GOLD - 1986

JAN — AUG
Petrol rise may be averted as rand climbs

Financial Staff

THE possibility of staving off another petrol price rise grew today as the rand improved to a four-month high of 40.65 US cents.

The petrol price is based on a dollar exchange rate of 42 cents.

Today the rand moved up from yesterday's 40.50 cents, boosted by a rise in the gold price to $333.90 at the London fixing after closing at $332.65 last night.

After the fixing gold moved up to $334.

The financial rand was quoted at 29.75 US cents, up from yesterday's 28.60 cents.

Gold has recovered from its $314 level on December 11.
Good for golds

Mervyn Harris and Brian Zlotnick

Wall Street's sharp slide could have important implications for investors on the Johannesburg Stock Exchange.

Stockbrokers believe that gold and gold shares are set to benefit from any move by investors out of Wall Street.

A bank economist said Wall Street's plunge — which has spilled over into European stock markets — would have the reverse impact on SA by lifting precious metal prices.

"A stronger gold price will boost the value of the rand and enhance the outlook for the economy. The manufacturing sector will be a particular beneficiary of a higher rand, as it will help contain cost factors and inflationary pressures," he said.

Stockbrokers say impact so far has been selective, with De Beers a casualty. The share price dipped from an all-time high of 1890c to 1745c.

However, gold share prices have so far failed to race ahead despite last week's surge in bullion to $340. The sharp rise in the financial-rand has blunted gold's advance and helped push De Beers lower.
US Eagle could push up dollar price of gold

By Roger Gidlow

For many years the range of legal tender gold coins available on the market remained limited despite the success of South Africa with its Krugerrands, but this situation is now changing.

The most important development relates to the legislation which has been signed by President Reagan authorising the minting and marketing of America's gold bullion coins from October 1986.

The proposed coins will have nominal fictitious values of 50 dollars containing a troy ounce, 25 dollars with half an ounce, plus 10 dollars and 5 dollar coins containing proportionally less gold.

The proposed introduction of gold coins by the US will serve the largest potential coin market in the world and could easily strengthen the status of gold as a monetary asset, even though these coins will not signal a more important function for gold in the international monetary system.

Indeed, the American gold coin proposals could serve to push up the dollar price of gold from late 1986 — other things remaining equal — for three reasons.

Firstly, the legislation stipulates that the gold to be used for the minting of the coins must come from domestic mining sources.

**Excess demand**

While any demand for the coins which is in excess of such supplies will be met from treasury sources this does not necessarily mean they will use their own gold stocks but instead could buy in the markets.

Annual American gold production is now about 2 million ounces.

The demand for the coins must be expected to fluctuate so any absorption which reached anything like 2 million ounces would represent very great demand by past American standards.

Yet, some commentators are predicting that in 1987 alone, the demand could be even higher.

This forecast is based partly on the belief that the demand for these coins will be boosted by heavy promotional campaigns by American financial firms who could emphasize patriotic reasons for buying the coins.

Second, it is likely that the new coins will serve to generate new interest in gold in general on the part of American investors.

This could partly manifest itself in larger demand for gold bullion itself among big investors.

In this regard, the potential is substantial in view of the enormous cash flows of American financial institutions and their extremely small gold bullion investments at present.

Third, the American coin legislation differs in one important respect from what was originally envisaged.

**Bullish factor**

The initial proposal that the supply of gold to mint the coins should come entirely from the official reserves of the Treasury has been dropped. This is a bullish factor for the gold market.

This decision may well have partly reflected the unwillingness of the Treasury to become heavily involved in gold sales once more.

In recent years there have been signs of an increasing recognition by American officials of the desirability of retaining gold reserves of the Treasury as a "war chest" in the wake of the freezing of the official dollar reserves during the Iranian hostage crisis in 1978 and the freezing of Argentinian assets by Britain during the Falklands War in 1982.

Evidence of this attitude was revealed in the 1981 report of the Gold Commission in the US which specifically recommended that the Treasury should desist from resuming sales of its gold bullion and instead advocated that it retain its reserves for possible future uses which were not defined.

Also, in March 1985, the Isle of Man introduced a gold coin called the Angel. Later in the year it was revealed that the Federal Government of Australia had approved a plan by the mint in Western Australia to produce a gold coin to compete with the Krugerrand and increasingly popular Canadian Maple Leaf coin.

The mint is expected to launch the new coin early in 1986 and is aiming initially for about 10 percent of the world gold coin market which would be the equivalent of at least 200,000 ounces.

In addition, there has been activity in the Gold Bank, and there is a suggestion that the US is planning to introduce a gold coin called the Ducat.

The various governmental moves to produce gold coins in competition with the Krugerrand stem from three primary considerations.

Firstly, these countries are seeking to exploit the opportunities presented by the growing resistance to the Krugerrand in international markets in the wake of the unrest situation in South Africa.

Secondly, the new competition is viewed in certain Governmental quarters as one means whereby economic sanctions can be imposed on South Africa by damaging the earnings of the country from its gold exports.

In the latter respect, the instigators of the move may have miscalculated. Any new gold coins further segment the markets for such coinage.

Thirdly, each different coin serves a new market segment and the overall result could be increased demand for gold coins, especially since competition for market share could be fierce.

In short, any fall-off in the demand for Krugerrands could be more than counterbalanced by the demand for the new coins.
Rand stronger against dollar, pound

Financial Staff

The rand rose to a three-month high of R3.25 to the cent in Johannesburg today, securing a foothold above the psychologically important 40c barrier.

This is the highest rand trading since September and represents an eight percent improvement in the past fortnight.

Against sterling the rand has recovered to R3.25 to the cent after rising to R3.40 to the cent on the day after reaching R3.40 to the pound.

The stronger rand has been established as a result of active Reserve Bank support over the past few weeks, following a December change in the rules requiring exporters to cover proceeds forward within seven days of shipment.

The gain has not been without cost, however. Latest figures show that gold and foreign holdings slipped more than seven percent to R4.61 million.

DOUBLE

Meanwhile, a huge leap in South African earnings from diamonds and gold can be expected as a result of the devalued rand.

Sales of diamonds rocketed to R254.5 million in the second half of last year — more than double the figure for the second half of 1974 and 80 percent up on the second half of last year, reports the industry's Central Selling Organisation today.

In dollar terms, however, the increase is 45 percent above the year-ago level and 18 percent higher than in the first half of 1974.

This increase will be reflected in the profits of the mining group De Beers, which are also to be announced soon.

Sales of R432.7 million for the full year are 76 percent higher in rand terms.

PROFITS

The country's gold mines will publish their quarterly reports in the next few days and these are expected to show increased profits, rising on average by between 10 and 15 percent, according to analysts.

This is because the rand price of gold reached a record in the December quarter, averaging about R3.200 a kilogram after R2.540 in the September quarter.

Platinum prices soared on world markets this week because of the labour dispute at the Impala mines. But most of the metal is sold by contract and Impala's price of about R17.50 an ounce is still far above the free-market price.

From New York The Argus Foreign Service reports that the American business community has reacted with concern at the closure of the Impala mines, from which 33,000 stripping miners have been dismissed.

Impala, among the world's largest producers of platinum, is a major supplier of the metal to the United States.
Rand Mines continue to reap benefit of weak rand

| ROY BENNETTS |
| RAND MINES' four gold-producing mines continued to reap the benefits of the weak rand in the quarter to end-December, with the combined taxable profit increasing 26% on the previous quarter to R91.5m. The December quarter is the shortest of the year, with normally a loss of three working days, but the resultant 1% drop in gold production was offset by a 17% rise in the rand gold revenue.

Average rand gold price obtained by the group rose from R22.19/kg in the September quarter to R25.94/kg. This compares favourably with the price realised by GFS which has become somewhat of a benchmark as it is not involved in forward selling.

Pre-tax profits increased by 19% to R410m (R17.4m), with the Receiver of Revenue increasing his share of the cake by a comparatively low 5% to R48.5m (R44.8m).

A soaring 44% rise in capital expenditure, from R46m to R65.4m, helped keep the tax payment to a minimum, as gold mines can reclaim capex against taxation.

Costs were well contained in the quarter, rising a marginal 4%, from R72.11 a ton to R75.12 a ton, mainly as a result of the lower turnover quarter. DURBAN DEEP continued on its firm track, with a 45% increase in its bottom-line profit, from R6.5m in the September quarter to R9.4m.

Capex, covering the same period, rose from R8m to R3.6m, giving the mine a positive cash flow of R5.8m (R3.3m).

Earnings a share soared by a healthy 94% to 247.6c (126c) — a very positive result compared with the loss of 49.7c a share recorded in the June quarter of last year.

One milled fell by 6% in the December quarter to 901,000 tons, with recovery grades unchanged at 3.12g a ton. This resulted in a drop in gold production from 1,989 kg to 1,772 kg.

Gold revenue increased from R45.6m to R48.2m, with total costs more or less unchanged at R39.3m, but the drop in tonnage milled pushed up unit costs from R63.22 to R66.44 a ton.

Durban Deep has hedged a total of 1.518 kg of gold for the first three-quarters of the year, at prices ranging from R24.10/kg to R26.33/kg. ERPFM unfortunately slipped further into the mire in the quarter, in spite of the gold price received of R25.80/kg (R22.87/kg).

Tonnage milled dropped by 7% to 330,000 tons, combined with a fall in grade from 3.61 g/t to 3.56 g/t, resulting in a fall in gold production, from 2,710 kg in the September quarter, to 2,484 kg.

Because of the rise in the rand gold price the mine was able to increase its revenue from R61.3m to R64.1m. Sundry revenue remained constant at R37.4m and there was a reversal of State assistance claimed of R45.1m compared with R3.7m in the previous quarter.

This lowered bottom-line profits, from R45.4m to R3.9m, falling a long way short of the R4.2m increase in capex, from R11.8m in the September quarter, to a massive R16.1m.

The increase was due to the higher rate of expenditure on the mine's R30m Far East Vertical Shaft (FEV) project.

The increase in the rand gold price was offset by a further under-performance of FEV, while the estimated total for the rest of the financial year is R63.3m.

Most of this is being earmarked for the new No 4 Shaft complex.

BLYvoor was the only one of the group's mines to increase its grades during the quarter, from 3.17 g/t in September, to 3.18 g/t.

Like the other producers, milling was down in the quarter but the improved grades aided gold production which fell by only 40 kg, to 3,322 kg.

With a gold price more than R3 000 higher at R23.37/kg the mine was able to increase its gold revenue from R72.7m to R81.6m.

Total costs were down slightly, from R141.6m to R144.3m, but because of the stronger rand, unit costs rose from R84.18 to R87.28 a ton.

Uranium profits remained almost unchanged at R4.4m, providing the mine with pre-tax profits of R42.1m (R34.5m).

Capex was virtually unchanged at R6.5m, with the Receiver increasing his take from R15.3m to R23.9m.

This left Blyvoor with a 21% improved taxed profit at R10.2m, and earnings a share increased, from 40.5c a share in the September quarter, to 53.3c a share.

During the December quarter Blyvoor paid R1.5m to Driesttein Consolidated in terms of the taxe agreement.

Like the other mines in the group, Blyvoor has continued the hedge some of its gold production and now has a hedge of 2,649 kg sold forward for the first three quarters of 1988 at a price of R24.625 to R27.02/kg.

<table>
<thead>
<tr>
<th>Rand Mines</th>
<th>Tons milled</th>
<th>Yield</th>
<th>Cost Rand/kg</th>
<th>Cost Rand/kg</th>
<th>Rev Rand/kg</th>
<th>Revenue Rand/kg</th>
<th>Cost Rand/kg</th>
<th>Net profits Rand/kg</th>
<th>Net Profit after capex costs Rand/kg</th>
<th>EPS after capex costs Rand/kg</th>
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<td>1,099</td>
<td>6,471</td>
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</tr>
</tbody>
</table>

*Standard Bank average exchange rates: Oct-Dec 85 $0.38, June-Sept 85 $0.45*
Weak rand aids Rand Mines

By Duncan Collings

A very much higher rand gold price in the December quarter thanks to the weak rand, resulted in the gold producers in the Rand Mines stable showing a 26 percent rise in taxed earnings for the three month period.

Combined after-tax income of Harmony, Blyvoor, ERPM and Durban Deep for the quarter rose to R81.5 million from R72.6 million in the September quarter, while pre-taxed income was 19 percent ahead at R140 million.

The average gold price for the quarter in rand terms was R25 334 a kg against R22 189 a kg in the quarter ended September.

The Receiver of Revenue benefits with tax payable of R48.5 million, but the increase over the previous quarter was only eight percent thanks to a 44 percent rise in group capital to R66.4 million.

Tonnage milled by the four mines was four percent down at 3.9 million tons because of the shorter quarter and gold production declined one percent to 15 084 kg.

On the costs front, these rose four percent to an average of R75.12 a ton milled from R72.11, reflecting the lower tonnage milled.

The group's coal producer, Witbank Colliery, showed a 26 percent rise in working profit during the quarter to R42.2 million, the rise being due almost entirely to the inclusion of Weigedacht Exploration which became a subsidiary on October 1, 1985.

There was some improvement in exports.

Tonnage sold rose slightly to 4.9 million tons but the increase was tempered by a decrease in inland sales and a reduced off-take by Duvha power station.

After tax of R11.7 million net earnings for the quarter were R30.7 million.

This was significantly down on the September quarter's R57.5 million when a tax reversal of R19.3 million as a result of capital expenditure allowances helped the bottom line.
Rand/dollar rate boosts Anglovaal

ANGLOVAAL'S gold mines flourished in the December quarter, benefiting as did other mines from the low rand/dollar exchange rate.

However, financial transactions added a new dimension to the figures and introduced prospects of financial earnings, provided the commercial rand remains relatively firm.

Harties has sold forward a total of $44.22m for delivery in equal monthly amounts during the 12 months to December at an average exchange rate of $0.3611.

As the current exchange rate is $0.4246, Harties timed the deal well and should the value of the rand begin falling towards $0.3611 it would have the option of closing the deals out.

ET Cons has sold $4m and Lorraine $26.4m on the same terms as Harties, so the total of the four mines — including Village Main — is $75.4m.

Should the rand continue to firm, the mines — especially Harties — will make a significant profit from the deals.

Apart from these financial transactions, Anglovaal's mines have gold sales hedging transactions on their books.

Harties has sold part of its future gold production on a fully-hedged basis at R23 276/kg for the present quarter compared with yesterday's price of R25 750/kg, so the deal will result in lower earnings unless the rand firms or the dollar gold price weakens sufficiently to bring down the rand price to about R23 726.

Other hedging sales by Harties for the June and September quarters are at R24 190 and R26 365.

Similar hedging sales have been made by Lorraine and ET Cons.

December quarter reports are:

Hartbeesfontein: Unit costs rose to R30.50 (R35.95) but this rise was more than compensated for by a slightly higher grade and higher average gold price received.

Profit from uranium sales rose to R12.3m (R7.3m).

Tax was 32% higher in spite of higher capex.

Expenditure on the mine's new low-grade gold recovery plant was brought forward and will start during this quarter.

Capex for the year to June is thus expected to be R46m, against previous expectations of about R30m.

A loan levy refund of R6.8m helped the financial picture, so that although earnings-a-share from working operations rose to 34c (26c), earnings-a-share including the refund rose to 40c.

Lorraine: The mine became liable for tax for the first time with the result that its net profit was marginally lower, but profit after capex scarcely changed.

Lorraine is not paying State's share of profits as it still has an assessed loss for this purpose.

Grade was unchanged, but tonnage lower. Lower tonnage was mainly responsible for the rise in unit costs to R65.54 (R59.83), but this was more than offset by the higher gold price.

After paying tax of R7m, profit was R12.1m (R13m).

The current financial year's capex programme to June 30 is expected to total R18m, including previously deferred high-priority projects.

ET Cons: Yield was lower at 9.5 g/t (9.9 g/t) resulting in lower gold recovery. Unit costs were well controlled. Prospecting costs were higher.

With low tax because of higher capex, net profit rose strongly to R8m (R5m), but the heavier capex cut earnings a share which were unchanged from the September quarter.

Village Main: Pre-tax profit rose to R1.54m (R1.12m). Although capex was slightly higher, the bigger pre-tax profit led to an increase of 58% in tax to R802 000 (R508 000), leaving the after-tax profit at R742 000 (R612 000).

<table>
<thead>
<tr>
<th>AVAAL Gold Mines</th>
<th>Tons milled '000</th>
<th>Yield g/t</th>
<th>Cost R/ton</th>
<th>Cost $/oz*</th>
<th>Rev $/oz*</th>
<th>Rev R/kg</th>
<th>Cost R/kg</th>
<th>Net profit '000</th>
<th>Net profits after capex '000</th>
<th>EPS after capex cents</th>
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<td>111</td>
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<td>29 735</td>
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<td>4 929</td>
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<td>305</td>
<td>25 830</td>
<td>17 737</td>
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<td>257</td>
<td>21 758</td>
<td>17 072</td>
<td>12 980</td>
<td>10 990</td>
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</tr>
</tbody>
</table>
Egoli pre-tax profit rises despite lower production

EGOLI suffered a 34% drop in gold production in the three months to December, from 157,8kg in the previous quarter to 104,5kg. However, pre-tax profits were at a record R636 679.

This was as a result of a 33% fall in milling to 122 093 tons (163 110) and a marginal drop in grades to 0,85g/t (0,86).

Production was adversely affected by the flooding of the area supplying surface material, which is processed on contract by East Rand Gold & Uranium (Ergo).

Average gold price received was at the higher end of the scale at R20 618 (R23 303), but failed to offset lower gold production.

