage, More Features

Since launching the Gold Mine Economics service in the third quarter of last year, GFMS has continually upgraded the service to add more functionality and content. The service now covers almost three hundred primary and by-product gold mines and over two hundred mining companies, with detailed resource, production, cost and cash flow analyses for each.

The most recent enhancements to the service include:

- Highly detailed technical descriptions and analyst comment for each mine, covering the geology, mining methods, equipment, ore processing and mine history and latest developments.
- GFMS analyst commentary on the key issues and risk factors impacting each mine and company.
- Links to Google Maps.
- Company analysis – aggregating the mine-by-mine resource, production, cost and cash flow data into forward-looking corporate totals and averages.
- A flexing model which allows users to assess the future cost impact of their own assumptions regarding exchange rates and input cost inflation, including electricity and fuel cost changes.

The snapshot below shows an example of our new company analysis summary pages.

(Continued on next page)

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GOLD MINE ECONOMICS SERVICE

Username: **Mark Fellows**
Subscription expires: **30-Jun-2010**

Home | Mine Analysis | Curves & Data | Quarterly Data | Help | Contact Us | Log Off

<- Quick link: Select mine here -> | <- Quick link: Select company here ->

Eldorado Gold - Summary | Important: limitations of corporate analysis | **Company website:** http://www.eldoradogold.com

GFMS Analyst Comment: Key Issues

Eldorado Gold's 2009 annual revenue rose to US$358.5 million, compared to US$288.2 million in the previous year, on the back of increased gold sales. However, the company's reported production costs increased to US$430/oz (US$370/oz; 2008), and the company's net income fell to US$102.4 million (US$0.26/share), from US$163.7 million (US$0.46/share) in 2008 (Q4 08 results benefited from a US$73 million profit on the sale of the Sao Bento mine to AngloGold Ashanti).

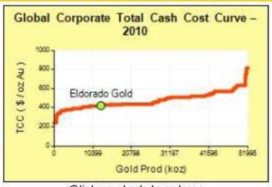
Quarterly production rose by 57% in Q4 09 to 129 koz y-o-y, with an additional 21 koz coming from the Jinfeng and White Mountain mines (Sino Gold acquisition), and 26 koz from existing operations where increased mine production and plant improvements boosted output.

Key Parameters Summary Updated: 26-May-2010

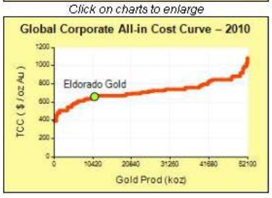
Attributable Totals/Averages		2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	2030
Reserves (Contained)	Moz	7.5	7.4	9.9	-	-	-	-	-	-	-	-	-
Resources (Contained)	Moz	6.5	7.0	8.2	-	-	-	-	-	-	-	-	-
Total Ore Treated	kt	5,191	8,286	11,545	12,892	15,339	15,464	15,649	17,077	17,056	14,413	12,001	0
Total Ore Treated Grade	Au g/t	1.94	1.63	1.41	1.72	1.96	2.11	1.98	2.16	2.30	1.47	0.93	-
Gold Production	t/y au	7.5	9.1	10.2	16.3	23.0	24.5	24.2	29.3	30.0	15.8	6.9	0.0
Paid Gold Production	koz Au/a	242	291	327	525	739	789	778	941	964	509	221	0
Cash Operating Cost	$/oz Au	233	256	299	390	327	343	373	347	339	445	364	-
Total Cash Cost	$/oz Au	258	286	323	421	354	371	402	377	367	462	365	-
Total Production Cost	$/oz Au	332	366	410	520	462	478	511	511	492	579	413	-
All-in Cost	$/oz Au	474	540	543	660	598	613	643	637	615	698	535	-
Gold Price Realised	$/oz	695.4	871.8	972.4	*972*	*972*	*972*	*972*	*972*	*972*	*972*	*972*	*972*
Net Revenue	$M	164.8	254.0	321.7	508.9	723.0	773.5	763.2	923.0	947.8	495.2	214.6	0.0
Mine Site Cash Cost	$M	55.6	73.7	96.9	203.1	245.9	277.2	297.1	334.9	337.4	226.7	79.9	0.0
Indirect Cash Costs	$M	27.5	40.6	33.7	45.8	64.6	69.0	64.9	78.6	80.0	41.9	18.8	0.0
Capital Expenditure	$M	87.6	74.7	69.0	213.8	94.3	110.8	122.3	45.7	36.9	28.6	8.0	6.8
Cash Flow	$M	-6.0	65.0	122.2	46.1	318.2	316.6	278.8	463.8	493.5	197.9	107.9	-6.8

