The SA Bullion Gold Report

Q1 2013

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Table 1: Gold Performance to 31 Mar 2013 (% per annum)[1]

	Quarter[2]	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Gold in US Dollar	- 3.6	- 3.9	5.4	12.7	11.4	16.9
Gold in Rand	6.1	16.6	23.8	22.3	14.5	18.9
Gold in Euro	- 0.6	- 0.1	10.8	14.7	16.1	15.0

[1] Based on LBMA Afternoon Fixes
[2] not annualized for periods of less than 1 year

Table 2: Quarter-End Gold Prices and Exchange Rates[1]

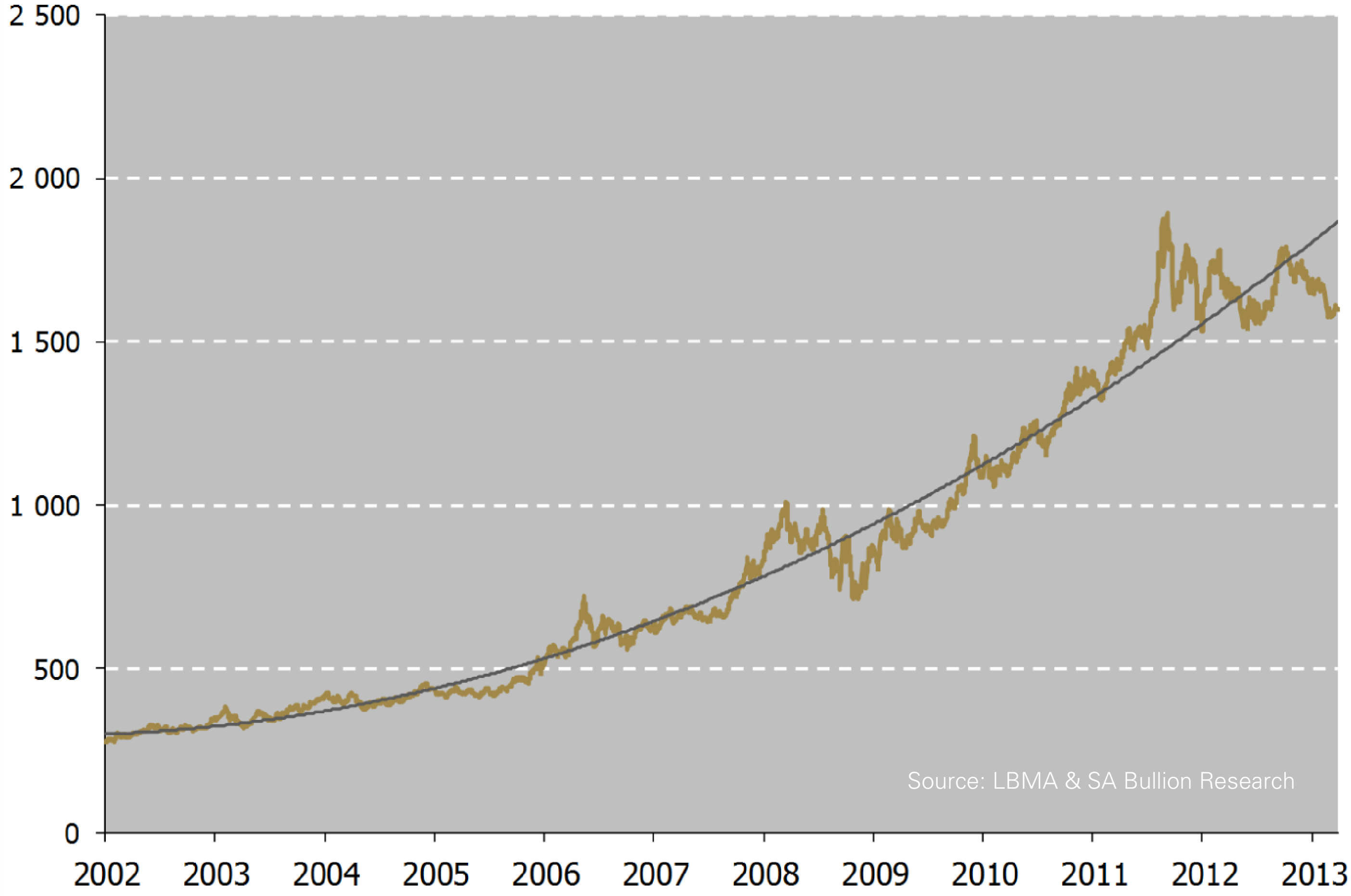
	Gold in US$/oz	R/$ rate	Gold in R/oz[2]	$/€ rate	Gold in €/oz
31 Mar 2003	334.85	7.87	2,635.60	1.09	307.48
31 Mar 2004	423.70	6.30	2,670.37	1.22	345.96
31 Mar 2005	427.50	6.22	2,660.65	1.30	329.22
31 Mar 2006	582.00	6.16	3,587.74	1.21	480.11
31 Mar 2007	661.75	7.25	4,799.34	1.33	496.70
31 Mar 2008	933.50	8.13	7,586.09	1.58	589.59
31 Mar 2009	916.50	9.86	9,032.22	1.33	688.99
31 Mar 2010	1,115.50	7.31	8,154.49	1.35	825.07
31 Mar 2011	1,439.00	6.75	9,717.63	1.42	1,014.52
31 Mar 2012	1,662.50	7.68	12,776.01	1.33	1,246.63
31 Mar 2013	1,598.25	9.32	14,902.44	1.28	1,245.90