Revenue from gold and acid sales was 27% down, compared with the previous quarter, at R2,8m, but with costs taking a drop of 44% at just over R2m to leave the company with a working profit of R565 76 (R230 946).

Other income received dropped from R531 25 to R108 15 as a result of the ending of interest received from the loan to West Wits. The loan has since been capitalised.

This produced a pre-tax profit of R685 679 (R682 335). However, Egoli had a tax credit of R12 194 in the December quarter, compared with a payment of R104 732 in the previous quarter.

This favourable tax situation was a result of an over-estimation in September. Net income amounted to R673 100, compared with R682 335 for the September quarter.

There was also a recoupment of capital expenditure at R247 557, against outgoings of R344 289 in the previous quarter.

WEST WITS continued to show improved results in the quarter, with a splendid 137% improvement in taxed income to R1,6m (R657 351).

Treated underground ore increased from 42 047 tons to 54 838 tons, with a proportional decrease in the treatment of surface material. This had the effect of lifting the average recovery grade at the mine to 1,09 (0,96g/t), with gold production showing a 14% improvement at 240,93kg (210,48).

Boosted by an excellent gold price of R27 748kg (R24 72), West Wits gained R6,7m (R5,4m) from its sales.

Working costs — at a lower proportional increase — were R4,6m (R4,3m), providing for a working profit that more than doubled at just over R2m.

Capital expenditure more than doubled to R2m, compared with R919 355 in the September quarter.

This helped to lower tax from R16 554 to R11 155, with taxed income of just under R3m (R629 765) reduced by minority shareholders' share at R399 341 (R163 444).

WAVERLEY gained better overall recovery grades at 0,51g/t (0,57) but dropped its dump treatment rate by nearly 6% to 155 975 tons.

Dumps treated under contract by SAlands showed a marginally improved grade at 0,66g/t (0,65). However gold production fell to 60,77kg (63) because of a 5% drop in tons treated.

Treatment at the heap leach plant followed much the same pattern, with improved grades of 0,20g/t (0,22), partly offset by a drop in tonnage at 63 226 tons (69 896).

Gold production at the plant showed a 19% improvement at 18,61kg.

Waverley sold its gold — one of the highest prices received by a gold mine in the December quarter — at R38 917kg to earn revenue of R2,2m (1,2m).

Working costs of R1,7m (R1,6m) left the company with a working profit of R494 765 (R129 462) and a taxed profit of R612 319 (R331 540) after the inclusion of other net income.
KR ban not such bad news

By Shin Kendy
Huge boost in the profits of gold mines

By TOM HOOD, Financial Staff

THE low rand-dollar exchange rate has given a huge boost to the profits of South African gold mines.

One of the biggest, Randfontein, reported today a record R115-million for the December quarter.

This was based on an average price of R20.814 a kilogram for its gold and the mine's profit would have been even higher had it not been locked into forward contracts.

Other mines received as much as R25.839 a kilogram and many are now negotiating forward contracts at up to R26.865 a kilogram.

The taxman also increased his haul and another giant mine, Hartebeesfontein, paid R90-million to the State for the quarter.

This followed a 33 percent rise in profit to R141-million, up by R35-million. However, net profit was still about 40 percent higher than in the September quarter.

Several mines avoided paying more tax by stepping up their capital expenditure.
NEW YORK — Gold prices surged in busy US and European trading yesterday, reaching the highest levels in about 14 months, amid anxieties over the tension between the United States and Libya.

The dollar declined as currency traders awaited the outcome of the upcoming G-5 meeting.

Renewed speculation that the officials from the five countries may favour concerted action to force interest rates down helped push the dollar lower, currency dealers said.

In New York, gold jumped $9.80, closing at $482.50.

Mr. Jeffrey Nichols, president of American Precious Metals Advisors Inc., said gold buying has been heavy partly because of the US-Libya confrontation over the December air-raid attacks in Vienna and Rome.

Mr. Nichols said Middle Eastern citizens, among others, have been purchasing gold in recent days, which has helped send the precious metal's price higher.

Mr. Bernard Savalke, a senior precious metals analyst with Paine Webber Inc., said some of the resurgence in investors' appetite for gold stems from last week's sharp sell-off in the stock and bond market.

After opening lower in London and Zurich, heavy buying lifted gold to its highest price since November 1984 and it then remained high throughout the day.

Meanwhile, the dollar finished lower against most major currencies, except the Canadian dollar.

Dealers linked some of the dollar selling to a report quoting West German Economics Minister Martin Bangemann which suggested that the finance authorities will discuss strategies to bring interest rates lower worldwide when they meet in London on Saturday.

"Speculation is heating up about the chances for lower rates," said William Oseini, senior commercial trader at the Bank of Montreal in New York.

The economic leaders are scheduled to meet in London, but they are not expected to reach any dramatic agreements like the September 22 accord to reduce the dollar's value in a bid to cool protectionist fervor.

In US trading, the dollar fell to 2,434.5 West German marks from 2,417.25 on Tuesday.

Other late dollar rates in New York as of 1830 EST (0130 GMT), compared with levels late Tuesday included:
- 202.42 Japanese yen, down from 203.85;
- 2,477.75 Swiss francs, down from 2,493.5;
- 1,4089 Canadian dollars, up from 1,4055;
- 7,5475 French francs, down from 7,5750.

The British pound stood at $1,4460 late in New York compared with $1,45765 on Tuesday. — AP
Rush for shares as gold surges
The financial market was in turmoil today. Gold prices in London and New York reached new highs, with London gold reaching $350 per ounce. The rise in gold prices was due to increased demand from investors seeking safe havens in the uncertain economic climate. The South African mines also contributed to the increase in supply, leading to a rise in the value of shares of mining companies. The South African Rand also strengthened against the US dollar, reaching 22.60 cents. The Rand's value had improved from yesterday's level of 22.80 cents.
Anglovaal, JCI gold mines benefit from weaker rand

By Duncan Collings

Quarterly reports from both Anglovaal and JCI today show the same trend as other mining houses which have already reported for the quarter, with a significantly higher rand gold price received boosting bottom line earnings.

The four mines in the Anglovaal stable — Harties, Village, ET Cons and Loraine — report net earnings 29 percent ahead of the September quarter at R66.6 million versus R51.4 million.

JCI's two mines — Randfontein and Western Areas — show an even more impressive 40 percent rise in earnings to R109.0 million from R77.7 million.

All mines within the two groups showed higher net earnings with the exception of Anglovaal's Loraine where a R7.2 million tax bill versus no tax paid in the September quarter left net earnings lower at R12.1 million (R13.9 million).

In the main, milling rates, grades and working costs of the mines in the two groups were not remarkably changed from the previous quarter. The higher rand gold price received from the weaker rand was the prime reason for the improved quarterly results.

The two base mineral producers in the Anglovaal group, Prieska and Cons Murch, both also enjoyed very good quarters.

Copper producer Prieska had net earnings of R11.0 million versus R7.9 million while antimony company Cons Murch's taxed earnings rose to R4.1 million from R1.1 million.
Small investors dominate scramble

'Chaos' as gold soars to new peaks

GOLD shares soared to fresh peaks on the Johannesburg Stock Exchange yesterday as bullion surged $30 to $376 in London before falling back to $364 in the London afternoon fix — its highest level in 21 months.

In frenetic activity which saw the value of gold shares traded at record levels, the JSE all gold index surged 32 points to hit an all-time high of 1,277.3, marginally higher than the previous peak of 1,277.1 set on November 25 last year.

With the mining finance index jumping almost 4% to a new high of 1,822.1, the JSE actuaries overall index surpassed the previous November peak by 13 points to close at 1,416.5.

Dealers described the scene on the JSE yesterday as 'absolute chaos' as the small investor, with volumes exceptionally heavy in low priced stocks, dominated the scramble for shares.

The large institutions tended to keep to the sidelines, but some dealers noted four-way trade with buying and selling by both local and overseas investors.

However, the big jump in the bullion price was viewed as vulnerable and disturbing by analysts as there seems no fundamental reason for the sharp price rise.

In the past week bullion has smashed through chart resistance levels — the last was $342 — with the next barrier $375. Some dealers say that a retreat back to the $345 level would be a sound base for a renewed upward move.

The next few days could be critical, with attention focused on developments on Wall Street.

The rand continued to firm in smooth and gradual moves to close at $0.4345 on the back of the rising bullion price. Dealers
Rush for gold shares

feel the rand could well have strengthened further to $0.44, as the dollar weakened. But the Reserve Bank appears to be holding a tight rein to prevent the currency from screaming upwards too swiftly.

The financial rand jumped 5% to $0.3410 to bring its gain over the past 10 trading days to more than 23% on the back of overseas buying interest.

Platinum moved up to an 18-month high of almost $880 in the wake of bullion's rise and increased interest was also seen for the more thinly-traded palladium, which approached a four month high of $110.

Yesterday's heavy trading on the JSE saw more than half of the top 20 shares exceeding a volume of more than 1-million shares.

However, industrial shares were neglected in the gold rush.

NEIL BEHRMANN reports from London that the surge was because professional dealers and speculators who had sold gold options and had sold gold futures short were forced to cover positions to protect themselves from mounting losses.

Bullion dealers in Switzerland and London, however, warn that the surge is overdone.

"The market is chaotic, very volatile; the price can rise further, but then there could be a steep correction," said a bullion manager of a large Swiss Bank.

The Bank of Japan is believed to be buying gold to mint coins to commemorate the Emperor's 60th anniversary as ruler.
New gold price may bring relief to SA debt

By Trevor Walker

Gold soared to $350 an ounce in the United States yesterday, fuelled by strong speculative demand because of the Libyan-US sanctions crisis and, more interestingly, due to strong physical demand from Japan.

Chamber of Mines president, Mr Clive Knobbs, talking to The Star, said the market was particularly firm and if this were to be coupled with some sage statesman-like pronouncements when Parliament opens at the end of the month, prospects for the industry this year were exceptionally good.

The strong recovery in the price of gold and the rand means the Reserve Bank will be able to step up the repayment of foreign debts.

Certainly the more that gold continues to surge, the better are prospects for meaningful tax cuts in the budget in March.

Industry sources said gold was giving every indication of moving into the position of being able to bail the country out of a severe economic slump.

Mr Knobbs said the rand had risen nearly 10 percent in recent weeks the rand price of gold had also risen by some five percent and even a mine like ERPM, one of the poorest in the industry, had produced profits in the last quarter.

He said physical demand, that is demand from the jewellery and coin industries, accounted for as much as 80 percent of the total market.

It was understood the Japanese were in the market for 200 tons of gold for the production of a 20 gram coin in 1986.

The gold index on the Johannesburg Stock Exchange shot up 61.2 to 1245.3 yesterday. The record stands at 1277.1.

The gold and metals and minerals sectors of the stock market were particularly firm yesterday, reflecting booming conditions in export markets.

The rand was also firm, trading close to 43 US cents and with every indication that it was set to hold above 50 cents in the weeks ahead. It opened at 43.05 cents this morning.
Anglo mines up profit by

ANGLO AMERICAN'S Transvaal gold mines increased their combined taxed profit by 44% to R376.7m in the December quarter. This was largely as a result of higher rand gold price.

Prices received for the metal in local currency averaged R27.900/kg compared with R23.000 in the previous quarter.

Provisions for tax increased by 12%, from R209m in the previous quarter, to R233m.

VAAL REEFS produced less gold in the quarter at 21.507m (21.601). Average gold price received by the mine increased by 17.4% to R27.578/kg (R23.312), pushing gold revenue up by R103.3m to R380.6m.

Costs were virtually unchanged at R302.1m, with gold profits increasing significantly from R274.7m to R378m.

Dividend income of R27.3m was received from Southvaal whereas there was no dividend from this source in the previous quarter.

Provision for royalties increased by 23% to R112.5m as a result of the improved gold price and gold production from the Southlease area.

Capital expenditure was also up at R61.3m (R35.3m), with the provision for tax jumping to R183.2m (R142.1m).

This left the mine with a taxed profit of R180.5m — a 68% improvement compared with the previous quarter.

An increase in working costs in the Afrikander Lease area is attributable to a re-allocation of certain operating expenditure incurred over the year but only charged in the current quarter.

WESTERN DEEP LEVELS' gold production increased by 360kg to 5.068kg at an improved selling price of R27.578/kg (R22.331), giving the mine a gold revenue of R285.6m (R210.4m).

Because of the relatively high rand gold price the company has accelerated its capital expenditure, with R111.6m being spent in the quarter compared with R64.3m in the previous quarter.

This had the effect of dropping tax to R40.3m (R41.4m), leaving a sharply higher profit of R146.3m (R95.3m).

ELANDSHAND suffered a decrease in gold production of 197kg for a total of 2.821kg.

This was more than offset by the higher gold price, which rose from R22.505/kg in the September quarter to R27.565/kg, to give the mine a gold revenue of R75.5m (R68.5m).

Working costs were slightly lower at R29.7m, with sundry income remaining at the same level.

Profits were therefore 28% higher at R33.9m (R25.7m), with capex increased from R18.9m to R22.9m.

SA LANDS' 7.1% drop in milling rate to 587 000 tons was offset by an improved grade of 0.72g/t (0.84g/t), resulting in an increased gold production at 424kg (466).

Pre-tax profits were R690 000 higher at R2.9m and taxed profits amounted to R1.2m.

ERGO's slime treatment dropped 5.2 m tons mainly as a result of rainstorms in the quarter.

Total revenue increased 14.7% to R65.7m which, after the deduction of cost and the addition of sundry income, provided for a pre-tax profit of R29.4m (R22.5m).

Provision for taxation was R11.9m higher at R9.9m (there was a rebate in the previous quarter) leaving the company with a taxed profit of R19.5m (R12.5m).
Gold outperforms conventional investments

By Stan Kennedy

Gold as a financial instrument outperformed conventional financial market investments in six currencies during the period 1973 to 1983, according to a study by the International Gold Corporation (Intergold).

The study, carried in the Chamber of Mines' newsletter, suggests that financial markets are not as efficient as frequently presumed and shows that gold was more profitable as an investment during the 1973-83 complete business cycle.

During the economic expansion phase of the economies concerned, it dropped fairly largely below that of the British pound and only slightly below that of the Canadian dollar.

The six industrial countries involved in the study were the -- at the time -- high inflation economies of Britain, Canada and the United States and low inflation economies of Japan, West Germany and Switzerland.

Intergold maintains that gold enhances risk-adjusted returns when held in modest proportions of five to 10 percent in well-balanced portfolios over significant periods of time. It argues that the business cycle is the conventional benchmark used by portfolio managers in investment decisions.

An innovation of the study was the use of a business cycle reference in calculating rates of returns. Comparisons of rates of return among alternative financial instruments were crucially dependent on the selection of initial and terminal data end points for the specific time periods used for calculation.

The new analysis supports earlier findings and reinforces the notion that perhaps the capital markets in the six currencies are not fully efficient in the value assigned to gold.

If the markets were fully efficient, gold would not perform better than conventional instruments in virtually all cyclical phases in all currencies.

While this does not prove the case on inefficiency, the evidence is mounting, Intergold says.

"One can only conjecture that, to the extent there is inefficiency, it arises out of traditional attitudes that regard gold as a commodity for speculation rather than as an investment and a financial asset appropriate for prudently managed portfolios.

"It is important for the investment manager to recognise that, since the advent of floating currencies, gold has taken on the role of a 'stateless currency' and floats along with other currency units.

"As such it warrants attention and inclusion in well-balanced portfolios, particularly those which diversify internationally."

The results did not vary much even when one and two-month leads and lags were incorporated into the analysis.

There were some situations when the timing of one or two months would have made a difference in comparison to another form of investment. But, in fact, there was surprisingly little overall effect on rates of return adjusted for variations in leads and lags.

Most importantly, gold provided the best performance when both rate of return and stability over lead and lag periods were taken into account in both nominal and real terms.

In most cases, it was the least sensitive and in all cases provided the best returns.
Cheaper loans as gold price surges 30 dollars

By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates were cut by one percent last night as the gold price surged 30 dollars to 377 dollars — a 12-month high.

The one percent fall in the official bank rate was followed by a similar cut in overdraft rates by three of the major banks — Trust, Barclays and Standard — to 15.5 percent.

Most interest rates, including hire-purchase and building society bond rates, are likely to move down.

The lower interest rates will accelerate the economic recovery and lead to lower unemployment.

Last night the Governor of the Reserve Bank, Dr Gerhard de Kock, said the decision to pare the bank rate was taken before yesterday's dramatic rise in the gold price.

There was near-panic buying of gold in major bullion markets yesterday with the price surge reflecting the freezing of Libyan dollar investments in the US. Adding to the Middle East tensions was the attempted coup in South Yemen.

International investors have also been unsettled by speculation that the finance summit of five major Western nations — the United States, Japan, West Germany, France and Britain — this weekend — may result

in a joint interest rate cut. This would push the dollar lower.

Gold came off its peaks to $383 at the late London fixing last night but this was still well ahead of the previous day's $346.75.

Platinum soared with gold yesterday touching a 12-month high of $379.25 an ounce and the nervous buying spread to palladium and other precious metals.

Gold shares boomed in Johannesburg and London with the Johannesburg Stock Exchange index reaching a new high of 1 289.6, a 44-point rise on the day.

Recognition

Leading shares were marked up R8 and the Krugerrand gained R25 to R860.

Yesterday's lowering of interest rates by the Reserve Bank reflected official recognition that the economy has begun its long-awaited upturn.

Dr De Kock said the surplus on South Africa's import/export account for 1985 will be more than R6 billion and a large surplus which will underpin the recovery is likely again this year.