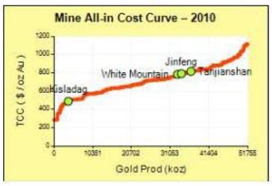
Mines & Projects (100% basis)

				Reserves (Moz)	Resources (Moz)	Production (Koz Au/a) *(100%)*			Total Cash Cost ($/oz)			All-in Cost ($/oz)			Base NPV @5% ($M) *(100%)*
Mine/Project	Country	Ownership	Status	2009	2009	2009	2010	2011	2009	2010	2011	2009	2010	2011	2030
Eastern Dragon	China	95%	Construction	0.8	0.3	0	0	57	0	0	137	0	0	388	302.1
Efemçukuru	Turkey	100%	Construction	1.5	0.4	0	0	95	0	0	239	0	0	556	420.3
Jinfeng	China	82%	Operating	3.0	1.8	169	181	208	438	510	419	721	792	681	758.0
Kisladag	Turkey	100%	Operating	6.8	6.5	237	235	268	282	320	328	462	490	498	1,154.3
Perama Hill	Greece	100%	Feasibility	1.0	0.8	0	0	0	0	0	0	0	0	0	213.3
Tanjianshan	China	85%	Operating	0.8	0.6	106	102	103	432	498	486	757	817	803	240.1
White Mountain	China	95%	Operating	0.7	0.4	34	58	68	513	486	467	841	785	755	166.2



Click on charts to enlarge





More upgrades are in the pipeline, including enhanced analysis of company valuation metrics and earlier-stage exploration and development projects.

PGM Mine Economics – A New Service, Coming Soon

In July GFMS will be launching the PGM Mine Economics service. Based on the same rigorous analytical approach, and using a similar web interface as the Gold Mine Economics service, it provides miners, financial institutions and other industry investors with detailed forward-looking insight into the underlying drivers of PGM mine economics.

The study is based on detailed mine-by-mine analysis of PGM mine production, operating costs and cash flows to 2030, with production costs, broken down to $/tonne mining, ore processing and on-site administration costs, smelting and refining costs, plus benchmarking of fuel, power, labour productivity and other key inputs.

In addition to the traditional "4E" and "6E" cost measures used in the industry, GFMS will be applying its stringent by- and co-product costing methodologies for $/oz cost analysis to PGMs. We believe that this is vital to ensure our analysis has the highest possible integrity, particularly in comparing mines producing very different PGM baskets.

The PGM Mine Economics service will be available from end-July; significant pre-publication discounts are available.

For more information, contact Charles De Meester (charles.demeester@gfms.co.uk) or Mark Fellows (mark.fellows@gfms.co.uk) at GFMS.

Mark Fellows, BSc (Hons) MIMMM

Mark began his twenty-two year career in the mining industry as an exploration geologist with De Beers. He went on to work for several junior explorers, prospecting for diamonds, gold, base metals and industrial minerals in Africa. In 1992 he joined Brook Hunt, a globally-renowned mineral economics consultancy, leaving in 2005 to establish an independent consulting practice.

NEWS FROM THE FIELD

Saudi Arabian Jewellery Demand Stalls on Rising Prices

by Cameron Alexander, Senior Metals Analyst

Last year was the worst on record for many Saudi Arabian jewellery traders. The sharp rise in the gold price, coupled with the economic uncertainty associated with the global financial crisis drove domestic jewellery consumption to an all time low of just 78 tonnes. Moreover, the Saudi market, once boasting consumption in excess of 200 tonnes per annum just over a decade ago, has fallen more than 65% from these buoyant times, driving many family run fabricators and retailers from the industry.

Turning to this year, despite a 22% increase in the average gold price in the first quarter, jewellery demand was surprisingly robust, with GFMS estimating that jewellery consumption actually jumped 25% year-on-year for the period as consumers became comfortable with the elevated price level and retailers actively looked to replenished stocks on any price dips. The market was particularly vigorous as the domestic price retreated below 4,125 SAR per ounce (USD 1,100) in late February and March as gold was considered “cheap” at this level and worth the investment risk (something that had been lacking for most of the previous year). This renewed interest saw fabricators ramping up production and retailers restocking shelves after operating on token inventory levels for much of last year due to the lack of domestic demand.