Note 1: Gold prices in US$ and € are in LBMA PM Fixes
Note 2: Gold price in Rand from Rand Refinery

Table 3: Calendar Year Performance of Gold

	% US Dollar	% ZA Rand	% Euro
2003	19.9	- 6.7	- 0.3
2004	4.6	- 11.7	- 2.9
2005	17.8	32.6	35.7
2006	23.2	37.0	10.2
2007	31.9	27.9	18.9
2008	4.3	41.1	9.7
2009	25.0	- 0.4	21.1
2010	29.2	16.1	38.2
2011	8.9	33.0	12.6
2012	8.3	13.6	6.2
2013 year to date	- 3.6	6.1	- 0.6

Figure 1: Gold Price in US Dollar [LBMA PM Fix]



Gold Price Action in the First Quarter

In US Dollars the overall trend for the gold price in the first quarter of 2013 was a weakening one. Gold gave up approximately $60 an ounce or 3.6%. In South African Rand, the picture was more-or-less a gain of R1,000 an ounce in January, a loss of R1,000 an ounce in February, and a gain of R1,000 an ounce in March to provide an overall gain of 6.1%. In Euro there was very little movement in the gold price.

Overall, one would say that gold price movement in the first quarter was predominantly due to a strengthening US Dollar. A weakening Rand translated into excellent gold price performance in the South African currency.

Of course gold price action shortly following the close of the quarter has been dramatic to say the least, and has caused this analyst the tear up the first three versions of this quarterly report. It is essential to discuss this post-quarter period as well.

Gold Price Action post-Quarter End

On 1 April gold was priced at $1,603 (The London Bullion Market Association PM Fix). By Thursday 11 April the PM Fix was $38 weaker at $1,565. The next day (Friday 12 April) the Fix was down $30 at $1,535.50 and this was followed by the Monday (15 April) rout when gold went down $140 to $1,395. On Tuesday gold shed $15 to $1,380. At time of writing the Monday 22 April PM Fix was posted at $1,424.50. More about this later.

The Past Quarter in Review

In mid-February the UK lost its Triple-A rating. It joined the club of leading nations to lose their AAA status. France lost its top-level rating last year, the US lost its rating two years ago, and Japan lost its one years ago. This UK downgrade by Moody's (from Aaa to Aa1) is likely to be the first of many in the years ahead as government spending outstrips tax revenues while indebtedness reaches new highs at a personal, corporate and government level. The problem is compounded by an already highly-taxed economy.

Cyprus, as a Eurozone member (ie one of the seventeen countries using the Euro as its form of currency), became the latest casualty in the Europe theatre of contraction and insolvency. The small country's sovereign debt was downgraded and its debt servicing capability and ability to raise new debt became severely compromised.