● De Kock: Rand will rise further, page 8
● Yemen fighting goes on, page 4
SA debt standstill may prompt others to take unilateral action

Are Third World debt fears behind rise in gold price?

By Dr Roger Gidlow

The anticipatory powers of the gold market can never be ignored, and in time it may become apparent that a factor behind the sudden rise in the dollar price of gold has been disquiet in the international debt area.

In recent months, Third World debtor nations have increasingly come to feel they can service their foreign debts only if they have sufficient foreign exchange income.

In line with this, various countries have resorted to unilateral reschedulings. They have in effect set a limit on the amount of export incomes allocated to the servicing of their foreign debts.

In 1984 Bolivia declared a moratorium on foreign debt payments, and in early 1985 Ecuador set a limit of 30 percent of its export income which would be used to service its foreign liabilities.

In July 1985 Peru fixed a limit of 10 percent, and at the beginning of this year Nigeria adopted a ceiling of 30 percent.

The actions of these nations have been complemented by an increasing reluctance to seek financial assistance from the IMF. Debtor nations are starting to seize the initiative from the IMF and the creditor banks.

UNILATERAL RESCHEDULING

In other words, the balance of power in the foreign debt struggle is beginning to tilt in favour of the debtors.

Until recently, foreign debt negotiations were based on the principle that existing loan agreements were inviolable except when creditors decided to grant reschedulings or concessions to the debtors.

Debtor nations were obliged to adjust their economies to ensure that their foreign debts were serviced. This principle has clearly been impaired by the recent unilateral reschedulings of countries such as Peru and Nigeria.

Several factors have contributed to an increasingly recalcitrant posture on the part of the debtors. Apart from increasing disillusionment with policies, the IMF prescribes, there are signs that South Africa's foreign debt standstill last year may have exerted a demonstrable effect.

South Africa has traditionally enjoyed a high international credit status, has adhered to the policy prescriptions of the IMF in recent years, and is recording substantial surpluses on its current account.

If South Africa can resort to a standstill, some other debtor nations may well feel inclined to opt for forms of unilateral action.

Such an attitude may be further strengthened by the apparent refusal of Western governments (West Germany, Holland and France) to accept any responsibility for the debts contracted on their behalf by the International Tin Council.

This has highlighted difficulties faced by banks in forcing sovereign debtors to abide by loan agreements. Obstacles in the way of suing debtor nations are becoming more visible.

UNFOUNDED OPTIMISM

There are now strong demands for arguing that other countries will follow the lead set by Peru and Nigeria. The implications of any such moves will depend partly on the level of the ceilings adopted for debt servicing. Assuming no capital is repaid, ceilings which are in line with existing debt service ratios would serve little purpose since they would provide no relief for debtor countries.

It is only realistic to assume that the limits would be lower. The lower the ceilings the larger the reductions in the burdens of debt servicing.

Some commentators say such developments need not necessarily precipitate an international banking crisis. They argue that interest payments not met by debtor countries can be rolled over into new foreign loans. Although the total foreign debt of such countries would therefore increase, there may still be an improvement over time in the debt to export ratio as export proceeds rise at a faster rate than debt obligations.

One can, however, view such optimism as unfounded. Such a favourable outcome would not be possible if the debt ceilings on export proceeds, which are employed to service interest payments, are pitched below certain levels.

What is more, unilateral reschedulings entail particular difficulties for US banks. Such reschedulings mean that interest payments on US banks on certain foreign loans would go beyond the 180-day limit which bank regulators use in that country as a guideline in declaring a nation's loans value impaired.

Any downgrading of foreign loans by the US regulators would mean that banks would have to write off part of their loan portfolios. If this practice develops, confidence in the stability of the US banking system could be progressively undermined.

On top of this, any limits on servicing payments which are laterally imposed on banks can be interpreted in some quarters as a prelude to an abandonment of any pretence to servicing debts. In this context, it is important to appreciate that in one spect debtor countries could be tempted to repudiate their foreign debts.

Virtually all commentators agree that in the next few years at least debtor nations will tend to forced to make debt servicing payments are far in excess of any foreign capital they receive.

CONCERTED ACTION

In these circumstances, the danger arises that some debtors will conclude that their overall balance of payments positions will improve if they cancel their foreign debts.

Recent speculation about the possibility of the major Western nations taking concerted action to bring down interest rates should be judged in the light of the dangers posed by Third World debt.

Any fall in such rates will tend to help reduce the servicing costs of this debt and stimulate economic growth in the west, thereby aiding exports of debtor countries.

Failure to bring interest rates down will not necessarily be effective for gold since the strains on the international banking system may yet become even more severe.
Better times ahead for gold

LONDON A slight change in any of the sensitive variables in the financial-political climate surrounding gold could be enough to prove that last week was not a flash in the pan. So says Michael Prest of The Times, in a considered look at recent developments.

There is no particular reason why gold, or precious metals generally, should rise this year, he says. Indeed, there is weighty evidence to the contrary, "but a still, quiet voice tells me that the average for 1986 could be respectably higher than for 1985."

That would be easy from a statistical point of view, he goes on. Gold averaged $368 an ounce last year, its lowest average since 1978, and much less than the $350 of 1984.

Trading volume in both bullion and futures was slack. The collapse of Krugerrand sales and Intergold's eventual suspension of its sales programmes indicated an exceptionally depressed consumer interest in gold.

Investors had good reason to be disenchanted. Since 1980 mine production in the West has risen by 25 percent. Output last year was 1,169 tons, the highest since 1972.

The latest edition of Metals Analysis and Outlook, estimates that mined gold will be 1,200 tons in 1986, rivalling the peak years of the mid-1960s. Nevertheless, says Prest, gold bugs are a resilient lot.

"The importance of last week's events was that they had clearly not surrendered and opened a Post Office account, despite the discouraging supply and demand forecasts for 1986 and cheerless assessments of the much more elusive interest and currency-exchange rates."

"The extraordinary sight of tumbling oil prices alone should frighten even the most stout-hearted."

The extraordinary sight of tumbling oil prices alone should frighten even the most stout-hearted."
Buoyant gold spurs shares to new peak

A NEW mood of optimism swept the Johannesburg Stock Exchange yesterday with gold shares powering their way to fresh peaks.

The JSE all-gold index smashed through last Tuesday's record of 1 279, with quality gold stocks leading the field to close 3% higher on the day at a record 1 307,9.

The index touched a high of 1 312 before profit-taking trimmed some of the gains.

Bullion held its own in the face of a crack in the oil price and the commercial rand closed a shade below $0,45 — its highest level since the re-imposition of the two-tier rand in September.

However, the financial rand at $0,231 is well below its peak of $0,35 on September 16.

Its failure to keep pace with the commercial rand's sharp advance has helped support gold share prices.

Gold has firmed on the weaker dollar and fears that sliding oil prices pose a significant threat to the US banking system — because of loans to Texan oil producers and the Third World oil producers.

Some analysts believe that if the gold price holds above $345, and the rand gold price remains at about R800/ounce, gold stocks still have further upside potential in the short-term.

Merrill Lynch gold analyst Warren Myers notes that "US institutional buyers have returned to the market and gold share trading activity has rebounded".

He adds that institutions are buying quality gold stocks as a hedge against US banking problems flowing from poor-quality loans and fears of higher US inflation.

One view is that the SA authorities are happy to let the rand rise, provided the...
Buoyant GFSA raises interim 37.5% to 55c

Gold Fields of South Africa (GFSA) has produced scintillating results for the half-year to December.

Buoyed by higher interims from its gold producers, which enjoyed record profits in the last two quarters of 1985, GFSA has raised its interim dividend by 37.5% to 55c (46c), in line with market expectations.

Earnings a share increased by over 44% to 137c from 95c in the first half of the previous financial year.

Attributable taxed profits were up at R111.8m from R77.5m.

GFSA directors say in the interim report that, given no undue decline in the prevailing rand price of gold, year-end earnings should show a satisfactory increase, although not at the same rate as that achieved over the first six months of the financial year.

Analysts expect total payment could be 10c a share, up 4c on last year's 12c. But the increased interim does not necessarily indicate a similar rise in the final.

GFSA has a conservative record. The dividend total stock at 10c a share for three years before the 20c lift last year.

It is too early in the year to venture any projection of gold's trend.

However, the recent fast rise followed by yesterday's sudden fall in the dollar gold price to below some chartists' resistance level of $345, plus the decline in the rand gold price to R746, point to a volatile year for gold and its producers.

GFSA shares have performed well over the past year, more than doubling from the February 1985 low of R25 to a high of R83 at the end of last month.

The stock is highly rated in the mining house sector, with dividend yield at a historic 2.8%, on a par with seldom-traded Anglovaal stocks. It declined 100c to R41.59 yesterday, in line with the general retreat on the JSE's mining board.

GFSA shares are favoured by investors who like its high gold content. Gold investments accounted for 77% of income in the year to June 1985, the jewels in GFSA's crown being giant Driefontein and high-grade Kloof.

Income from investments rose by 37.6% to R113m (R82.1m) in the six months to December, thanks to higher interim payments from Dries, Kloof, Libanon, Venterspost, Doornfontein and Deelkraal.

The group's coal and base-metal companies, which contributed 12% to income last year, had mixed fortunes in the December quarter. Lead/zinc/copper producer, Black Mountain (65% held), continued to increase profits, reducing its debt load to R30m. Results of coal producers Apex and Clydevale were satisfactory.
Sparkling results from Gold Fields

Confirming market expectations, the Gold Fields group has come up with sparkling results for the six months to December 31, enabling the group to raise the dividend to 55c from 40c previously.

Earnings a share increased by 44 percent to 157c from 95c in the six months, from an attributable profit of R111.1 million versus R77.5 million.

The directors say that providing there is no undue decline in the prevailing rand gold price, net earnings for the year should increase satisfactorily but not at the same level as during the first six months.

Total revenue, including income from investments and interest, increased to R170.3 million from R121.9 million in the same period of 1984.

At the pretax level earnings rose to R127.6 million from R89.7 million, but a sharply higher tax of R9.0 million (R5.5 million) and minorities of R0.3 million (R0.2 million), held back the rise in earnings at the bottom line.
Tutu slams violence

fore then they all were considered SA citizens.

"It's no good saying things are getting better. The world will only believe it when we, the victims, say: Yes apartheid is disappearing."

Significant developments in this direction would include the lifting of emergency restrictions, withdrawal of troops from the townships, an end to the creation of "independent bantustans" and forced removals, the release of political prisoners, an amnesty for exiles and negotiations with authentic leaders on black representation in government.

Tutu reiterated his intention to call for punitive economic sanctions against SA if by March government had made no significant moves in these directions.

He said he did not pretend to hold much personal influence over Western leaders, "but it will be symbolic action on my part because I will be deliberately breaking an unjust law."

Tutu said his American tour, during which he received several awards and honours, had been a "resounding success" in achieving its three objectives:

- To thank the American people for their support for justice, peace and reconciliation in SA;
- To intensify international attention on SA because of the official clampdown on audio-visual media coverage of the townships;
- To raise funds for his diocese and for his refugee fund.

The Bishop said his visit had helped raise almost $1m for the Anglican Church. The money would help provide aid for families of political prisoners, detainees and other apartheid victims.

During his 12 city tour Tutu met the US Vice President George Bush, Senators Garry Hart, Ted Kennedy, and Jesse Jackson, and personalities such as Jane Fonda, Bill Cosby and Coretta King, wife of assassinated human rights leader Martin Luther King.

Tutu said that while there had been much publicity given to those who criticised him, "many of my flock (who are white) are most supportive. It is mischievous in the extreme for newspapers and television to exacerbate racial tension when we are seeking to work together."

Gold at new highs on JSE

Rand gold price trades at about R650/ounce.

Yesterday's surge on the gold board was led by the Anglo American Free State mines, before today's shareholders' vote to approve the merger of these mines.

"The US gold funds expect today's vote to be very close," says Myers.

President Steyn featured with a 775c or 13,1% jump to R66,75.

With the Continent still an aggressive buyer of gold stocks and the local institutions buying quality stocks, bellwether Vaal Reefs moved up R10 or 8% to a new high of R245, with R3,3m worth of shares changing hands.

Dealers warn that the market is extremely volatile.
Gold’s role will diminish

THE wealth-creating potential of gold should diminish in future and, with the unstable base for non-gold GDP growth, this would lead to increasing unemployment, says Koos Hough of the CSIR’s Group for Techno-Economic Services.

Hough told a CSIR techno-economics symposium in Pretoria yesterday that the added value from SA’s gold was declining.

"The dynamo of South Africa’s economy is breaking down and worse is to come if the imminent decrease in the gold price is taken into account," Hough said.

He saw the trend towards instability in both gold and non-gold growth rates as “disturbing”, and even more so the fact that GDP growth without gold had destabilised faster than growth with gold.

"Keeping in mind gold’s irregular contribution to the GDP, it is clear why the GDP growth rate has become increasingly unstable," Hough said.
Fears for gold's long-term role

Lesley Lambert

Gold's rebound to a $389 high in January was not very firmly-based, according to an investigation of underlying fundamentals by Barclays chief economist Cees Bruggeman.

With developments in the oil market reinforcing an international trend of lower inflation, there appeared to be little to favour gold's role as a hedge against inflation, he said in the latest Barclays Business Brief.

Even if there were a change in the intervention policies of the G-5 nations, there would probably be enough slack in those economies to ensure a resurgence of inflation did not occur for some time.

Bruggeman said that gold had not necessarily benefited from its role as a hedge against inflation, but rather from the security-haven aspect which had appealed to investors.

January's gold price surge boosted local financial markets: the JSE All Gold Index reached new highs, rand recovered to $0.46 and capital market yields declined, despite new inflation rate highs.

Coupled with renewed optimism on the political front after the President PW Botha's opening-of-parliament speech, the performance of the gold price led to a rebirth of confidence in the medium-term for the economy.

However, Bruggeman said that while the gold might respond in the short-term to concerns about the stability of the international banking system, the metal's long-term trend, in the presence of monetary forces, looked less favourable.
Markets show confidence

By Duncan Collings

As gold and platinum prices bounded ahead on world bullion markets yesterday and confidence continues to grow ahead of today's debt rescheduling talks and over the economy generally, the rand enjoyed another very good day on the local foreign exchange.

Stock exchange prices too were buoyant with both the market and foreign exchange largely ignoring the renewed township violence.

The rand pushed through the $99 US cents barrier to close nearly a cent higher at 99.20c and is now very close to the 50c mark which many dealers have been forecasting will be breached by the end of this month.

Trading was moderately active yesterday with both importer and exporter activity evident in the market, while the Reserve Bank continued to play its usual stabilising role.

Concern over unrest in South Africa helped push platinum prices to their highest levels for 19 months in active trading, with the metal nearing $400 an ounce before it backtracked in late trading.

Platinum is expected to be the star performer among precious metals this year, according to an industry analyst who forecast an average price this year of $450.

Following platinum, and helped by further weakness of the dollar on world foreign exchanges, gold also firmed sharply yesterday to trade at one stage around the $341 mark.

However, the metal eased in US trading and currently stands around $337 in the Far East.
Guiding role

The rand continues its climb—despite the falling gold price—largely on Reserve Bank support, import demand and a weakening dollar. The Bank is mostly acting through brokers, rather than directly with the banks. The market is quiet.

Dealers are complimentary of the way the Bank is gradually moving the currency. They feel the debt rescheduling meeting is unlikely to have a major impact, though there could be slight importer cover-taking. They are confident the Bank will prevent a major slide.

The rand has appreciated over 33% over fiscal policy developments after the Gramm-Rudman budget balancing bill was declared unconstitutional. The judgment has been appealed, but a final ruling may not be made before mid-year. Market expectation is that delay on a deficit reduction agreement will translate into reduced chances of aggressive easing of monetary policy.

Of major currencies, sterling recorded the least advance against the dollar. It lost considerable ground as the UK government rejected oil production cutbacks. The Bank of England is also refraining from using the interest rate weapon to stimulate sterling.
New confidence seen in gold shares

SHARES of high-yielding, expanding and developing SA gold mines are being recommended to US and European clients by Rowe & Pitman analyst Philip Taylor.

He believes there is scope for the SA gold share market to move upwards as confidence returns.

Among the high-yielding quality stocks recommended are Hartebeestfontein, Vaal Reefs and Anglo America's three companies resulting from the mega-merger of its Free State mines — Free State Consolidated Mines, Orange Free State Investments and Welkom.

In the category of expanding and developing mines, Kloof, Libanon, Lornax, Sonativaal, Western Deep Levels and Winkelhaak are recommended.

Current prices offer an average prospective gross dividend yield of 11.5% to overseas investors.

In the face of a gold price which the firm believes has a limited downside but a relatively gradual near-term growth potential, the rating is thought to be reasonable.

A yield of more than 12% would seem to indicate that more serious disturbances in SA are on the cards but the outlook is not yet bright enough for a return to single figures, says Taylor.

While the firm believes the gold price will improve this year, it fails to stick its neck out and make a more precise forecast.

The positive factors for gold are that fabrication demand is firm and there is concern over the banking implications of a low oil price which could well outweigh disinflation.

Furthermore, some economists are beginning to fear that world inflation rates could pick up later this year.

The supply squeeze in the platinum market is expected to help gold later in the year, as it appears to be doing so now.

However, the major factor against a rapid rise is still the Russians, who could again this year undertake heavy selling to compensate for sharply lower oil revenues.

BRIAN ZLOTNICK
Erratic gold market puzzles analysts

By Charles Johnstone
Holcom Commodity Brokers

Last week was certainly a mixed and somewhat confusing period on the gold and platinum exchanges.