However, as prices again began to rise in the second quarter, demand started to retreat. Gradually at first, as consumers continued to buy on the rising trend, but as prices surpassed 4,400 SAR an ounce (USD 1,173) in late April demand virtually stalled. This was most apparent in the plain 21- carat segment, which dominates the market and is often purchased as an easy investment alternative. Instead of selling new jewellery, retail shops in the gold souks were crowded with customers wishing to sell back old jewellery to take advantage of the higher gold price to book profits, generating a wave of jewellery scrap that, for the most part, has been exported either to Dubai or directly to European refineries.

Recent discussions with trade participants in the larger cities of Riyadh and Jeddah have confirmed reports that current scrap flows are now being augmented by widespread inventory liquidations, as the supply chain has reacted to the elevated price by remelting slow moving and redundant product lines. This is more apparent in western regions where outlets in seasonal locations (Mecca, for example, which is inundated during the annual Hajj pilgrimage) have taken advantage of the stagnant market to convert stock to cash. Yet, despite this recent wave of selling, and record gold prices, Saudi scrap volumes are not reaching new records. Far from it in fact, as scrap export volumes remain well below those witnessed in 2006, and to a lesser extent 2008, as the vast majority of close to the market gold assets have already been liquidated during previous price surges in this long term gold bull market.

Finally, with local jewellery demand once again in free fall, as consumers wait for signs of price direction, Saudi offtake is unlikely to recover from its current listless state, unless of course, lower prices prevail or, after a sustained period of consolidation, consumers again feel the gold price rally has yet more to offer.

Cameron Alexander is an Australian based Analyst with GFMS and is responsible for research in South-east Asia, Australasia and the Gulf States in the Middle East. Prior to his joining GFMS in December 2005, Cameron worked for over seven years with precious metals refiner AGR Matthey.

PUBLICATIONS AND PRODUCTS

GFMS Indian Steel Report: The Prospects out to 2015

GFMS Indian Steel Report: The Prospects out to 2015 – a new report to be published in July, 2010.

In 2006, GFMS produced a ground-breaking study on the sector – Indian Steel: The Next China? At the time, there was a vast array of greenfield projects under consideration and the exceptionally low levels of consumption offered significant growth potential. However, since then, the gap between the two countries in terms of both consumption and production has widened considerably.

Crude steel production in China is now approximately ten times the level of that in India at over 550 million tonnes, with Indian output growing more modestly to just above 50 million tonnes. Demand has surged in China as the country developed its infrastructure, urbanized, expanded its industrial base and became the workshop of the world. The economic development in India has been slower, and has followed a less steel-intensive path.

However, the potential certainly remains in India as a growing proportion of the population reaches a take-off level of income that boosts steel demand. On the supply side, we note that plans for new mills are being reconsidered. As a result, the publication of this in-depth report assessing the prospects for the whole of the industry, including the hugely important iron ore sector, is particularly timely.

Report coverage

- Carbon steel (long and flat products) – billet, slab, HR & CR coil, galvanized, tinplate, rebar, wire rod and sections.
- Raw materials – iron ore, scrap, DRI and coke.
- Supply – current utilisation rates and plant-by-plant capacity additions.
- Demand – analysis of the economic environment and the underlying end use trends that will determine production growth out to 2015.
- Pricing – assessment of global pricing trends and internal pricing structure within India.

For more information on the study and to find about the special launch prices, please contact Carmen Eleta (carmen.eleta@gfms.co.uk).

Ten Year Outlook for Gold Service

Ten Year Outlook for Gold Service - to be released in July 2010.

This will be a bi-annual service with the first edition released in early December and will complement our successful current series of forecasting monthlies and quarterlies on the precious metals markets which have proved to be extremely popular within the precious metals market place.

The service will offer a Base Case and two alternative scenarios for the next 10 years with each given a weighted percentage probability with a particular emphasis in the report on risks to the forecast, including those stemming from potential supply or demand 'shocks'.

Specifications

- Available in both hardcopy and electronic format. The service will also include a presentation or conference call with the authors of the report to discuss its findings.

- Annual Fees: £14,950 / US$21,950 / 14,950 Euros. We are offering a pre-publication price of £9,950 / US$17,950 / 11,950 Euros on orders received by 15th July 2010.

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For more information or to purchase, please contact: charles.demeester@gfms.co.uk.