The Bank of Japan embarked on an unprecedented program of quantitative easing so as to combat the depreciation of the dollar and the euro. It seeks to depreciate the yen so as to stimulate an export-driven recovery. One effect was to drive US equities up strongly. Another was to cause the Yen to plunge.

The US Federal Reserve Board ("The Fed") maintained its quantitative easing program of buying $85 billion per month of US Treasuries and Mortgage Backed Securities so as to artificially manufacture low interest rates and provide a wall of liquidity so as to drive up asset prices (predominantly housing and equities) and create the transmission mechanism for a sustained recovery as described in our Second Quarter 2012 report to you.

<u>During the first quarter gold started to lose some of its appeal. The chief reasons were:</u>

1. There were no signs of an imminent US economic collapse as expected by some panicky gold-speculators;
2. US inflation did not morph into hyperinflation, as expected by some, and in fact remained relatively muted as public sector expansion was offset by private sector deleveraging (and as US CPI continues to be severely understated!);
3. US and global equities powered ahead strongly and drew cash from other quarters including gold;
4. The US dollar strengthened as currency speculators exited from the Euro (due to Cyprus trouble and threatened bank deposits confiscation), Yen (due to QE) and Pound (due to downgrade) and was up 3% in February alone;
5. US Fed governors put out mixed messages about the future of the Fed's quantitative easing program, with some, like San Francisco Fed President John Williams, suggesting that it was time to start tapering off with QE;
6. Outflows of funds from gold and precious metals ETFs;
7. Poor price performance since the all-time high in September 2011 followed by buyer-exhaustion;
8. Goldman Sachs put out its infamous gold forecast containing a price downgrade for gold to a 2013 average price of $1,610.

<u>Review of the first three weeks in April</u>

The first wobble in April was due to the Goldman Sachs report.

Hot on the Goldman Sachs heels followed destabilizing news in the wake of the implosion of Cyprus. Yields on Cyprus government debt soared and bank accounts were frozen. Cyprus officials scrambled and the European Commission put together the draft of a bail -out package to rescue Cyprus. Included in the draft was a requirement that Cyprus would sell about 10.4 tons (about €400 million) of its central bank gold holdings in order to finance government funding requirements.

This information triggered the fear that other European sovereigns would sell gold to raise funds. After all, the southern Eurozone nations are both overwhelmed by debt and relatively rich in gold reserves. This news unsettled gold markets in the second week of April and gold prices responded negatively. On Wednesday 10 April US Comex gold futures plunged nearly 2% on this news. On Thursday 11 April denials from the Cyprus government brought some stability to the market.

Friday 12 April brought bad news from the Orient. China reported economic (Gross domestic product and industrial production) growth for the first quarter that severely disappointed the markets. What followed was a sell-off of equities and commodities, including gold. US Comex gold futures plunged more than 4%.

The big meltdown followed first thing in the morning of Monday 15 April. In a carefully-judged and finely-executed big-money action in the US derivatives market, a massive 100 tons of gold hit the market and took out buy-orders (gold 'Longs') down to below the critical $1,540 support level. Two hours later a whopping 300 tons hit the market over the course of just 30 minutes. This action set off the avalanche that it no-doubt intended to set off, and buyers/Longs disappeared into hiding and a wave of panicked selling commenced. Live prices plummeted to $1,360. This plunge of 9.34% was the largest one-day fall in the gold price in 30 years. Equity markets and commodities experienced falls of a lesser magnitude.

In the days since Monday 15 April the gold price has rebounded to around $1,424.

<u>United States Economic Update</u>

The US consumer confidence index for March fell to 59.7% from 68.0% in February. Jobless claims went above the 350,000 mark for the first time in the last couple of months. The ISM manufacturing index weakened to 51.3% from 54.2%; and the ADP jobs report for March disappointed with 158,000 new jobs in March – i.e. barely keeping up with population growth and not adding anything to real recovery. The Sequestration, following the Fiscal Cliff, is causing the federal government to reign-in spending; and the weak global economy is not assisting US exporters.