Platinum continued its relentless surge on the Impala production news at a high of $422 an ounce on Tuesday. Gold, responding to news of strike action, attained healthier levels of above $350.

Dealers and jobbers remain extremely sensitive to bullish news emanating from South Africa, so it was something of a surprise when the markets turned down again sharply on Thursday evening with gold losing all its ground and platinum falling by some $30.

One analyst remarked: "We kept searching throughout the day for a major fundamental reason to account for the sharp sell-off, but most traders appeared at a loss for reasons."

However, he made a point about this sort of action which is becoming increasingly familiar. "The market has become extremely volatile and nervous of late with no obvious trend, so when a big seller appears, questions aren't asked. Dealers just scramble to dump their positions and the herd follows."

It has been a particularly hard time for analysts of late, especially since many of these erratic moves appear illogical.

Not so long ago the strong dollar accounted for gold slipping to $290, yet the subsequent weakening of the dollar has played little or no part in the yellow metal's behaviour since.

Perhaps analysts have been guilty of trying to pick major trends where none exist, especially in a market that has been trading broadly sideways for some time.

So when a market appears to be defying the basic rudiments of fundamental and technical analysis, how might one best forecast the short-term moves?

One indicator above all is proving to be quite effective, the Contrary Opinion theory.

Each week a survey is done and statistics are released out of New York pertaining to traders' overall bearish or bullish opinion of any one market.

Should the percentage consensus fall heavily in favour of the bulls this is often indicative of a price decline. Naturally the higher a market goes the more bullish traders tend to become and vice versa, but these extreme perceptions offer classic warning signs.

As with gold last week there was an increasingly bullish consensus prior to the sharp decline, so perhaps for the short term while irrationality prevails the Simplistic Contrary opinion theory offers the best form of forecast.
Gold at $338.50

GOLD traded at $338.50 an ounce in Hong Kong today, up from yesterday's $336 London close, reports Reuters.

The US dollar was quoted at 178.50 yen on the Tokyo foreign exchange market today, down from yesterday's 180.00 close.

The dollar declined against most key currencies in US trading yesterday after moving generally higher in quiet European dealings.

Persistent but unconfirmed reports that major industrial nations are considering measures to stabilise foreign exchange markets have subdued trading and made dealers reluctant to alter their holdings significantly.

According to reports published in the United States and abroad, the exchange rate topic will be high on the agenda when the seven-nation summit is held in Tokyo in May.
Higher average price expected for gold

By Gareth Costa

The gold price for 1986 is estimated to average about $350 an ounce within a trading range of $310 and $390-$400 making gold shares attractive investments.

But beware if the price falls out of bed because SA will be the first to feel the crunch, warns Mr Jim Ainsworth, a mining and metals consultant for S G Warburg, Rowe & Pitman, Akroyd (Rowak) of London.

Mr Ainsworth, on his annual visit to South Africa, said yesterday the gold price should trade at about 10 percent more than last year's average, although the various fundamentals are mixed.

He said inflation rates are likely to go lower in developed countries, a weaker dollar will see increasing gold demand, Japan will buy more bullion for jewellery and interest rates are set to fall marginally.

A banking crisis caused by the lower oil price could also stimulate demand, together with the two wild cards for 1986 — the possible intervention in supply from SA and any curtailment of financial arrangements between the US and Libya, which could spark Middle East demand.

He said that his firm would continue to advise clients to purchase gold shares. The gold funds in the US and Europe are experiencing net cash inflows, but some are under pressure to reduce their South African holdings.

He added that the liquidity of the South African market remains attractive to overseas investors and, if the cash flow remains positive, foreign investors will continue to be interested, but there could be a move towards Canadian shares.

COMPARISONS

Mr Ainsworth said it is hard to compare the South African gold shares with those of the US, Canada and Australia. The reasons are the difference in accounting practices and the fact that South African mines are restricted to one lease area only in which to prospect.

Other reasons are that pure gold companies in the US are limited, and even the biggest ones receive only 30 percent of their profit from gold.

Canadian mines are highly priced as they are deemed to be speculative and are also close to the US. Australian shares are perceived to have short lives, and are hard to come by anyway while there was a possibility of taxes being imposed on gold mines there.

Mr Ainsworth warns that there is going to be a strong expansion of gold production over the next five years in Australia, Brazil, US, Canada and South East Asia.

These increases are not expected to affect the gold price as it will be accompanied by increases in demand, particularly for jewellery, but providing alternative gold share investments.

Gold continues to top the list for metal exploration, but platinum and chrome are both beginning to grow in significance.

"Base metals performed poorly in 1985 with only aluminium showing a 12 percent increase in demand over 1984, despite a GNP growth in OECD countries," said Mr Ainsworth.

Precious metals had held up well in comparison, despite low inflation, increased Russian selling, higher levels of production and more sophisticated selling practices by many of the small producers. However speculators have deserted all but the gold market for the more lucrative currency and index variations.

COPPER

Of copper, Mr Ainsworth said that supply is low, with certain mines in the US having been turned off and Western world capacity utilisation still well under 80 percent. The medium term outlook for copper revolves around the ability of US producers to make further cost reductions, which will ensure the present over-capacity continues for the next five years.

Platinum will remain at a premium to gold for the first half of the year, but this will be narrowed in the second, said Mr Ainsworth. Motor manufacturers are struggling to stock up for the time when regulations demand catalysts in exhaust systems, and the metal is becoming more popular in jewellery. The Impala strike was a factor in the price rise, and he expects the trading range to between $340 and $425 an ounce.

Mr Ainsworth strongly recommends De Beers shares in the light of the increase in demand for smaller diamonds.
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**Other Meals of Elites**

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- Rome, Italy
- Paris, France
- London, UK
- Brussels, Belgium
- Athens, Greece
- Berlin, Germany
- Madrid, Spain

**Description**

- Breakfast
- Lunch
- Dinner

**Country of Origin**

- Spain
- Italy
- France
- UK
- Germany
- Greece
- Belgium

**Other Meals of Elites**

- Barcelona
- Rome
- Paris
- London
- Brussels
- Athens
- Berlin
- Madrid
Golds ease, rand slightly down

Gold shares closed mostly easier on the Johannesburg Stock Exchange, but were above their early lows as the bullion price held steady and the rand eased slightly, dealers said.

Randfontein closed R2 down at R265 and Kinross 75c easier at R45, while cheaper gold share losses ranged to 30c, as in Loraine at R13.50. But Southvaal was among a few gainers, adding 10c at R118.

The financial rand traded lower at 34.75 US cents against Thursday's 35.50 close while the Krugerrand lost R5 at R715, they added.

Mining financials and other minings were mostly firmer, with Gencor rising 75c at R40 after annual results, while Rustenburg Platinum firmed 50c at R32.50, diamond share De Beers 5c at R20.15 and copper share Palamin 25c at R21.50. Samancor rose 10c at R7.50.

In insurances, new listing Lifegro ended slightly lower at 399c against a 395c close after its debut on Thursday.

Industrials closed in mixed in fairly active trading with 50 shares up, 36 down and about 50 unchanged.

Shortly before the finish the JSE all share index stood at 1210.8 against a 1210.4 close yesterday, but above a midsession 1210.4, while the industrial index was up slightly at 1194.8 from Thursday's 1190.9.

The overall index rose slightly to 9409.4 from 1406.4.— Sapa.
Gold leaps while rand marks time

AFTER a brief dip below the crucial $0.50 level, the commercial rand regained composure and traded for most of yesterday between $0.4990 and $0.5020 to close square at $0.50.

"The rand should be at least around $0.51 on the latest gold rally alone," said one analyst.

Gold, fixed $351.15 in London yesterday, has leapt by about $10 in the past few weeks while the rand has barely budged.

Bankers say the Reserve Bank wants the rand over $0.50. Yesterday it continued to be a dollar reservoir when the need arose.

At least one expert was perplexed by the rand dipping below $0.50: "I can't imagine why the rand fell on Budget day if the bank was right there offering dollars all the time."

Market talk is that the Reserve Bank pulled out mid-afternoon on Monday shrinking the dollar supply line to the market. But the Bank is known to have a stern word with one of the banks it felt was marking the rand down to sway sentiment towards a weaker rand.
Banking crisis may not boost gold

By Sven Linsche

Several factors of varying importance can influence the dollar price of gold in the wake of any serious strains in the international banking system, says Professor Roger Gidlow, special economic adviser to the Reserve Bank.

In the March edition of the Bank of Lisbon's Economic Focus he writes: "Even if the international banking problems escalate the impact on the gold price remains a polemical issue. Such problems could induce a significant rise in the gold price in the short run. However the longer term implications would depend on the precise nature of these problems and the responses of the monetary authorities."

It is sometimes asserted that banking problems must necessarily be good for gold.

Professor Gidlow feels that this is untrue. "Despite the nervousness surrounding the international banking situation in the past three years, no significant shift of funds into gold appears to have transpired. This can be largely ascribed to the real interest rates which have prevailed in the major Western economies," he says.

He feels that if the banking problem intensifies the demand for gold could rise, as governments may try to reflate the economy and thereby lower interest rates, which could lead to fears of increased inflation.

"It should also be noted that the implications of any Third World debt crisis for gold could depend partly upon which debtor country sparked a crisis. The present problems are critically centred on oil producers such as Mexico, which reflects the sharp drop in oil prices.

"The latter in turn has disinflationary implications, and raises the possibility of extra gold sales from the Soviet Union. These two influences are negative for gold," he says.

Top move at Allied Reichmans
Gold breaches $350 barrier

LONDON. — Gold closed at its highest level since the end of January after making steady gains backed by dollar weakness, political uncertainty and short-covering before the weekend, dealers said.

However, trading remained very thin. Gold closed at $353.75-$354.25 compared with an opening of $351.90-$352.40 and Thursday's close of $350.00-$350.50.

Gold opened stronger on fears of violence in South Africa connected with yesterday's anniversary of the 1960 Sharpeville massacre and a police shooting of mourners at a funeral last year, dealers said.

Support

But technicals provided the support for the rise during the day, they said.

Although gold appears to have consolidated above the $350 level, the thinness of the market leaves it vulnerable to sudden changes of sentiment on important news, dealers said.

Most investors had their eye on the Opec meeting in Geneva but were very uncertain about its outcome or its effects.

- In Zurich, gold gained in late trading following purchases in the United States at the opening of the New York market, but dealers said trading here was quiet with no new factors.

- In Chicago, platinum prices soared to new life-of-contract highs because of fears of heightened unrest in South Africa, the world's largest platinum producer.

Trading was active at the New York mercantile exchange on Thursday, the eve of the anniversary of South Africa's 1960 Sharpeville massacre.

The platinum market has been sensitive for months to events in South Africa and reached the highest levels in three years in price action on Thursday.

The key April platinum contract gained $11.30 at $431.80 an ounce.

Gold prices at the comex started to keep pace with platinum, but fell short of the week's high and the April delivery ended only $1.90 higher at $352.70. — Sapa-Reuters

London stocks after hours:
Blyvoor 538, Bracken 180, Driefontein 18½, E Rand Prop 24½, FreeGold 11½, Grootevlei 4½, Harmony 17½, Leslie Gold 180, Randfontein 52⅞, SA Land Ex 185, Southvaal 38½, Stilfont 7⅞, Venters 8⅞, West Rand 316, Zandfont 74.
Low investor interest dampens gold

By Sven Lünsche

The investment sector of the market contributed to be the
major factor in the price of gold
in 1985, with the supply of gold
being in excess of fabrication
and physical demand.

Writing in the annual reports
of Anglo American's Transvaal
gold mines, Mr Peter Gush,
chairman of Vaal Reefs, Western
Deep Levels, Southvaal and
Elandsrand and Mr Theo Pretorius,
chairman of Afrikander
Lease and Sallies, say that Western
World production of gold
last year showed a slight in-
crease over 1984, but that the
overall supply of gold did not
change substantially in 1985.

The limited investor's interest
was reflected in the narrowest
annual trading range in dollars
seen in the gold market since
1977. Gold traded during the
year between $285 and $311 an
ounce, a range of only $26.

The chairmen feel that the re-
duction in gold consumption in
the coin sector has also contri-
buted to the depressed prices.

"Although gold consumption
for jewellery fabrication was
maintained, the ban on imports
of Krugerrands by the USA,
Japan and Commonwealth coun-
tries caused this significant re-
duction.

"Other coins have not yet
filled the void and overall the
surplus of gold remained to be
absorbed in investment markets
in competition with more fa-
vourable opportunities. Depres-
sed prices were the immedi-
ate result," they said.

The outlook for 1986 is more
favourable. The combination of
a lower dollar exchange rate
and concerns of an international
banking crisis as a result of the
sharp reductions in world crude
oil prices, have pushed the gold
price into a yet unstable, but
likely, new range of $330-$360.

"The recovery in the price of
gold has been matched by a
strengthening in the value of the
rand. Subject to political senti-
ment, any further improvement
in the price of gold is likely to
increase the strength of the
rand, and it is unlikely that the
average rand price of gold will
improve markedly," they said.

Turning to the economy, Mr
Gush and Mr Pretorius write
that economic and political de-
velopments affected the gold
mines in different ways during
the last financial year.

The lighter monetary and fis-
cal measures adopted in mid-
1984 had a recessionary effect.
This coupled with the accom-
panying unemployment and the
slow rate at which political and
economic reform were taking
place, manifested itself in seri-
ous unrest and the foreign debt
repayment standstill.

"As a consequence of these
factors the rand was weakened
considerably and this resulted in
the high rand-gold price re-
cieved by the mines during the
past year. However, the nega-
tive impact of this is already
being experienced throughout
the economy," they said.
A GOLD swap helped the rand recover yesterday to close at 0.4675 after easing to 0.4575 in the morning.

Reserve Bank Governor Gerhard de Kock told Business Day that market talk about the gold swap — in effect a pledge of bullion to secure dollars — had been finalised to augment existing foreign reserves for the April 15 foreign debt payment.

De Kock re-emphasised that the Bank was well placed to meet repayment and will still have the future means to support the rand.

The disclosure of additional dollars being made available will probably erode the market's original assumption of a dollar crunch when the first debt instalment is made.

The swap was done more for prudence than for need.

Moreover, some foreign banks might allow debt that had matured to be rolled over. This could reduce the size of the $420m first payment.

The reversal of the rand's easier trend started with a normal supply of export dollars coming into the market.

The Reserve Bank was able to nudge the rand up after support was attracted at 0.46. It did so after midday when trading had thinned out and talk of the gold swap had filtered through to the market.

Trading is expected to be light today ahead of the long weekend, over which period exporters will attempt to hold as many dollars as possible.

Some banks remain cautious about interpreting yesterday's rebound as a definite turning point.
GOLD

Sentiment turns bullish

Predicting the gold price has caused many analysts to rue the day they opened their mouths on the record, but an increasing number believe conditions are favourable for gold and the price could be set to move. Maybe not next week nor at first dramatically; but over the next few months they feel the gold price should perform.

Reasons lie mainly with increasing physical demand for gold for use in coins; the slumping oil price and the threat that poses to the international banking system through the debts of Third World oil-producing nations; and worries over labour developments this year at South African gold mines. Other factors include the repercussions of US economic actions against Libya, which have seen countries like Peru and Nigeria relocating and reshuffling monetary assets.

There are as many wild cards and jokers in the determination of the gold price as ever, but general opinion is that the balance is swinging in favour of the price moving up. Differing opinions, however, are what make markets: there are still analysts with strong bearish feelings.

"I believe there is greater downside risk than upside potential medium-term on the basis that a potential dollar rally is looming, even though the dollar may be in a long-term bear market," says Charles Johnstone, senior trader at Holcomb Commodity Brokers.

He points to healthy demand for physical gold over the past few months, particularly the unknown buyers who took some 120 t out of the market in January, taking up much of the slack on the supply side.

Davis Borkam economist Mike Brown says the market has yet to see the demand — which could amount to some 200 t — from Japan for commemorative coins this year. The US also intends minting gold coins this year or next.

"I do not believe the gold price is ready for a run quite yet; but I believe favourable developments are a few months ahead and feel a bit more optimistic on gold's prospects," says Brown.

"Physical demand has been good and there has been reasonable underpinning at $330/oz. Short-term signs look bullish. The movement upwards through a key point of resolve on the charts last week was encouraging technically," says a partner in a major broking firm dealing only with institutional clients.

Nearly all analysts are concerned about the labour situation on the mines this year, of which a taste has been given at Randfontein, Blyvooruitzicht and Vaal Reefs. Large-scale disruptions could have a dramatic impact on the gold price because of the psychological effect of problems with the world's major supplier of the metal and also possible contraction of supply, depending on how tight the market situation may be.

The first indication of the effects on production will come early next month with the March quarterly reports. However, huge quantities of gold in private and institutional hands could be coaxed onto the market if the price rose enough, to make up any shortfall in current production. A labour-management crunch on the mines would not be favourable for investors looking at gold shares; many have turned to Krugerrands in preference.

OIL

Opec in retreat

Opec is in full retreat from the battlefields of the oil price war it started in January. After eight days of agoniising in Geneva, Opec's 13 oil ministers agreed that the decision to go for a bigger share of the world market had been a mistake and that production cuts were necessary to revive crude prices, which have halved in three months.

They totally disagreed, however, on how cuts should be shared. As the FM went to press it seemed that the emergency meeting would break up with a general statement of intent to restore oil prices to US$26-$28/barrel, but no deal on the method.