EVENTS

Gold Symposium in Peru

Peru: Ninth International Gold Symposium

Once again, Peru confirmed its importance to the world of gold mining, with the success of the Ninth International Gold Symposium, which was held in Lima from May 18th to 20th, 2010. This biennial event is organised by the Gold Committee of the National Society of Mining, Oil and Energy of Peru and its main objective is to disseminate information about Peru's and other Latin American countries' abundance in gold and silver resources, as well as to promote new mining investment and business opportunities in the region.

High-level entrepreneurs, investors, executives and distinguished professionals related to gold mining coming from 20 countries, as well as Peruvian Government officials, analysed, discussed and presented their overviews and perspectives on one of the main economic activities of Peru.

As in past years, GFMS' Chairman, Philip Klapwijk, was invited to make a presentation at the Symposium and also to share his views on the outlook for precious metals during the panel discussion that followed.

GFMS was also present at the associated Mining Exhibition, which took place concurrently with the conference. Carmen Eleta, GFMS' Sales Director for Latin America, introduced and explained GFMS' services to hundreds of visitors attending the event.

Chinese and Russian Editions of *Gold Survey 2010* will be Launched in Beijing and Moscow on 7th and 22nd July

GFMS will launch the Chinese edition of *Gold Survey 2010* in Beijing on 7th July 2010. This event is sponsored by the China National Gold Group and the World Gold Council.

Launch details

Timing:
Presentations & Questions
9:00 - 12:30 (local time)
Venue:
New Otani Hotel
26, Jianguomenwai Main Street
Beijing, China
Presentation by:
Philip Klapwijk, (Chairman, GFMS)
How to register:
To request a special invitation contact Junlu Liang (junlu.liang@gfms.co.uk)

GFMS will launch the Russian Edition of *Gold Survey 2010* in Moscow on 22nd July 2010. This event is sponsored by Gokhran, the Russian State Treasury, and Sberbank.

Launch details

Timing:
Presentations & Questions
15:00 - 18:00 (local time)
Venue:
GOKHRAN
14, 1812 Goda Street
Moscow, Russia
Presentation by:
Paul Walker (CEO, GFMS)
How to register:
To request a special invitation contact Carmen Eleta (carmen.eleta@gfms.co.uk)

About *Gold Survey 2010*

The annual *Gold Survey* is widely recognised as the most authoritative source of information on the global gold market. The publication's more than 120 pages provide a an in-depth analysis of market developments and contain a wealth of unique statistics on all aspects of gold supply and demand.

For further information about the *Gold Survey* or to order a copy of *Gold Survey 2010*, please contact Charles de Meester at charles.demeester@gfms.co.uk or call GFMS on +44 (0)20 7478 1750.

MARKET COMMENTARY

Understanding & Managing the Risk of Junior Gold Stocks

by Paul Burton, Managing Director

This is a summary of a workshop presented by Paul Burton at the 2010 World Resource Investment Conference in Vancouver in June.

The junior mining sector, which includes junior explorers, is a vital component of the gold mining industry and represents a compelling investment class for investors with a high propensity for risk.

Junior explorers are the exploration pioneers in lands where major gold companies may fear to tread. They act as the vanguard for their more conservative and larger contemporaries.

In recent years, it has been the juniors who are collectively spending over 50% of the global exploration budget and juniors who are responsible for making the bulk of discoveries.

They comprise, in most cases, small geology-led outfits with a passion for exploration and boundless energy and enthusiasm. What they often lack, however, is money and the need to refill the treasury can be a constant headache for management. Exploration companies, you see, don't generate any income, although they are very adept at spending it. They have no gold production; no sales revenue; only a long list of expenses and salaries to pay. Their only asset, apart from a right to explore a certain piece of ground, is the intellectual capital of the team.

Thus, exploration companies can be considered as performing the critical research and development function for the industry.

As mentioned above, it is important to stress that exploration companies don't generate income -they consume it and those investors that supply the necessary funds for the company's activities have no guarantee that they will ever see their money again, let alone get a decent return on their investment. Compounding the problem for would-be investors is the fact that by definition the explorers generally confine themselves to the earliest and highest risk phases of the industry life cycle - the Detection and Discovery stages, as described in the following diagram, which uses World Gold Analyst's 6D notation.

The diagram illustrates the levels of risk involved in the mining cycle as the process moves from Detection through to the Depleting phase.