The US Labor Department reported a very disappointing figure of 88,000 new jobs for March and a drop in unemployment from 7.7% to 7.6%. This statistic masks the true situation which is that the Labour Department eliminated nearly half a million people from the unemployment pool, claiming that they no longer seek employment. If those disillusioned unemployed people are added to the unemployment figure the official rate would be reported at 9.8%. The US labor force participation rate was down to 63.3%, the lowest level since 1979. Today approximately 12 million Americans are unemployed and 3 million fewer Americans are employed compared to five years ago. And to compound matters, most of the jobs (58%) that have been created in these last five years are low-paying jobs in retail and food service. Consequently, real annual median household income continues to fall. Today this figure stands at approximately $45,000. In 2010 this figure was approximately $51,000.

Gold Price Support

There are many methodologies that one can employ to arrive at price support levels for gold. Two of the more useful methodologies are:

- New production cost; and
- Technical support price-levels.

New Production

New production of gold has its source predominantly in the 60 major gold miners of the world. Historically, miners reported the 'cash cost' for each ounce of gold produced, but this antiquated reporting methodology has recently been superseded by 'all-in sustaining cash cost' or "all-in" cost.

Of the major producers, Barrick and Goldcorp report all-in costs at approximately $1,100 per ounce. It is believed that many of the junior miners endure substantially higher all-in costs. According to research by US Global Investors, the all-in cost of the largest 60 miners in the world comes in at $1,391.

Whilst "all-in" cost is a useful metric, it is not perfect as it excludes some critical costings. According to leading analyst George Topping, 'true cost' for the industry currently sits at $1,784 per ounce. Joachim Berlenbach, similarly a leading analyst in this field, calculates 'true cost' to rise to $2,120 in the next three years.

Technicals

Using traditional technical analysis we focus predominantly on Fibonacci Retracements. Most importantly, we consider support at 50% retracement of the prior strong uptrend, which was the period December 2008 to September 2011 when the gold price rose from $750 to $1,895. A 50% retracement level provides strong support at $1,325.

Official Sector Holdings

The reserving activity of central banks provides important information regarding the accumulation or disposal of gold holdings by reserve banks. The following central bank gold activity is reported, courtesy of the World Gold Council:

	2012	2013 year-to-date
Russia	acquired more than 100 tons	acquired 19.2 tons
Turkey	acquired 164.5 tons	acquired 16.0 tons
South Korea	acquired 30.0 tons	
Brazil	acquired 33.6 tons	
Kazakstan	acquired 33.1 tons	acquired 6.4 tons
Iraq	acquired 23.9 tons in August	

Barclay's research indicates central bank gold buying to likely be in the region of 300 tons in 2013 and the same again in 2014. In the context of global gold production around 2,700 tons, the central banks provide a very considerable degree of buying support and assistance in price-discovery.

Perspective and Outlook

Gold has a long term story. The recent rollercoaster ride has been gut-wrenching, but should not distract from the investment proposition for gold. I would like to remind you, our valued-client, that "in the good times gold is a commodity, and in the bad times gold is a currency". We are five years into the generational period of "bad times" i.e. a great financial crisis contractionary phase. In such a phase there will be many bumps and grinds as the US Dollar and other major currencies jostle for a leading position in depreciation. Japanese quantitative easing of late has certainly caused some realignment.

We do not advocate that investors should sell their share portfolios and homes so as to invest their life's savings in gold. We see gold as a portfolio position. In fact we see it as a component of the cash component of a total portfolio. And at current levels gold is a much safer investment than it was a year ago.

In the early 1970s gold rose by 400%. In the years 1974 to 1976 gold fell by 40%. In the five years following, gold rose by 700%. This tells us that big price falls followed by big price gains are not unheard of.

The principal factors that will drive gold in the years ahead:

- Unwinding of the global financial crisis will require years and years of loose monetary policy;
- Central banks will remain accumulators of gold to bolster foreign exchange reserves;
- Investment demand will continue to play an important support role;
- Relative to historical comparisons gold is cheap;
- The commodity cycle has many years to run;
- Dollar depreciation is required in order to stabilize global imbalances; and
- Gold mining supply is challenged and will remain at low levels.

In closing let me say that in the short term we do not know where the gold price is going to go. The short term guess work is for speculation and speculators – Not our calling! In the long term, on the other hand, we are confident of currency depreciation and gold appreciation. And whilst we sympathize with our investors for the recent declines in the gold price, we think that in time to come we will regard this low current price level as a fantastic opportunity for new money to enter into gold.