Opec's acknowledgement of its error produced some reaction. The free market's benchmark crudes, North Sea Brent and West Texas Intermediate, rose by about $1/barrel to straddle the $14/barrel level. But there was no panic to buy as all the evidence from Geneva pointed to mounting discord within the cartel.

The Indonesian oil minister, Dr Subroto, came up with a price-saving production figure: 14m-15m barrels per day (bpd) against the current 17.5m. That was accepted. Little else was.

The five non-Opec producers at the meeting — Mexico, Egypt, Oman, Malaysia and Angola, which account for 9% of world output, promised co-operation. But they rejected out of hand the proposal that this should run to a 20% production cut.

Subroto wryly admitted: "We are on difficult terrain: lots of treacherous rapids, deep ravines, even quicksands." His confidence that Opec could negotiate its way through, however slowly and cautiously, was not supported by other cartel oil ministers. Venezuela's Arturo Hernandez Gristani, current Opec president, said that while Opec was agreed on a gradual restoration of the price to around $28, his country's president had ordered him not to accept "a single barrel reduction" in output.

Nor could Saudi Arabia, Iraq, Ecuador and the United Arab Emirates give their agreement to the quotas envisaged.

Iraq, having just increased liftings by 500,000 bpd to 1.7m bpd, demanded this level be left untouched. Its Gulf war antagonist, Iran (recent output 1.7m bpd against 2.3m bpd quota), will not make a deal unless Iraq accepts barrel-for-barrel matching cuts from the original 1.2m barrels figure.

The Saudis, offered a quota of 3.4m bpd against 4.35m (which approximates present output), demurred. They have been laying claim to 27% of Opec quotas, which on 14m bpd equates to 3.8m. Sheikh Yamani pleaded that he did not understand the figures, nor was he in contact with his own government — now totally opposed to Saudi Arabia resuming a sacrificial role of swing producer.

RAND'S PRICE

March 24 1986

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Financial Mail March 28 1986
Amgold chief bullish on gold

GOLD is unlikely to lose its attractions even if the Western world enters a new era of sustained growth and low inflation, says Anglo American Gold Investment (Amgold) chairman J Ogilvie Thompson.

On the contrary, he says in his annual review, its position in consumption and for risk diversification could well be considerably strengthened.

However, the present behaviour of the price attests to the delicate interplay of opposing forces in the current volatile situation.

On the supply side, worldwide mine production is likely to increase with growing sales from the communist bloc to offset lower revenues from oil exports.

Nor can distress sales of gold from some debtor countries be ruled out.

On the demand side, jewellery consumption should be encouraged by the relatively low gold prices in terms of the yen, Deutschemark and Swiss franc, for example, although the dollar price is an important psychological factor.

The coin and medalion markets are by no means moribund and some resurgence is expected. But industrial offtake is unlikely to improve in the short-term.

Regarding fabrication generally, Thompson notes the growing importance of Japan as an importer of gold. He says this is likely to continue as a reflection of the stronger yen and fiscal changes to encourage spending.

Given traditional Japanese attitudes towards saving and consumption, this may well find expression in a greater interest in gold in all forms.

Investment demand will remain a crucial factor. The outlook for US inflation will be conditioned by the effect of the lower dollar, as opposed to a possible reduction in the budget deficit.

Outside the US the benefits of lower oil prices for oil-consuming nations, including less-developed countries like Brazil and South Korea, are clearly evident.

"But it remains to be seen how the international banking system can cope with the adjustments that will be forced on Mexico, Venezuela and Nigeria, not to mention the Middle East as a whole."

Thompson says the performance of US markets provides an interesting backdrop to changes in the gold price.

The sharp decline from $510 in November 1984 to below $300 in March 1985, and its moderate recovery to about $325 at end-September 1985, reflected reduced activity on the futures market and was associated with an upward trend in equity and bond prices.

"Yet the inverse relationship was not more marked in the final quarter of 1985 when security prices spurted ahead with renewed vigour. The gold market had clearly established a floor in the $320-$335 range," says Thompson.

He ascribes this remarkable resilience in the face of negative factors to changing attitudes towards the question of international debt.

From a strong belief that it could be handled through rescheduling and continued IMF surveillance, it became apparent that much of the advance by many developing countries in restoring their external positions was due to the exceptional growth in the world economy in 1984.

The potential for developing countries to reduce debt/service ratios and further was becoming limited by a slowdown in the US, poorly performing commodity prices and relatively high interest rates.
Gold still has a good future
Amgold chief

By Gareth Costa

The outlook for gold in the near future is subject to more uncertainties than usual, but even if the Western world enters into a new era of sustained growth and low inflation, gold should still remain attractive, says Anglo American Gold Investment chairman Mr Julian Ogilvie Thompson.

On the contrary, he says in his annual review, its position in consumption and for risk diversification could well be strengthened considerably. “At present, however, the behaviour of the price attests to the delicate interplay of opposing forces in the current volatile situation.”

Mr Ogilvie Thompson says only a tentative assessment of the supply/demand outcome for 1985 can be made at this stage, but mine production increased and sales by the Communist Bloc were probably slightly higher.

Gold supply for the year ahead should see increased mine production world-wide along with sales from the Communist Bloc, particularly in view of lower revenue from oil exports. “Distress sales of gold by some debtor countries cannot be ruled out,” he says.

“Turning to demand, jewellery consumption should be encouraged by the still relatively low gold price in terms of the yen, deutschmark and Swiss franc, for example, although it must be recognised that the dollar gold price is an important psychological factor and that the market is sensitive and takes time to adjust to new price levels.”

He says that the coin and medallion markets “are by no means moribund” and some resurgence in this area is expected, but adds that industrial off-take is not likely to improve in the short term.

Mr Ogilvy Thompson says that Japan’s importance as an importer of gold for fabrication was a feature of 1985, and is likely to continue as a reflection of the stronger yen and certain fiscal changes encouraging spending.

He says that investment demand will remain a crucial factor, and the outlook for inflation in the US will be conditioned by the effect of the lower dollar as against a possible reduction in the budget deficit.
Major obstacles to growth are raising of overseas capital.
about 900 000 t/month of milled ore. Also pending is a decision on further expansion to the south which, again, will maintain output and not boost it.

A new twin-shaft system will be sunk to a depth of about 1 890 m to mine the Goedgenoog area at an estimated escalated cost of about R940m. Chairman Peter Gush says in his review that the ore reserves available to the existing Vaal Reefs shaft systems will keep the mine operating at full milled production capacity until about 1994, after which production will start dropping from the Nos 1, 6 and 7 shafts.

The 6 and 7 shafts lie in the western section of the Vaal Reefs mining lease next to the Goedgenoog area, and the existing infrastructure will be used in opening up the new area. That Vaal Reefs already owns mineral rights to Goedgenoog may have been a factor in the decision to go ahead there and delay development of the Moab area to the south of the mine for another year.

The mineral rights to Moab are held by Anglo and Gush says the feasibility study on Moab is to be put to the board early in 1987. The region has been redesignated the proposed 11 shaft area from the proposed 10 shaft area.

A key point to emerge from the report is that despite four months of labour unrest, including the dismissal of some 14 000 workers — 95% of whom were subsequently rehired — gold production for the year dropped by only 2% to 81,4 t. The mine made up lost production through waste washing, heap leaching and treatment of surface dumps, and it was helped by the build-up of tonnage from the No 9 shaft which reached 79 000 t/month by December and should reach about 96 000 t/month by the end of this year. Full output of 240 000 t/month is scheduled for 1991.

The mine is again embroiled in extended labour disputes, with four shafts recently temporarily closed down. While a full-scale labour disruption would hammer Vaal Reefs’ results it is worth noting how effectively management can claw back lost production through various routes. Capital expenditure for 1986 has been put at R181m (1985 — R169,4m) and gold production is expected to be slightly higher than last year.

Western Deep Levels’ No 1 shaft kicks off this year and starts the mine’s thrust into the Western Ultra Deep Levels (WUDL) region, heading for depths of 4,5 km and deeper. Gush says the shaft should be hoisting more than 70 000 t/month of ore by December and the No 1 shaft treatment plant should be working at its capacity of 160 000 t/month by end-1988.

However, design changes made to the No 1 shaft mean it will be able to hoist 300 000 t if management decides this is justified, and not the originally estimated 180 000 t. Drilling is currently taking place in the WUDL area to assess the Carbon Leader reef which did not form part of the original feasibility study for the shaft. Gush does not reveal if a decision has yet been taken to go for the higher throughput, which would also mean expansions to the treatment plant.

Grade at the mine has dropped steadily from 12,56 g/t in 1981 to 9,19 g/t last year, and Gush says it will drop further in 1986 but does not specify to what level. Increased throughput from the No 1 shaft, the conversion of the uranium plant to gold production and the No 3 shaft rock dump reclamation plant commissioned last August should see gold production up 10% in 1986 compared to 1985’s level of 37,5 t. Capital expenditure for 1986 is put at R249m (previous year R284m).

SA Land chairman Theo Pretorius has finally confirmed the JSE rumours over the last few months of a possible link-up with Egoil to rope up underground workings at the last Sollies No 1 shaft and including the old Sollies No 2 shaft.

Brakpan mine claims.

He says feasibility studies have not yet been concluded and a crucial factor is the allocation of costs for pumping underground water from the whole of the East Rand Basin. Gencor’s Grootvlei mine has been doing the pumping but the State last year withdrew its subsidy for the work and Grootvlei is not prepared to carry on bearing the total cost while other mines reap the benefit.

The announcement adds some speculative interest to Sallies — but investors should remember the way the share price collapsed in November 1984 when Anglo, after extensive studies funded by a rights issue, ruled out restarting underground operations.

Elandsrand expects to build up gold production at the same rate as last year, meaning the mine is looking for about a 10% increase in production, to 13 t from last year’s 11,5 t. Capex is estimated at R69m (previous year R71,5m) and chairman Gush says results so far from the prospecting programme show there is a higher-grade trend of the Ventersdorp Contact Reef into the south of the lease area.

Brendan Ryan

FINNAI

ANGLO GOLDS

R940m capex plan

As the world’s largest gold mine, Vaal Reefs has to sprint just to stand still. The R940m expansion to the west of its present lease area announced this week in the annual report is one of a number of moves aimed at maintaining its long-term production at a rate of
Win on inflation: lose on gold
reserves is a case in point, and will probably be unavoidable, as it might be expected by an enlarged, sophisticated group of shareholders. Another question is whether other merchant banks — such as Sebenbank, Standard Merchant Bank, Finansbank and Rand Merchant Bank — will feel the need to follow VMB’s example.

Christopher Marchand

COMMERCIAL LEANING

Tamboti, SA’s twelfth property fund, will be listed on the JSE on May 14. The public are to be offered 5m units at R2 each, half of these to be preferentially allocated to unit holders in Umdoni, a sister fund launched by Yellowood Property Fund Managers in 1983.

An additional 10.7m units will be privately placed through institutional investors, and the remaining 54.3m units will go to vendors who contributed properties to the fund. Offers open on Wednesday, April 9 and close on April 30.

The prospectus forecasts the yield for the first full year at 12%, which compares with the sector’s historic average yield of 10.9%. On fundamentals, directors say they would “reasonably expect there to be a premium of between 10% and 15% on the issue price.”

When Umdoni was launched three years ago, it was 25 times oversubscribed. Considered.

Based, and spread more heavily into mixed commercial and retail suburban development. Umdoni is more firmly located in Natal with the emphasis in the industrial sector.

That the fund’s leaning towards the commercial and retail sectors is a weakness in the current soft retail market is conceded by Mick Hyatt, MD of Russell Marriott & Beaton Trust, which assembled the portfolio. He tells me the objective is to redress this imbalance. Cash generated through the listing, he says, will be ploughed primarily into industrial properties in the Transvaal.

A breakdown of the portfolio shows Tamboti has 42.8% of its investments in offices, 26.8% in shops, 36.7% in properties and 36.7% in industrial properties. Ideally, Hyatt says, the industrial element should be doubled to provide a greater risk spread.

STATE OF LISTINGS

Tamboti is only the latest of a spate of new property trust listings. The sector’s market capitalisation has grown from R256m to R1.6 billion in five years. This has led to doubts about the attraction of more listings, and it has been suggested that Yellowwood might have done better to put more Umdoni units onto the market.

Hyatt insists, however, the sector is not over invested, and there is probably room for “many more funds.” Viewed against the size of the total property market, the sector’s capitalisation he argues, is “a mere drop in the ocean.” Besides, adds, there were cogent reasons for the formation of a new trust — one being that vendors invariably look for units rather than cash.

Comparisons will inevitably be made with Umdoni. One salient difference is that Tamboti leases have, on average, longer to run. A total of 48% are due for renewal after the fifth year. It also has secured some major lease insurance guarantees which Hyatt describes as “putting belt and braces over the income stream for the first five years.” This may put it in a stronger position than its sister fund.

Graham Fiford

HEAVY ON OFFICES

Analysis of total Tamboti portfolio (by value)

NATAL 37.64%

TRANSVAAL 23.24%

INDUSTRIAL 36.75%

SHOPS AND OFFICES 3.68%

OFFICES 42.65%

SHOPS 16.82%

GOLD REPORTS

CAUTIOUS VIEWS

The rand gold price should be weighing heavily on the minds of Gencor’s gold division executives — it currently sits below the pay limits set out in the latest batch of annual reports from the group’s gold mines.

Gencor recalculated its gold ore reserves at R24 000/kg compared with R19 100/kg in 1985, giving the clearest indication in the generally guarded-world reviews of the average gold price it expects this year. The strength of the rand since January depressed the rand gold price close to R21 000/kg at one stage. It now stands at about R23 000/kg.

Add an underperforming rand gold price to the effects of 18% inflation on working costs, and you have a scenario which could lead to a replay in this year’s wage negotiations of the stand Gencor took on pay increases last year. The tight financial constraints facing some of its mines persuaded the house to dig in its heels over wages.

The house applies a rule of thumb that a 20% rise in working costs makes 10% of its gold reserves inaccessible if the gold price remains unchanged. A wages amount to 50% of working costs — more on some of the older mines — so a 40% pay increase will provide the 20% rise in working costs.

Closest to the edge is marginal West Rand Cons, where December-quarter working costs in the December quarter hit R20 765/kg, perilously close to breakeven on current rand gold prices. Management had planned an ambitious capital programme for 1986 amounting to R8.7m compared with R3.2m in 1985.

Chairman Bruce Evans says some capex may have to be deferred over the next few years depending on profitability. A key element in the capex plan is R1.2m intended for a pilot plant to assess the technical viability of ore reserves in the North Sand Lump. Evans says the mine has limited high-grade areas available to provide some buffer against inflation and low gold prices, and its policy of hedging gold sales will continue.

GrooteiV has started drilling from the surface to explore the area lying east of No 6 shaft as part of its drive to find new payable ore reserves on which its continued existence depends. The recalculation of reserves at R24 000/kg has raised available reserves by only 40 000 t to 2.8 Mt. The mine’s working costs went up by 19% in 1985, and management is involved in negotiations to share the cost of pumping water from the East Rand basin with other mining companies following the end of the State subsidy for this work. Capex for 1986 is estimated at R10.1m (previous year — R7.7m).

Marivele, in addition to the normal problems of being a highly marginal producer, currently has the added burden of being some 533 employees over strength. It had to re-instate these workers after negotiations with the National Union of Mineworkers (NUM) following the decision in the Industrial Court, confirmed by the Supreme Court, that it had dismissed workers unfairly last year. Chairman Carl Netsher says the employees recruited to replace dismissed strikers will be transferred over time to other mines — in the Gencor group.

Beatrix chairman Ted Paton says development work will continue on a multi-plant basis until the required ore reserves for the present rate of production have been established. He says numerous water intersections delayed the establishment of stoping face, but production forecasts have been met any way. The share price has been weak recently, apparently on investor concerns over the company’s borrowing; but two leading mining analysts say these fears appear unfounded and the share rates a buy at present levels of around 760c.

Brendan Ryan
THE Reserve Bank's gold and foreign exchange reserves fell by only R532m to R3,804bn at the end of March, in spite of the bank's stock of bullion being diminished by 366,983 ounces.

It is improbable that all this gold was involved in the swap agreement announced last week by Governor Gerhard de Kock because the February holdings of bullion was 93,000 ounces above the December and January numbers. It seems likely that between 350,000 and 360,000 ounces was used in the deal, which might have raised about $560m.

This is estimated on the assumption that 300,000 ounces were pledged to the foreign lender at a price of around $300/ounce. This is far short of the maximum $480m which must be paid to foreign debtors by next Tuesday, but Reserve Bank assets would not show the amount of dollars held by the Public Investment Corporation (PIC).

The PIC collected the interest due by SA debtors, payable in dollars, since the start of the US dollars' standstill and which presumably was invested abroad pending last month's interim repayment settlement.

The Reserve Bank also appears to have dipped into its own holdings of dollars to meet the first repayment tranche because, according to the bank's statement, its holding of dollars dropped from R1,001bn at the end of February to R871bn at the end of March.

The Reserve Bank's Other Foreign Assets were also reduced by R48m.

The reason why the total gold and foreign reserves showed a decline of only R532m was that the reduced gold holdings were valued at R641,30 an ounce, compared with R613,28 in February and R725,97 in January. It reflects how tenuous is the valuation of bullion in the vaults, because its depends not only on the movements in the gold price but also the exchange rate of the rand.

In spite of the draining away of the gold holdings, the value of the Reserve Bank's gold was R3,835bn at the end of March, compared with R3,057 at the end of February.