How juniors can minimise the technical and geological risk associated with gold exploration is by gaining a thorough understanding of the deposit geology and its regional setting through a comprehensive programme of desk and field reconnaissance. Such a programme should involve a phased and systematic evaluation, using all methods available, and appropriate pauses to digest and assess the results of each stage and redirect their efforts if necessary.

The company may, of course, be forced sometimes to suspend temporarily its activities if it runs out of money and new funds are not immediately forthcoming. Bearing in mind that the company relies on investors buying their shares as the sole source of funds they must constantly promote the

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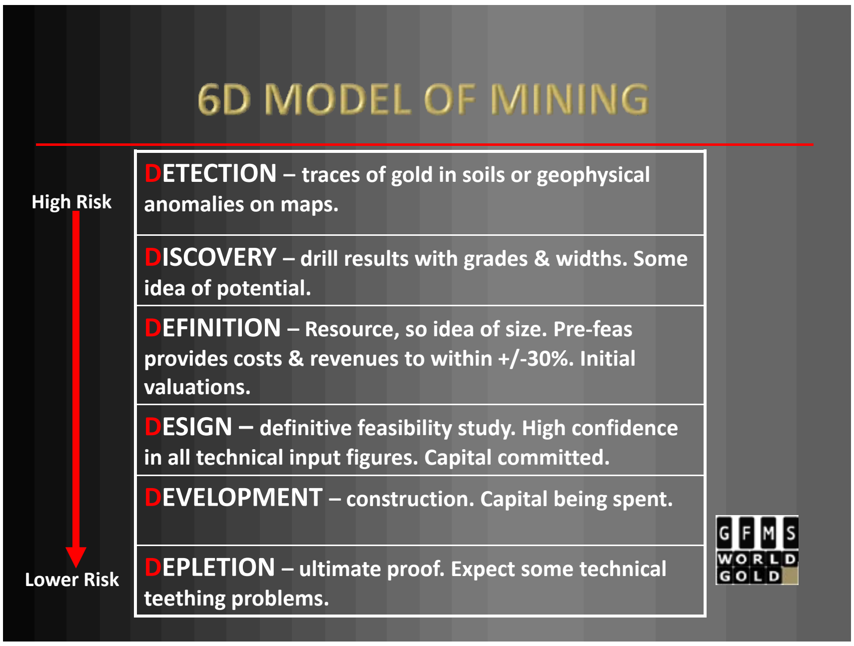


merits of their company and the attractiveness of its projects in a competitive marketplace. This can often lead to unsophisticated investors being duped if they don't carry out sufficient due diligence before they stump up their savings. Luckily, there are stock exchange rules and regulations that guide companies in appropriate behaviour so the situations as described by Mark Twain below seldom occur these days, but even so, the investor places a great deal of trust in the management of the company if he doesn't possess a considerable knowledge of geology himself.

> *I little knew, then, that the custom was to hunt out the richest piece of rock and get it assayed. Very often, that piece... was the only fragment in a ton that had a particle of metal in it – and yet the assay made it pretend to represent the average value of the ton of rubbish it came from!*
>
> Samuel Clemens (Mark Twain) 1872

And management is the key at the early project stage. The investor must ultimately trust that the geologists and directors have investigated the deposit correctly and that their interpretation is sound. The best way to do this is to check the credentials and track record of senior management. These days through the internet this is a relatively simple task. They should also meet with management and quiz them face-to-face about how investors' money is being spent. Is it going into the ground or funding a director's lavish lifestyle? Management owning a substantial shareholding is also a positive sign as it generally means that the aims of insiders and outsiders are aligned.

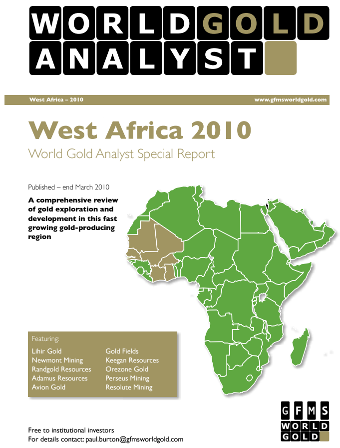
Furthermore, an inexperienced investor should get professional help. Whereas in the first instance this may mean talking to World Gold Analyst, if their investing experience has proved to be too stressful this may mean the professional concerned wears a white coat and has a couch in his office!