Bearing in mind that any financial statement reflects a position at a given point in time, the Reserve Bank has probably increased its foreign currency reserves this month — particularly since import demand appears to have been light and yesterday's reports tell of the foreign exchange market having a surplus of dollars.
Balanced upon a solid-gold sword’s-edge

Common sense economics tells us that when oil drops, gold must follow. How then do we explain gold’s relative strength this week?

DUNCAN INNES reports

The dollar price of gold is currently poised on a knife’s edge. Towards the end of last year, gold was trading in a narrow band between $315 and $330. More recently it has broken upwards and, since January, has traded mainly between $330 and $355. Apart from its initial breakout spurt, which took it briefly up to $380, gold has not been able to sustain itself for any length of time above $355. But it has fallen significantly below the $330 mark. This latter fact is particularly important.

Last week’s collapse in the oil price to below $33 per barrel has serious implications for gold, which is often bought as a hedge against inflation.

Opec’s first major price rise in 1973 played a part in freeing gold from the $35 to $42 oil price range in which it had been held since 1944. The second major price rise in 1979 sent gold soaring through the $300 mark to reach $480 in January 1980. However, since then, gold has been on a steady downward trend.

Since there is a clear correlation between inflationary expectations and the dollar price of gold, the recent collapse of the oil price, which is deflationary, must exert downward pressure on gold.

This pressure is strengthened by the fact that the oil price collapse is not an isolated occurrence. It is part of a general decline in world commodity prices, especially primary goods. The collapse of the international tin cartel a few months ago is further evidence of this, and is current low dollar prices for such diverse commodities as copper, sugar and silver.

These price falls raise the prospect of an underlying phase of deflationary growth in the developed countries. In February — that is, before the most recent collapse in the oil price — the United States consumer price index recorded its biggest drop in over 30 years, while similar indices in Japan and most European countries are also falling. Consequently, stock markets throughout the West are booming, as for the first time in 40 years, developed Western economies look forward to the prospect of economic growth without a concomitant fear of immediate inflation.

For the South African economy, this is not good news. High local inflation combined with falling world prices of raw materials, which are our main exports, will put a squeeze on many local exporters. This in turn could adversely affect the balance of payments and therefore the rand. If the general deflationary environment knocks the gold price as well, our misery will be complete.

Yet, significantly, gold has not yet begun a major slide. Many commentators have pointed to the fact that last week the gold price followed the oil price downwards. But this drop was not particularly significant, especially as the price held at around the previous break-out point of $330.

A more meaningful comparison is between gold’s performance and the oil price over the last six months. During the period since last November the price of oil has fallen by around 66 percent (from over $30 to $10 a barrel), while the price of gold has actually risen — from trading mainly in the lower $315 to $330 band to the higher band of $330 to $355.

How, then, does one explain gold’s current strength in the face of a deflationary environment?

Here we must remember that although a correlation does exist between the gold price and inflation, a number of other factors also influence the metal’s price movement. These may be summarised as follows:

First, there are the contradictory implications of the oil price collapse. For the developed Western countries this collapse is unquestionably good. Even for those developing countries which are also oil producers, such as Britain, Norway and the US, benefits will flow since oil makes a relatively small contribution to their total GDPs. Consequently, the advantages of cheaper energy to their economies as a whole will far outweigh the detrimental effects of lower oil revenues.

Not so the Third World. For oil-producing countries like the Third World countries, Mexico, Venezuela, Indonesia and Nigeria, which rely heavily (if not almost exclusively) on oil revenue, the news is exceptionally bad. Even for those non-oil producing Third World countries which rely on exports of primary commodities, the current deflation poses problems. Although they will benefit from the lower costs of imported oil, their export revenues will probably be hit in the short term.

This, of course, raises the danger that some of these countries, may well come to the rescue of the Third World countries.

It will also probably swing the market advantage back in favour of the oil producing countries, which may then enable Opec to resume its monopolistic practices, thereby forcing up the oil price again.

Thirdly, a major US-led economic upswing can only strengthen the dollar (which, despite its recent fall, still seems over-valued), thereby weakening US exports and causing the import bill to rise. This in turn will push up the deficit on the current account of the US balance of payments, causing the US foreign debt to grow to what is likely to be mammoth proportions and generating widespread nervousness of a possible financial collapse in the US — a scenario which favours gold.

The final factor in gold’s advantage arises out of the very volatile situation of the world in the moment. Economically, the fact that the current era of prospective deflationary growth has not been encountered since World War II means that investors have few guidelines to go by of what to expect. This uncertainty may well lead many of them to accumulate at least some gold — just in case.

Add to this the precariousness of the world political situation at the moment as Reagan and Khadafi line-up for the Gunfight at the Gulf. Sirie you have an even stronger argument for "just in case".

For a variety of reasons, then, gold is currently poised on a knife’s edge, caught between the powerful deflationary force pushing it down and the countervailing factors mentioned above which are holding it up. In the light of this it seems far from obvious at the moment that gold is definitely heading south, though there are many who are arguing this.

Certainly one can expect a good deal of price uncertainty in the coming weeks. The figure to watch is the $330 price mark in the previous breakout point. Only if gold breaks below this figure can we say that it is likely to be headed a good deal lower. So long as it holds above $330 it is still in relatively safe territory. And the longer it holds above this point, the more likely it is to move back up again, possibly above the $350 level.
Springs Dagga merger 'makes sense'

Rand gold price hits

Golden Dumps, GFSA

By Gareth Costa

The recently depressed rand gold price has marred the performances of the gold mines of Golden Dumps and Gold Fields of SA, with GFSA's after-tax profit down from R273 million to R240 million for the quarter to end-March 31.

A big difference has also arisen between the prices received by the two houses for their gold, with the two Golden Dumps mines (Consolidated Modderfontein and South Roodepoort) receiving an average R23 341/kg and R23 370/kg respectively, while the GFSA average was R25 029/kg (The previous quarter's gold price average was R27 170/kg.) Cons Modder made a net profit of R10.8 million, down from R14.9 million. South Roodepoort was only slightly down from R23.9 million at R23 million.

Golden Dumps chairman Mr Loucas Pouroulis said that the reason for this was the difference in actual accounting periods. "We delivered our gold once a week during the quarter, and received the price of that time. The average for the actual quarter was just over R22 000/kg."

Golden Dumps closes its books about 16 days before the end of the quarter, while the other mining houses close theirs as much as a month before the quarter ends.

This accounting technicality reflects especially badly on Golden Dumps because during December the rand was below 40,00 US cents, so gold sales during this time would have been much higher than those during March (see graph), and Golden Dumps did almost a third of its sales during this time.

Critics challenged.

However, working costs on Cons Modder and South Roodepoort are still way below other mines, with an average R64.69 per ton for the two, while the GFSA average costs were R81.57, and this helped to offset the much lower gold price. Mr Pouroulis challenged any critics to see if they could find other mines to match his working costs.

The third operation controlled by Golden Dumps, Springs Dagga, has been the subject of much speculation on the JSE lately, and rumour has it that there is going to be a merger of it and Cons Modder.

The main reasons cited for why the merger should go ahead are the delaying of tax payments by Cons Modder, a life extension of as much as 30 years and the boosting of ore tonnage to more than double current levels. Sources close to the company say plans are going ahead, but Mr Pouroulis and his directors are still remaining tight-lipped over the issue. One director answered a question about the merger by saying: "We've heard those rumours too, and they make good sense."

Cons Modder is currently being assessed for tax and could expect to pay tax in the next six months. However, the merger could save Golden Dumps as much as R180 million in tax alone, calculates one mining analyst. But sources report that benefits could go a lot further than that.

Springs Dagga is only due to come into full production in July 1987, but work on the mine is reported to be slightly ahead of schedule. Director Mr Richard Johnson reports that a new station is being cut in the Kimberly Reef which will make access to the lumps of reef much easier.

In the GFSA stable, Kloof and West Drie both experienced hiccups in yields, with West Drie's drop being attributed to a temporary loss of access to the carbon leader. Kloof's drop "cannot be explained."

The group is drilling two boreholes to explore the southern boundary of Deelkraal. Vlakfontein was the only operation to reduce working costs.

GFSA's total gold production was 29 861kg, down from 30 326kg, with revenue also down at R749 million from R832 million. Total working costs were R305 million, up from R294 million.
Looking sickly

Figures just released from the Reserve Bank indicate a fall-off in gold holdings of R4,74m to R3,03 billion in March. In February they fell R510m to R3,04 billion.

In volume terms this represents a fall from 4,59m oz to 4,95m oz. Gold reserves were valued at R661,30/oz in March against R613,28 in February and R729,97 in January, which helps explain why the drop in gold and forex reserves was only R532m, although the stock of bullion fell by 367,000 oz. The total value of gold and foreign assets was R3,804 billion, down from R4,74 billion.

Sombre picture

If, as Business Day reported on Monday, one takes the gross figures and deducts short-term liabilities of the monetary banking sector, the picture is sombre — a real reserve figure of a negative R2,8 billion at the end of last year. Indeed, if we go back to 1971 and deduct reported changes of net reserves, a base figure of R6,4 billion would have been needed at the end of that year if a break-even point were to be reached in 1985.

In fact, reported 1971 net reserves were only R374m. As Ronnie Bethlehem of JCI points out, “the figures are technical in that we have seen a shift into the monetary banking sector of short-term liabilities normally recorded under corporate debt.” It is not usual for credit lines to be subtracted from gross reserves.

Mike Brown, economist at stockbroker Davis Borkum Hare, believes the low level is cause for concern when taking into account foreign commitments, more specifically, debt repayments outside the standstill. Should imports start to pick up in the near future, says Brown, there is bound to be an impact on BoP.

Despite the debt moratorium and strict forex measures, the net outflow on capital account was R10,4 billion in 1985. Seen in this light, the reserves could be inadequate to sustain any large shocks unless stability and confidence return to the market.

A sobering analysis comes from Bethlehem, who regards SA as having “an extreme liquidity crisis.” He observes that the authorities have limited room for manoeuvre in the forex market.

Bethlehem tells FM that there are, however, grounds for optimism. He points to a projected healthy current account surplus potential in 1986 and buoyant non-gold export growth. The drop in the oil price relative to the gold price will help BoP too, improving the terms of trade, Bethlehem believes.

Given SA’s counter-cyclical pattern of economic growth, recession at home and vigorous growth abroad bodes well for exports. Strong export growth on the back of a weak rand will bolster SA’s balance sheet. The upshot will be relief for the reserves and current account, whose surplus has effectively been mortgaged on foreign commitments.
Plunge drastically

Rand corporation’s profits

Gold future contracts prove expensive for JCI

By Carter Cohn

The source of earnings at Rand corporation is the sale of futures contracts, particularly those with gold. However, the recent decline in gold prices has caused a significant drop in profits. The company has been forced to take losses on some of its contracts. As a result, Rand corporation's profits have fallen drastically.
THE rand came close to breaching the 45 United States cents mark yesterday as the gold price spurted to over $350.

The rand was poised to reach 0,45 around midday but then eased back in the afternoon to close at 0,4485.

Gold's rise was caused by growing fears that the slump in world oil prices may lead to Third World oil producers being unable to repay their loans to United States banks.

Gold shares rose on the Johannesburg Stock-market with the major gold mines — which are favourites of overseas investors — soaring in heavy buying.

Sterling weakened yesterday amidst the Westland crisis and at the close of markets last night only R3 were needed to buy a pound.

Full report page 10
Disappointing trend in gold quarterlies

By Gareth Costa

Foreign and local gold analysts have pointed to Randfontein and Buffels as the “most shocking” of the quarterly results, with the general trend disappointing even in the light of the lower rand gold price.

Mr. Warren Myers, gold analyst at brokers Merrill Lynch in New York says: “The December quarter featured a spectacularly high gold price and it was inevitable that the results in the latest quarter did not look so good. However, Gencor’s results were the most disappointing in general and Buffels is looking particularly sad with its working costs sky-high.”

Mr. David Giese from brokers Davis Borkum Hare says: “Buffels’ bad performance is a signal that it has got problems and it is running out of reserves. They are battling with the Strathmore shaft and so have a reduced tonnage because of a shorter working face. Working costs are also 23.6 percent up.”

Randfontein was also in line for casting back, as Mathison and Hollidge broker Mr. Hilton Ashton says: “Randfontein was disappointing and it high lighted the impact of labour problems affecting grades. I expect the market to re-rate the share 10-15 percent downwards. On these results the share is overpriced.”

Randfontein also featured the lowest gold price received of all the mines, but the JCI management team seem unrepentent and unwilling to provide a detailed explanation of their currency dealings.

Hartebeesfontein was unanimously the high light of the quarter and as Mr. Ashton says: “It is undervalued.” Mr. Myers adds: “The star performer.”

One of the reasons why Hartebeesfontein produced much better results was because it read the currency markets right in its forward sales and made a handsome profit. It was also one of the few mines to increase grades since most of the others did not begin to switch over to the higher grade areas along with the weaker gold price.

ET Con was also singled out as performing reasonably well, along with the Anglovaal mines and GFSA mines, which were the first out and looked rather poor initially. Kloof received the highest gold price for the quarter with an average R25 200/kg.

The Anglo American megamin mine Freegold also fared reasonably well with its first combined quarterly results, with profits only 17 percent down at R129 million when compared with halved profits of some of the mines. The Anglo mines all received better than average gold prices, with Freegold receiving R24 381/kg and Vaal Reefs R24 400/kg.

Mr. Giese says: “The Freegold results are impressive and in line with expectations, especially the dividend payouts. However, the full benefits of the merger are still to be felt. Also the developments along the Basal reef are encouraging.”

The total amount of gold recovered for the quarter by all the mines was 155 tons compared with 161 tons for the December quarter, with an average gold price of R24 042 against R26 127/kg.

Looking ahead at what investors can expect from the current and following quarters, Mr. Giese says: “I expect levels to flatten out and the mines to adjust to the lower levels with a switch of grades to the higher yielding areas. The quality mines are capable of doing this. Also some of the mines have year-ends after this quarter and we are now and we can expect to see them write off large jumps of capex against tax and so profits should increase. Some of these are Randfontein, Hartebeesfontein, ET Con and Buffels.”
Golds an insurance against ‘upheaval’

By Duncan Collings
Deputy Finance Editor
International brokers, S G Warburg, Rowe & Pitman, Akroyd (Rowak) say that they presently rate gold shares as holds for insurance against unexpected political or economic upheaval.

Noting that gold remains stuck in a narrow trading range, Rowak say the metal does not look likely to move much either way in the near term although there is some modest potential for an upward move considering the 'increasingly unstable political outlook.'

Pointing out that with the partial recovery in the rand marginal gold mines will be squeezed, Rowak says that their recommendations remain confined to the expanding, good quality ones such as Kloof, Southvaal, Western Deep Levels and Winkelbaaak.

Rowak say that "a highly geared marginal may perform better when gold moves but could be badly hit in the meantime."

As far as the international price of gold is concerned, on the positive side, fabrication demand continues to grow; concern over the imminent collapse of the banking system has been given a boost by the oil price fall (although this does not seem to be causing concern as yet). Disruption of South African supplies by strikes and unrest is becoming a potential bull factor.

Rowak says that such disruption is becoming progressively more likely as the black union movement gains strength but "we doubt whether any stoppage would be widespread or long enough to affect output very much. South Africa still has substantial reserves (nearly three months output) to make up any shortfall." Rowak identify the bear factors as the low international inflation rates, the Soviet need to sell gold for foreign exchange and increasing worldwide gold production.

But "if the price is going to break out, we currently think the odds are that it will go up because the general level of political tension is rising and we are not fully convinced that the problems of energy-related bank debt have been solved."

As far as South African gold mines are concerned, Rowak say the second quarter is likely to show another fall in profits. Working costs will inevitably rise and could be affected by stoppages as black wage negotiations proceed.

"The one bright spot," say Rowak, "is that grades could be raised modestly on some mines in response to the lower rand gold price but this is a slow process on most operations, particularly the deeper and more heavily mechanised mines."

"On balance, if current gold prices persist, ie R22 000/R23 000 per kg, working profits can be expected to fall away by about 20 percent compared with last quarter."

Gold, on the other hand, dipped slightly; traders believe that if the Russians were not going to buy agricultural produce from overseas, they would have to sell gold to raise the dollars to do it.
exposure to both the black market and exports.

Von Looper says Midas Parts Centre has been appointed a supplier to the Black Taxi Drivers’ Association, with a market potential of some 120,000 black taxi drivers. Exports have also grown from R500,000 in 1985 to R1.2m this year.

Although Midas’ earnings growth is backed by greater market share, its management of overheads has been outstanding. Von Looper tells me that overheads have been reduced by 20% of turnover in 1983, to the present 13.5%. Clearly, this has provided the leverage for the impressive earnings growth.

The ability of management to maintain control of the low overhead structure will be a key to future profit growth. Having learnt from the setback in 1983, the group looks to be headed in the right direction. If Midas can maintain this performance, I think the share should be worth acquiring on longer-term considerations.

**GOLD QUARTERLY**

**Little comfort**

At a time when the rand gold price is well down from its peak above R27,000/kg set in the second half of 1985, and average working costs are being pushed steadily upwards by SA's 18%-20% inflation rate, productivity is of crucial importance to the gold industry. There was thus little encouragement for investors in the production figures disclosed in the March gold quarterly.

Of the industry’s 34 producing gold mines, no less than 21 gold mines posted lower gold production in the December quarter. Only nine managed to increase output — some of these only marginally — and the rest were static.

In most cases, production fell because both tonnage throughput and recovery grades were down. Some unpleasant surprises were seen from a number of mines such as Kloof, whose grade dropped from 15.9 g/t to 13 g/t; Randfontein, whose grade fell from 4.8 g/t to 4 g/t; Eldorado, whose tonnage throughput slipped from 502,000 t to 465,000 t; and Buffalo, whose tonnage was down from 824,000 t to 704,000 t.