__Paul Burton__ graduated as a mining engineer from the Camborne School of Mines in 1975 and spent almost twenty years working in the South African gold mining industry. He has been editor of World Gold Analyst since early in 1996. He is an established speaker on the international conference scene and is Chairman of the FTSE Gold Mines Index Committee. He holds an MSc in Mineral Economics and an MBA from the University of the Witwatersrand. Recently Paul Burton took the position of Managing Director of newly established GFMS sister company - GFMS World Gold.

In April, GFMS World Gold published the latest in its series of Special Reports on the principal gold exploration regions of the world with a report on West Africa. The publication presents a comprehensive review of gold exploration and development in this fast growing gold producing region.

The report features in-depth reports on the following companies: Lihir Gold, Newmont Mining, Randgold Resources, Adamus Resources, Avion Gold, Gold Fields, Keegan Resources, Orezone Gold, Perseus Mining and Resolute Mining. The report is available FREE to institutional investors.

For details contact: paul.burton@gfms.co.uk



Should Silver be Classed as a Base Metal?

by Rhona O'Connell, Managing Director

Should silver be classed as a base metal?

Silver's dual nature, as a precious metal by association with gold and as an industrial metal by virtue of its fundamentals, subjected the market to some considerable strain during May and early June. The consequent nervousness has meant that conditions have become choppy and difficult for some participants to read, with the result that speculative activity has waned since the middle of May and volumes on Comex have been under some pressure. The macro-economic picture is giving rise to many concerns including the outlook for industrial demand and this, allied to the fact that the markets are entering a period during which, all other things being equal, demand tends to be slow as part of the northern hemisphere "summer lull", the prospects are for a volatile silver price in the coming weeks, with the bias to the downside.

Daily trading patterns would suggest as much

For all of this period silver remained more under the influence of the base metals than gold, and at the end of the first week of June was down by 10% from its interim high on 14th May. Daily trading correlations for the month of May show that silver sustained a correlation of 44% with gold, but between 69% and 72% with aluminium, copper, lead, nickel and zinc. The accompanying table shows silver's correlation coefficients with a small range of other variables and on this evidence at least would seem to be pretty conclusive.

On the basis of this daily correlation then silver should, prima facie, be expected to run with the base metals during periods of economic uncertainty, and take little notice of gold's price performance. The issue is not that simple, however. Over a longer period gold holds sway over the base metals and this is, in part, because the jewellery, silverware and coin markets remain an important part of silver's demand-side equation. Figures in GFMS' recently-published *World Silver Survey 2010* show that jewellery and silverware accounted for an average of 29% of world silver fabrication demand from 2000 to 2009 inclusive, while coins accounted for an average of 5%. This gives a combined average of just over 34% of fabrication demand for all three components and this is a strong enough figure to argue against silver falling solely into the base metals sector.

The *World Silver Survey 2010* records that silver fabrication last year into coins and medals was 2,447 tonnes, a gain of 21% over 2008 and accounting for 11% of world silver fabrication. This should easily be surpassed this year, given the very strong demand for coins that the markets have experienced in the first five months in North America and Europe - and there is as yet no loss of momentum. The US Mint has been recording consistently high sales figures, with 112 tonnes in May and a cumulative figure for the first five months that was 30% higher than that in January-May 2009 and the indications are that the buying has accelerated sharply in early June. This reflects safe haven investment activity on the part of private investors who do not feel that they can afford gold, but also recognise that silver has an historical affinity with gold in terms of coinage (and jewellery).

	Zinc	Aluminium	Copper	Nickel	Lead	Gold	Crude	S&P	Euro
May to 9th June	65.4%	64.2%	60.9%	60.1%	60.0%	48.1%	46.1%	37.6%	-7.1%
April	67.4%	69.2%	82.8%	70.3%	73.3%	70.7%	36.5%	45.8%	-24.5%
Q1 2010	75.3%	78.8%	80.6%	58.6%	75.3%	68.0%	46.2%	55.4%	-28.6%
Five Years	43.4%	43.6%	48.3%	33.5%	37.7%	60.6%	13.3%	16.4%	-18.4%

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The feeling is particularly strong in the United States because of that country's history of silver mining and investing.

Speculators have however been withdrawing to a degree, reflecting the same 'base or precious metal' conundrum, combined with price volatility. Positions have contracted on both the long side and the short side of the market and at the start of June the speculative component of the open interest in the Comex silver contract amounted to just 33% of the total, compared with 39% only a fortnight previously and an average over the previous twelve months of 36%. The net long position came to 8,080t while the average for the twelve months was 8,047t and the outright (gross) long, at 10,413t, was just below the twelve-month average of 10,759t. These figures would suggest that the speculative position has retreated to something like its core position, with not too much of an overhang.

The market uncertainties have heightened the importance of technical indicators. Silver remains in the uptrend established in early February, in which support stands between $17.20 and $17.50, while the moving averages are telling a mixed tale. Meanwhile the gold: silver ratio has been attracting considerable attention in the trading fraternity in recent weeks. The ratio rose sharply in the second half of May as silver fell and gold held broadly steady and has reached 70:1 in early June, against a twelve-month average of 64.7:1. This appears to be over-extended, and thus perhaps suggests a near-term correction as investors may see silver as undervalued against gold. This may help to bolster support for silver in the coming weeks although dips below $17 cannot be discounted. Gold's influence appears to be increasing once more, but silver will remain defensive while the markets fear a double-dip recession.

Rhona O'Connell *is a recognised authority in the metals markets, with over 20 years' experience as an analyst in the metals sector. Rhona is the managing director of GFMS Analytics and ROC Consultancy, an independent consultancy specialising in metals markets analysis and comment. The specialist areas constitute gold, silver, platinum and palladium, looking at the markets themselves in the context of the economic, political and financial environments while considering also the performance of other asset classes and related mining equities.*

Stability Temporarily Returns to the Steel Market

by Neil Buxton, Managing Director

GFMS have argued for some time that fundamental demand in 2010 is unlikely to allow global steel producers to operate at high utilization rates through the year. As such, they are unlikely to have pricing control. In the first half of the year, a very strong Chinese market, combined with re-stocking by steel mills in mature economies, drove up raw materials prices. Steel prices followed them up, but the attempt to push margins higher over April/May failed. Going into the second half of the year, steel mills have re-stocked their raw material supply chain and Chinese demand is fading, so raw material pricing should be more stable.

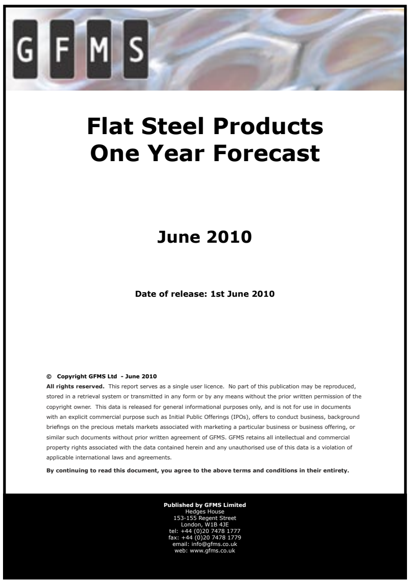
As a consequence of this, we expect steel prices to trade in a more narrow range. Prices have re-adjusted in May and early June as the surge in raw materials faded and efforts to hold margins higher were unsuccessful as end-use demand growth is insufficient to require significant inventory accumulation. International prices are now down to $600/tonne fob, which is the bottom end of our forecast price range for 2010. Domestic prices in many individual country markets, however, are still adjusting downwards.

Higher steel output, which was required when end-users and distributors were re-stocking, is now roughly in line with or even slightly higher than fundamental steel demand. The next phase of the cycle will therefore be output adjustment. As this is the summer in the northern hemisphere – a traditional time for maintenance – we will see (and have already started to hear announcements of) extended downtime for maintenance and slower operating rates as mills try to bring the market back into balance.

This then sets the stage for the next phase of the cycle – the upturn. While we see slower global growth in the second half of the year compared to the first, the underlying economic cycle is still in a global uptrend. With steel inventories in many markets remaining low (Middle East, Europe and North America), we certainly see a base case scenario of prices turning up in August/September. Moreover, depending on the severity of the cutbacks and the strength in demand, the upturn could be quite sharp. In the short term, we expect international prices for the benchmark HR coil price to remain around the $600/tonne level. However we are starting to see a supply response to the price weakness and GFMS believes that there is little scope for significant further downside moves below $600/tonne and the risk is therefore skewed towards upwards pricing by August/September.

In contrast to the relatively price inelastic response of the base metal producers, steel mills have once again responded. Following ArcelorMittal's notice that it was delaying the comeback of a furnace and idling others for maintenance, Severstal North America announced that its Sparrows Point HR coil line would be idled for a month from late June to reduce inventory and tighten the market.