There were, however, a few more positive developments: These included an improvement in Eldorado’s grade, an increase in both tonnage and grade at Hartbeesfontein, and a grade increase at Libanon.

These figures refer only to one quarter and in many cases the fluctuations will be smoothed out by future results. On balance, though, the March quarteries have worsened rather than bolstered the currently dear market sentiment on gold shares. As present, there is too much caution around — on the possibility of costly labour unrest in the coming months — for investors swiftly to overlook steep falls in gold production and earnings. Highlights from the March quarter include:

**Freegold**

Tonnage throughput was higher at 5.3 Mt (5.2 Mt, but the recovery grade slipped from 5.26 g/t to 5.07 g/t, with the result that gold production fell from 27,138 kg to 26,856 kg. However, the real test of Anglo’s new Free State mines is still to come. If the enlarged mine can produce the vaunted productivity and cost efficiencies, its rating should improve.

The first major new development since the merger was announced this week was the go-ahead for a major new shaft system, the No 1 shaft Freddies mine, which will serve the north-eastern corner of the lease area. Current cost of the shaft is estimated at R728m. Production is set for 1991, when it will build up to an initial hoisting capacity of 180,000 t/month, with output capable of being increased to 280,000 t/month. The total life recovered grade is forecast at 7.5 g/t and the shaft will produce about 10 t of gold a year.

**Elandsrand**

The grade of 5.9 g/t was in line with the 1985 average, but gold production was curbed by a decline in tonnage throughput that resulted from increased seismic activity that damaged a number of underground workings. Significant production increases are expected in 1986/87 when the new gold plant comes into production and stoping starts from the new sub-vertical shaft.

**Ergo**

Although gold production jumped and taxed profit rose by 80%, distributable earnings were substantially reduced by a steep increase in capital spending, which climbed from R6.6m to R35.4m. Higher spending levels may curb dividend potential for some time, but longer-term production capacity is being increased.

**Vaal Reefs**

Production took a noticeably severe knock at the relatively high grade South Lease area, where both tonnage and grade declined, the latter falling from 9.54 g/t to 9.09 g/t. This was essentially owing to sporadic labour unrest which occurred throughout the complex. The adverse effects are expected to continue into the present quarter.

**Western Deep Levels**

Management blames the production fall on labour unrest and on increased seismic activity, particularly in the higher grade Up...
Manipulation of gold’s rand price can avert bear market

The decline in the rand price of gold has put gold shares into a correcting phase but it is not likely to develop into a bear market – provided the rand price is manipulated to keep gold above R650/ounce.

Writing in her Economic Reporter, Hill Samuel’s Carmen Maynard says she “suspects’ this is precisely what Pretoria will do.

“The recovery in the dollar/rand exchange rate has caused a substantial decline in the rand price of gold.

So, despite a gently rising price in the dollar value of gold the rise in the rand from 28 to 50 cents caused the rand price of gold to fall to around R700/ounce.

This she describes as the “lower end of the comfort zone” of mine profitability, gold mine taxes and export revenues.

“The Minister of Finance appears to have based his March budget on an average gold price of R725 dollars/ounce” she points out.

The March quarterly statistics reflect the turnaround in the rand value of gold as a result of sharply rising costs and lower revenues but quality gold shares continue to trade at relatively attractive yields and indeed even at $700/ounce, yields on such shares are double those of industrial shares.

South Africa’s continued dependence on the “barbarous relic” as gold has been described, is still very evident in Maynard’s analysis.

She comments: “The price of gold remains the big swing factor in the economic fortunes of the country and any move in any direction will inevitably overshadow all other considerations in determining the course of the economy.”

Against a gold price fall she lists:

- Plummeting oil prices.
- USSR gold sales to generate foreign exchange.
- For a gold price rise she lists:
- The doubtful stability of the international banking system.
- Falling US interest rates which could mean divestment into deposits and bonds denominated in other currencies — with a spin off benefit for gold.

She concludes: “While the gold price appears to be working its way back to the $400/ounce level, this is not a reflection of gold’s inherent strength but of dollar weakness.

“Nonetheless, gold is holding up surprisingly well in the face of plummeting oil prices, although it remains weak against non-dollar currencies.”

IMPROVED FINAL DEMAND

As for the long awaited economic recovery Mrs Maynard says there is little evidence of a build-up in inventories and the prospects for real investment spending are not encouraging.

“However, if short-term rates decline further and signs emerge of an improved final demand, some inventory build-up is likely during the course of the year.”

The foreign debt repayment requirement and the need for an on-going surplus on the current account to generate the necessary dollars remains the biggest threat to economic growth, she concludes.

On interest rates, she says there is some downside potential in long-term interest rates but it is likely to be short-lived.

Sapa.
Labour disputes and Japanese coin issue ‘could lift gold price’

By Neil Behrmann

LONDON — The gold price could rise sharply in May because potentially disruptive mine labour disputes will take place while Japan is ordering large quantities of bullion, according to brokers James Capel.

Japan has announced that it intends buying 200 tons of gold for coins which will commemorate the 60 anniversary of their emperor’s reign.

Some bullion dealers believe that the Japanese have covered their gold requirements by taking up gold options.

But James Capel, like others, cannot confirm whether options were purchased. If this is so, says the firm, the option grantees have not covered their option positions.

"Taking the Japanese statement at face value, it seems that either Japan or the option grantees will still need to buy the gold on the market," says the firm.

MINE STRIKE CALL

Gold purchases will begin immediately after the Japanese parliament approves the purchase, says James Capel.

The blanks for the 10 million gold coins must be completed by hand, so buying must take place as soon as possible.

But purchases of substantial quantities of gold will occur when there is a call for a national mine strike in South Africa. This will coincide with the tenth anniversary of the 1976 Soweto riots, and people in South Africa will also be commemorating the deaths in Langa township.

"This suggests to us that the gold price will move ahead smartly from May onwards."

"James Capel advises that only ‘braver (foreign) investors’ should buy South African shares. It recommends, North American, Australian and Canadian gold mines and also Sumitomo Metal Mining in Japan.

REASONABLE LIQUIDITY

SAFIT, the “South African Trust Fund” managed by the Union Bank of Switzerland, says that it has pursued a "rather cautious investment policy because of the unrest and the reintroduction of the dual exchange rate”.

But the Trust bought Driefontein, Kinross, Winkelhaak and Rustenburg in the first quarter of this year even though it “intends maintaining a reasonable degree of liquidity in the near future”.

Main holdings of SAFIT are Vaal Reefs, Southvaal, Driefontein, Western Deep Levels, Gold Fields of South Africa, AngloGold, Randfontein, Kloof, Free State Consolidated and Hartbeesfontein.

James Capel notes that few of its institutional clients are prepared to buy gold-related investments.

The firm says the market is very quiet. It may pay foreign investors to take a contrary view because a dearth of institutional interest indicates that a buying time is nigh.
'Smile', says Schoeman as gold income rises

DELMAS — Income from gold sales increased from R922 million in 1983 to R15460 million last year, the Minister of Transport Affairs, Mr Hendrik Schoeman, said yesterday.

Opening the Delmas Show, he said the gold price in March, this year, was S$346 an ounce, compared with S$317 last year, S$360 in 1984 and S$424 in 1983. Mr Schoeman said people were inclined to be pessimistic over the economy and he provided export figures which he believed "should encourage every South African":

- Exports through harbours increased to 53,1 million tons from 73,7 million tons in 1984 and 62,2 million in the previous year.
- Exports of iron ore last year were 10,4 million tons, the same as in 1984, although foreign exchange earned last year was R3,3 billion, compared to R2,418 billion in 1984.
- Coal exports totalled 43,8 million tons last year and earned R3,138 million, compared to 40,2 million tons in 1984, earning R1,716 million.
- Agricultural exports netted R2,338 million last year, R1,921 million the previous year and R1,773 million in 1983.

These figures, coupled with an expected increase in the maize harvest and political reforms being initiated, should promote a more positive attitude among South Africans, he said. — Sapa.
Reserves Hit Seven-Year Low

The Bank reported that reserves in April were 49% lower than in April 1977, the lowest level since 4777. The Reserve Bank announced that the reserves had declined 30% since 4977. The decline was partly the result of a decline in the average price per ounce of gold in the last 12 months. The average price was $330 an ounce, compared with $420 an ounce in 1977.

The Bank estimated that reserves were about $200 million as of April 30, 1978, which was 20% below the average level of reserves for the same month in the past 10 years. The Bank said that the decline in reserves was due to reduced demand for gold and weaker gold prices, as well as higher U.S. interest rates and the dollar's strength against major currencies.

The Bank noted that the decline in reserves had not resulted in any reduction in the Bank's ability to meet its banking obligations. The Bank said that it had increased its liquidity and had sold some of its gold holdings in recent weeks.

The Bank also said that it expected the reserves to continue to decline in the near future, due to the ongoing weakness in gold prices and the continuing high level of demand for gold.

The Bank emphasized that the decline in reserves was not a cause for concern and that the Bank was well capitalized and had adequate liquidity to meet its obligations.
Intergold shrugs off UK ban on SA gold coins

THE British ban on the import of all gold coins from SA—which came into effect on midnight on Friday—was unlikely to have a great effect on trade between the two countries, a spokesman for International Gold Corporation said yesterday.

Intergold is the sole SA marketer of Krugerrands on the international market.

"Over the last few years, the import of Krugerrands into the UK has been low," the spokesman said.

The decision was not unexpected. It merely formalised the statement of intent made by the British government after the Commonwealth Conference in Nassau, Bahamas, last October.

In announcing the move, British Foreign Secretary Sir Geoffrey Howe told the House of Commons: "Following the commitment given by the Commonwealth heads of government in Nassau last October, we have been considering what action might be possible to preclude the import of Krugerrands...Account has been taken of the fact that SA is now minting the new Protea coin."

The Intergold spokesman said it should be borne in mind that substantially existing stocks of Krugerrands within the UK could still be traded.

This meant the choice of the British investor remained unaffected, as he could still buy Krugerrands, the Maple Leaf coin and the new American and Australian coins due to come out later this year.

An informed source involved in international trade—who did not wish to be identified—denied the SA government had minted the Protea coin in order to circumvent the proposed ban, as has been suggested in Britain.

"The Protea was never intended to replace the Krugerrand. It was a legal tender commemorative coin minted in limited numbers by the SA government and sold at the fixed price of R5. The price of Krugerrands, which are sold at a small premium, fluctuates with the gold price," the source said.

The Protea was intended to commemorate the centenary of Johannesburg's gold mining and was aimed at a small group of coin collectors.
UK analyst tips expanding quality gold mines in SA

By Neil Behrman

LONDON — International brokers recommend only quality gold mines because they expect the gold price to remain locked in a trading range of $330 to $360 during the next few months.

Philip Taylor, mining analyst of SG Warburg, Rowe & Pitman, says Kloof, Southvaal, Western Deep Levels and Winkelhaak are solid investments.

"A highly geared marginal may perform better when gold moves, but could be badly hit in the meantime," says Mr Taylor.

He maintains that bull and bear factors are well balanced, although there "is some modest potential" for an upward move.

"We rate gold shares only as 'holds' for insurance against unexpected political and economic upheaval," says Mr Taylor.

The mines face lower rand gold prices, now that the rand has recovered to more reasonable levels, he says. The stronger rand will "squeeze the marginals" so recommendations are confined to "the expanding, good quality mines".

Mr Taylor believes that disruption of South African supplies is "becoming progressively likely as the black union movement gains strength".

But he doubts whether any stoppage would be sufficiently lengthy to cut output drastically.

"South Africa still has substantial reserves — nearly three months output — to make up any shortfall," he says.

Dr Fred Collender of Strauss Turnbull & Co, says Vaal Reef, shares "are sound relative to other mines" He also expects Southvaal to outperform the market and says that Free State Consolidated Gold Mines are "for all institutions and shareholders".

Shares of Elandsrand, Driefontein and Deelkraal, however are "expensive", he says.

Mr Collender also does not expect much excitement from the gold price.

"The gold price again held well within our limits and is still trading in a narrow range about $340 an ounce," he says.

Fabrication demand and supply factors are now playing a greater part than in the recent past when the price and trading of gold "was dominated by fear and greed", he says.

Both firms' cautious optimism contrasts with the very bullish stance of James Capel.

James Capel predicts that gold will surge during coming months when Japanese purchases coincide with strikes on the mines.

James Capel believes that the Japanese have some way to go before they complete a 200-ton order to mint 10 million coins to celebrate the reign of their emperor.

But the firm recommends Australian and Canadian mines instead of South African shares.
Platinum gains $8 on the day

LONDON.—Gold held steady in fairly light trading, while platinum broke through what was considered a resistance area to gain about $8 on the day, dealers said.

Gold closed at $343.40, a little up on its fixing prices of $343.20 in the afternoon and $343.35 in the morning, and on the opening $342.90-$343.40.

But interest in the precious metals sector was concentrated on silver, which rallied for a second afternoon run-up but gave back some of its gains at the close, and also on platinum, which was around $422 an ounce by London’s close after a $417.50 afternoon fix and $416.35 morning setting.

Dealers said platinum had moved through the $418 to $420 resistance area after repeatedly failing to do so earlier in the week.

Over the last few days, a series of platinum buying spates in New York have been turned back at the $417-mark, they noted.

They said the fact that platinum had held above $420 late in the London afternoon instead of easing in line with silver was perhaps an indication of its bullish fundamentals, notably the massive dependence on SA for supplies.

Concern about the situation in SA is perhaps more immediate in New York than it is in London, a dealer added.

In Zurich, gold ended slightly higher in quiet trading in spite of the firmer dollar, dealers said.

Gold ended at $343.40-$343.80, $1 above the previous close and $0.55 above the opening.
Krugerrand hits record price

The 12 percent premium is necessary to bring prices in line with those charged by Intergold, the Chamber of Mines department which issues Krugerrand.

Dealers say the high price is mainly the result of the slide in the rand's exchange rate. But there are indications that local demand for the coin has also increased.

In the past week and a half the rand has fallen from US44 cents to US41.70, lifting the South African gold price R41 from about R77 an ounce to R81.8.

On top of this South African buyers have to pay a 12 percent premium and the broker's commission.

Mr Koos Groenewald, a Cape Town coin dealer, said trading in the Krugerrand had increased in the past few days. However, there had been a good two-way trade with many people taking profits.

Britain, following the lead of the United States, has banned imports of the coin.
Gold has bottomed at $342

By Neil Behrmann

LONDON — The gold price has bottomed but sales from the Soviet Union and other producers could limit any sharp appreciation, said George Milling-Stanley, co-author of Consolidated Gold Fields' latest annual survey on the metal.

He said that fabrication and central bank demand at prices between $300-340 indicated that gold was underpinned at present levels of $342 an ounce.

"Investment advisors are no longer afraid of talking about gold in front of their children," said Mr Milling-Stanley.

"They are saying that a small investment — five percent to 10 percent — is a good insurance against a fall in stockmarkets, international banking problems and a renewal in inflation."

Fand managers noted that gold was stable in the face of falling oil prices and worldwide disinflation, he said.

The annual report of Consolidated Gold Fields, regarded as the most influential study on the subject, estimated that Western gold production rose from 1,148.9 metric tons in 1984 to 1,212.8 tons last year. This is 27 percent higher than levels seen in 1980.

South African output fell from 683.3 tons to 673.5 tons, but Canada's output increased from 85.4 tons to 86 tons, United States from 65.5 tons to 79 tons and Brazil from 55.1 tons to 63.3 tons.

Australia's production soared from 39.1 tons in 1984 to 57 tons last year and is set to rise further in the next few years. Australia produced only 17 tons in 1980.

Total production in Oceania rose from 32.3 tons in 1980 to 92.7 tons last year.

The gold market has been underpinned by a 72 ton rise in jewellery offtake last year to 898 tons. Central banks also bought 135 tons of gold in 1985 following net sales in the previous two years.

Central banks of South American, African and South East Asian producing countries bought directly from their mines.

Finland bought 20 tons and other central banks were also in the market buying or trading gold, said Mr Milling-Stanley. Purchases continued this year.

Sales by Communist nations, mainly Russia, rose by only five tons to 210 tons last year, estimated Mr Milling-Stanley, but he reckoned that Communist bloc gold sales would be between 300-350 tons in 1986 because the Soviet Union needed export revenue to offset the decline in oil prices and the Chernobyl accident.

The market was buoyed by unusual demand from Japan which is set to be "the biggest absorber of gold this year," said Mr Milling-Stanley.

But Middle Eastern gold demand slumped by 30 percent to 159 metric tons last year and continued to be weak in 1986.

Annual demand in the late seventies exceeded 300 tons. "Demand fell away as (the oil price) and economic realities began to assert themselves," said the gold survey.

"The money in the Middle East has dried up," said the report. Middle Eastern gold imports "dwindled rapidly" because investors reduced their gold hoards, the report said.

Saudi Arabian and Yemeni gold consumption, mainly for jewellery fabrication, shrank from 56 tons in 1984 to 36 metric tons in 1985, the report said.

Identified investment holdings in the two countries tumbled from 55 tons to 25 tons.

"The general picture of (slack demand) continues this year," said Mr Milling-Stanley.

Middle Eastern and investors in other nations preferred bonds and stocks to gold, he said.

The fall in disclosed Middle Eastern investment holdings indicated that sheiks and other investors were buying and depositing less gold in Zurich and other major gold centres, said a London bullion dealer.