GFMS analyses the latest developments (and provides monthly price forecasts for the next year) in our regular research service the Flat Steel Products One Year Forecast. This report covers all the key regional markets including Asia – China, Japan, South Korea, Taiwan and ASEAN; Europe, North America and Emerging markets – CIS, the Middle East, South America and South Asia.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Flat Steel Products
One Year Forecast

June 2010

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To receive the latest copy of the Flat Steel Products One Year Forecast, which gives our detailed views out to mid-2011, please contact Carmen Eleta (carmen.eleta@gfms.co.uk).

Copper: About Turn in China

by Neil Buxton, Managing Director

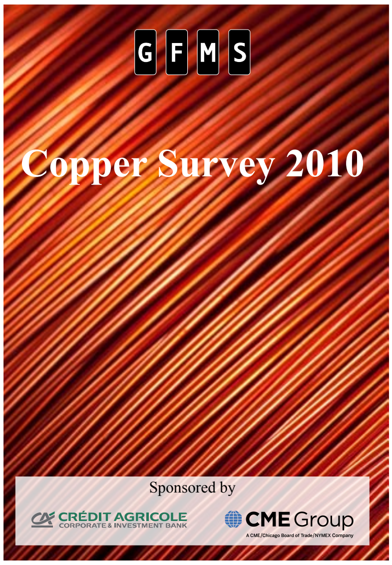
Copper is traditionally seen as the bellwether metal of the base metals complex. For much of the last few years, the "red metal" has outperformed most of its peers on the back of supply tightness particularly at the concentrate stage. This feature was particularly acute in China, where the relatively slow growth in mine output restricted refined output growth, which in turn led to higher imports of refined metal.

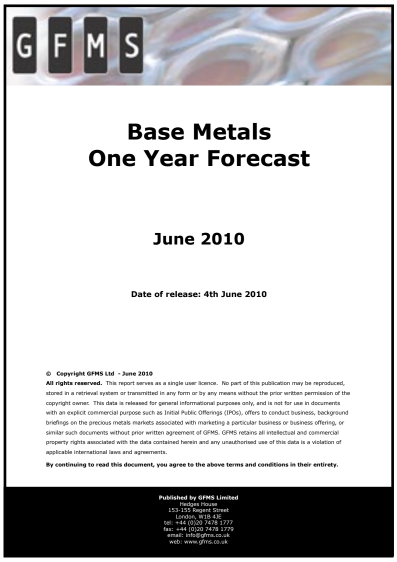
More recently, concerns about China, along with, more importantly, financial problems within the Eurozone and the strength of the dollar, contributed to the copper cash quote declining by 23.4% from its 2010 high of $7,951/tonne on 6th April to a low of $6,091/tonne on 10th June. Although there was not much change in the visible fundamentals during this period as the level of terminal market stocks was broadly unchanged, these factors triggered long liquidation by funds as their appetite for risky cyclical investments turned down as economic uncertainty increased. From a fundamental standpoint there has been concern about the possibility of reduced offtake from the fabricating sector, a trend however that has yet to be confirmed.

A more immediate fundamental development has been the increase to production, particularly within China. The latest official data from the China Non-ferrous Industry Association suggest that refined copper production in the country rose by 17% in April to 387,800 tonnes. The increase was fuelled by a 33.7% rise in local concentrate output as well as by imports being up by 17% year-on-year. The National Bureau of Statistics releases slightly more up-to-date Figures (for May). They confirm the continued growth in refined output, up 4.7% from April and 18.8% year-on-year. Higher production has had an impact on China's imports. Initial estimates of imports of unwrought copper and copper fabricated products point to a 9.1% decline from April and a 6.1% cumulative fall to 396,712 tonnes.

At this stage, we view the turnaround in China's trade as a temporary phenomenon. As discussed in the GFMS *Copper Survey 2010*, our estimate of the inventory build in China in 2009 is towards the low end of industry estimates. Also, despite some easing in the growth of some key economic aggregates such as industrial production and fixed asset investment, copper semis output remains buoyant registering a 21.8% advance up to April. Moreover, imports in the second half could be boosted given the recent decline in prices that may see speculators renew purchasing activity.

In light of the above, as well as other recent market developments, GFMS in the latest Base Metals One Year Forecast have revised the supply and demand estimates for last year as well as our projections for 2010. We have also extended the latter to the first half of next year. For 2009 figures, we have reduced both our global consumption and production estimates and this has resulted in our surplus estimate having increased to 846,000 tonnes, compared to the previous estimate of 777,000 tonnes.

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