With the exception of Japan and the Indian sub-continent where gold purchases soared, fabrication and investment demand in the Far East fell.
Central banks bought 165 tons of gold last year - BIS

S.A.'s external debt position improves $1.8-bn
Gold mining industry in good position, report

THE South African gold mining industry is in a better position than it has been for many years, says Consolidated Gold Fields in Gold 86 — its latest annual report on the world’s gold markets.

Despite some fluctuations in the price of the metal, revenue still remains at a comparatively high level while a deceleration in the rate of escalation of working costs has been a welcome feature.

Also there is the prospect of improved use of labour on the gold mines, with greater productivity as a result, and continuing achievements in the field of applied research.

Using three hypothetical price levels, the report estimates that at R21 000/kg, gold production should rise from just over 675 tons in the current year to a peak of 845 tons by the year 2000.

From there it is expected to decrease to a paltry 15 tons by 2060.

At R19 000/kg, South Africa is calculated to produce 724 tons in 2000 with an even faster drop to 15 tons covering the same period as the higher price.

The lowest figure used in the report, R17 000/kg, shows production of 710 tons for 1967, climbing to 694 tons at the turn of the century.

Bottom-line recovery at this price is estimated at 22 tons in 2040.

Over the next 15 years there are at least 15 to 20 mining prospects which are likely to come into production, with each producing between five and 15 tons of gold a year.

On the other hand, says the report, there are many mines that will have to close down in the next decade or so, as a result of the exhaustion of payable ore reserves.

The long-term projection remains on a downward trend due to the exhaustion of high grade ores on most mines.

Political and economic uncertainty in the country has weakened the rand to such an extent that the rand price of the metal is 50% higher than the last dollar peak of January 1960, resulting in the mining of increased tonnages of previously unpayable and very low grade ore.

Reviewing the South African gold mining industry as a whole, the report notes that it accounts for 55% of free world gold production, employs 313 832 black and white workers, and maintains its position as a basis for much of the activity of the other sectors of the economy.

Gold 86 says that the decade ahead is unlikely to be marked by complete economic stability.

Fluctuations arising from the business cycle will continue, currency parities will react to differing rates of inflation or balance of payment positions in the trading nations of the world and inflation might be reduced but is unlikely to disappear.
SOUTH AFRICA'S gold and foreign exchange reserves improved marginally in May after a sharp decline the previous month. By month-end they had risen 8.9% to R5.53bn from R3.53bn.

Reserve Bank figures released on Friday showed the value of gold holdings increased to R2.9bn from R2.5bn in April. The increase occurred mainly because of a sharp rise in the average price used to calculate the reserves to R719.37 from April's R638.13 per ounce.

The gold stock in the vaults remained virtually unchanged at 4.06bn ounce from April's 4.08bn. This suggests that no gold swaps were done to beef up reserves.

The Reserve Bank can either use the forward market to generate dollars or it can do a swap.

The May balance on liquid foreign currency was slightly higher at R470.1m ($470.1m) after reserves had dropped 18% in April.

Foreign Reserves have been dwindling in recent months with the heavy debt repayments and continued shakings on the capital account.
Gold, platinum prices surge

LONDON. — Platinum and to a lesser extent gold should continue volatile, with the possibility of further significant gains, ahead of the June 16 anniversary of the Soweto riots in SA, dealers said.

Gold closed at $348.70-$349.10, slightly up on its sharply firmer opening of $348.30/70, and $6.50 ahead of Monday night's close here.

The opening reflected a strong rally in New York on Monday that was fuelled by the SA crisis.

Platinum was fixed in the afternoon at $440.25, $17.25 up on the previous afternoon fix, but was starting to come off as the London market closed.

Dealers said that if New York's platinum price for July delivery could break through resistance around the $448 to $450 area, it could easily reach $460 and then the way could be clear to $500 in the fairly near term.

While movements in the platinum price are expected to be choppy, no operator wanted to go short, given that troubled SA accounted for over 80% of supplies.

Gold could make further gains if the New York market took August delivery through resistance around the $357 level.

But the existence of extensive gold stocks outside SA could put a damper on any advances.

Dealers said that while the New York market was focussing on the near-term possibility of civil unrest in SA at the time of the Soweto anniversary, London operators were equally concerned at the prospect of Commonwealth sanctions on Pretoria.

The precious metals market opened here with light follow-through buying, which quickly turned to selling as feeling grew that movements had been overdone and profits should be taken. This pattern repeated itself after New York opened.

Gold was fixed at $347.55 in the morning and $347.70 in the afternoon. Dealers detected some producer selling of gold and possibility platinum. — Reuter

Exhibition attendance drops 8%

ATTENDANCE at this year's Cape Town Chamber of Commerce's Design for Living exhibition at the Good Hope Centre was about 6% down on last year at 97,000 people.

Exhibition manager, Roger Hnupt, however, notes that a public holiday fell on a traditionally busy Saturday. The mid-week attendance figure was broken last Thursday with 11,800 visitors.

More than 200 exhibitors participated, although five companies pulled out at the last minute. Their stands were taken up by others on the waiting list.
Blyvoor increases dividend

Rand Mines gold producer Blyvooruitzicht has increased its final dividend by 10c to 100c, while both the group's marginal mines, Durban Roodepoort Deep and ERPM have passed their interim. This takes Blyvoors' total distribution for 1985/86 to 200c — against 180c previously.

Blyvoors chairman Mr Clive Knobbs said: "The mine's average gold price for the first calendar quarter of 1985 was just under R24 000. With gold now moving in a range of between R27 000 and R28 000 per kg, Blyvoor's average gold price in the current April/June quarter must clearly have improved."

On Durban Deep Mr Knobbs says that the decision to pass the interim should come as no surprise as it was forecast that further dividend payouts would only be possible if the gold price averaged over R25 000 a kg.

In the March quarter the gold price received averaged R23 854 and the mine's capex programme absorbed all profits. But the drop in the value of the rand will improve second quarter results, but not enough to justify the payment of an interim.

The big far east vertical project at ERPM continues to prevent it from paying a dividend. The mine — currently getting state assistance — had its March quarter profit of R5 million more than offset by capex of R15 million.
<table>
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<th>Precious Metals Markets Climbing</th>
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Concern over SA Supplies Has Precious Metals Climbing

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**Gold Prices**

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**Gold Futures Chart**

- **Price Range**: $1,200 to $2,000 per ounce
- **Historical Data**
  - **2010**: $1,000 per ounce
  - **2015**: $1,500 per ounce
  - **2020**: $2,000 per ounce

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**Notes**

- **Market Analysis**: Gold prices have been climbing steadily since 2015, driven by concerns over supply and demand dynamics.
- **Investment Strategy**: Investors are shifting towards precious metals as a hedge against inflation and geopolitical uncertainties.

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**References**

- "The Vinyl" June 24, 2023
- "Gold Futures Chart" (2023)
- "Historical Gold Prices" (2023)
Bullion dealers discounting ‘scare stories’

Gold market rally has run out of steam

By Neil Behrmann

LONDON — Large South African gold stockpiles and potential output from the Soviet Union and other producers stifled a gold market rally, dealers said yesterday.

But prices are likely to remain above $340, they said, because purchases by the Japanese and other consumers were underpinning the market.

Gold prices soared on Monday on expectations that unrest in South Africa would disrupt production.

But the spurt did not last. It was checked by reports that the Soviet Union, Canada and other producers were selling.

"It is just another blip," a West German bullion manager said. There were several scare stories in the past 12 months; soon afterwards boomlets fizzled out.

Speculators were overemphasising the impact of violence on South Africa’s gold sales, said Mr. Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner & Smith in London.

"If we look at the actual price performance it is hardly an inspiring picture."

"South African mines took steps to minimise potential supply disruptions," says Consolidated Gold Fields in an annual gold survey. It estimates that gold stocks are equal to "as much as three months' worth of normal production."

So far sporadic violence has had "minimal" impact on South African gold production, according to Consolidated Gold Fields.

Output fell by only 10 metric tons last year to 673 tons, mainly because the mines mined lower grade ore.

South Africa regularly supplied the markets in the past few months, dealers said.

"So much so that on Monday and Tuesday they took advantage of higher prices and completed their full weekly sales quota," said a Swiss bullion manager.

A wave of Japanese gold buying in past few months was a more significant influence on gold prices than the unlikely possibility of supply disruptions, dealers said.

Japan leads market

Japan’s gold imports were 136 tons in the first four months this year, nearly 70 percent of total imports in the whole year, said Sumitomo Corporation (UK) Ltd, a Japanese metals company.

"Without doubt Japan is leading the gold market this year, only a few years ago, it was insignificant," a US dealer said.

Japanese were favouring gold partly because it was so cheap.

In dollars the gold price had risen by 24 percent from its low point last year. Japanese dealers said, but prices in yen had fallen by 22 percent.

Japanese buying. London dealers said, also boosted the market because their agents were demanding delivery on gold futures and options bought on Comex in New York. Traders on Comex had insufficient gold to supply the Japanese and were scrambling for gold, they said.

The gold deliveries, London dealers said, would be used to fulfill at a part of the 200 metric ton order to mint 10 million coins to commemorate the 60th anniversary of the Emperor Hirohito’s reign.

Some bullion dealers are confident that Japanese purchases, strong jewellery consumption and the potential investor and central bank demand will offset higher sales of the Soviet Union and other producers.

They said that the uncertain South African situation, Mexico’s debt problems and weak stockmarkets would draw investors back into gold.

The Chernobyl accident and oil price decline would force the Russians to sell less gold than expected, a Swiss bullion manager said.

"Reports of Russian sales are highly exaggerated," the Swiss banker said. "They aren’t so naive; they have negotiated large credit lines," he said.

Other dealers remain cautious and expect extensive Soviet selling.

Demand from the Middle East, a significant gold market slumped by 30 percent last year a Swiss bullion manager said.

"But for these sudden surges the market was dead, quite dead," he said.
A June 16 Kick for Kingston Sellers

THE ECONOMY

By Reg Rumney
Golds turn mostly lower

Gold shares closed mostly lower on the Johannesburg Stock Exchange, reversing their firmer morning trend amid quiet and cautious trading, after the confused gyrations in prices seen Thursday following the announcement of a nationwide state of emergency, dealers said.

Randfontein fell R7.00 at R273, Welkom 15c at R20.00 and Western Areas 60c at 90c, but Harties ended 20c firmer at R18.40. At the close about 24 gold shares were down, only 10 up and 10 unchanged.

Platinums were mixed with Rustenburg up 35c at R35.35 and Lydenburg down 50c at R29.25, while in diamonds, De Beers lost 75c at R27.25 after climbing to R28.50.

Mining financials and other minings tended easier in sympathy, Anglo dropping a 100c at R44.00 and SA Manganese 10c at 910c.

The Krugerrand closed R5.00 lower at R10.10 while the financial rand ended at 22.15 US cents against yesterday’s 21.95 finish.

The rest of the market generally followed the trend. In banks, Barclays fell 50c at R12, while industrials had Barlows down 25c at R17.20, Amic down 50c at R40.50 and Safren down 25c at R15.75.

At the close some 52 industrials were easier, 39 unchanged and only 13 firmer.

Shortly before the finish the JSE all gold index had slipped to 1225.1 from yesterday’s 1237.4 close, the industrial index to 1137.3 from 1154.4 and the overall index to 1465.2 from 1484.7.—Sapa.
sons (RP)” says Bieber. He explains that the gap in RP’s switchgear market below 10 kV will be filled by C-H.

In the existing diesel engine operations, NEI already has the Mack, International Harvester, Prognost, Filter, Cummins and Perkins franchises. The addition of the transmission and axle range will bring it a step closer towards its aim of establishing a “bumber-to-bumper” truck network.

Bieber says that after acquiring C-H four years ago, Eaton Corporation has now returned the local operation to SA ownership on the grounds that it was not in Eaton’s interest “to perpetuate a far-flung branch.”

Given an option, NEI would presumably prefer to settle the acquisition by a share issue rather than by cash; one reason being the hefty 166% premium the share price of R43,50 attests to end-December’s net worth. Another is the containment of its interest bill, which multiplied more than tenfold to R3,6m last year. But whether or not Eaton would be willing to take shares in tenfold SA-based group is a moot point.

Fuller implications will be available with the interim announcement in about eight weeks. As for interim earnings, investors will no doubt be expecting an improvement, in keeping with the past record. But, warns Bieber, “under difficult economic circumstances, I will be satisfied with a pedestrian pace.”

Fin Hand - 13/6/86

BOUMAT MOVES UP

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<th>Year to</th>
<th>Mar 31</th>
<th>Mar 31</th>
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Bottom-line improvement came from lower interest paid, resulting mainly from easier interest rates in the second half and a lower effective tax rate. Although the tax rate dropped to 57.3% (72.4%), certain subsidiaries are still operating at a loss.

In line with the revised distribution policy of paying out 10% of net worth, a final dividend of 17c a share has been proposed to bring the year’s price and the scrip’s year-to-date share gains of over 20%. Shareholders will, again, be given the option of buying cash dividend or bonus shares in the ratio of 1 bonus share for every 20 shares held. Britman makes no comment about future prospects ahead of the annual report.

Off the bottom

The economic recession has hit the building industry harder than most. Against this background, investors will no doubt welcome Boumat’s preliminary results for the year to end-March. Bear in mind, however, that the earnings improvement comes off a very low base. The 1986 earnings a share of 8.2c are only 10% of earnings two years ago.

Also, the earnings improvement did not emanate from better trading conditions. Chairman Irvine Britman estimates a drop of some 10% in real activity. Although gross profit improved, it was not enough to compensate for the 11% increase in operating costs and the marginally higher incidence of bad debts.

In his forecast last year, Britman projected an improvement in operating margins to 4.4%, mainly as a result of lower bad debts. This did not happen. Bad debts, which edged up to R7.2m (R6.8m), dragged actual margins down to 3.7% (3.9%). But Britman reckons the worst is over. He tells me that remaining debtors are financially stronger than before.

Another blow, accounted for in extraordinary items, is the R2.8m write-off of the investment in B & S Furniture. Despite prospects of some sort of rescue operation at B & S, Britman will recover little of its investment. Market value of B & S before its suspension was R512 000.

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Financial Mail June 13 1986
Gold coins in favour as bullion production gets steadily higher

By Roger Gidlow

For many years the range of legal tender gold coins which were available on the market remained limited despite the success of South Africa with its Krugerrands.

This situation, however, is now changing fast. Several countries are planning to introduce their own gold coins.

The most important newcomer is in the United States which is launching its Eagle coins in October this year. These coins would consume around 60 tons of gold in the first year, according to gold analysts.

The legislation authorising the issue states that the coins must be minted from newly-mined American gold as far as possible, with Treasury stocks being depleted only as a last resort.

Unfortunately, this will not be easily achieved. The sales policy of many American mining companies means that there is almost certain to be a deficiency in supply from domestic mines, and some of the gold required for the Eagle may be drawn from Treasury stocks.

DOMESTIC MARKET

Another important newcomer is Australia, where the Perth Mint in Western Australia has indicated that one ounce and fractional coins will be available from September onwards.

The expected demand for the coins in the domestic market alone could mean that roughly 10 tons or more is absorbed on an annual basis, partly because competition from foreign coins is restricted, by import duties.

Both Luxemburg and Brazil are also planning their own coins, while even the Bolivian authorities are considering such a venture.

In the Bolivian case the proposed coin would be designed to provide help to the beleaguered tin industry. The government would mint coins from newly-mined metal, and the profits would be used to help the tin industry.

Meanwhile, Mexico is selling gold coins to commemorate the World Cup soccer tournament, while Japan is buying more than 200 tons for a gold coin issue to celebrate the 60th anniversary of Emperor Hirohito's accession.

These coins are to be distinguished from bullion coins like the Krugerrand and others, but in the case of Japan a successful issue of this special coin could be possibly followed by a bullion coin at some future date.

These governmental moves to market gold coins have been motivated by several considerations. Firstly, some of these countries are seeking to exploit the opportunities presented by the growing resistance to the Krugerrand in the wake of the unrest in South Africa.

MARKET SEGMENT

The new competition is viewed in certain governmental quarters as one means whereby limited economic sanctions can be imposed on South Africa by damaging the earnings of the country from its gold exports.

Although the coin market has shrunk in recent years with sales falling from 125 tons in 1984 to 108 tons last year, each different coin serves a new market segment. The overall result, therefore, should be increased demand for gold coins, especially since competition for market share could be fixed.

In the case of countries such as America and Brazil, their emergence as purveyors of coins is partly a by-product of their growing importance as gold producers. Given these circumstances there is a desire to expand the market potential for gold.

Brazilian production rose from 58 tons in 1984 to 63 tons last year, while Australia's production jumped almost 50 percent to 57 tons from 38 tons.

As the number of coin producers increase several interesting issues arise. One concerns the question of whether non-gold producing countries, like the Isle of Man and Luxembourg, should enter the market with their own national coins.

On the one hand this appeals to patriotic motives in segments of the coin market and should add to the overall offshore take of gold coins.

On the other hand, a coin which is produced by a country which does not mine its own gold is likely to have limited credibility and appeal to investors, unless the country has traditionally been involved in large-scale gold trading such as Britain.

It might be preferable for such a country to market a coin with a purely international appeal.

MARKETING STRATEGY

Another issue focuses attention on countries which are gold producers, and the question of whether their coins should be marketed on an international scale or promoted abroad on a regional basis.

In the case of the US a broad international campaign would be suitable in view of the status of the dollar as an international currency, but in the case of other new producers like Brazil and Australia a regional marketing strategy may be preferable.

In other words, Brazil could concentrate its foreign marketing on the rest of Latin America, while Australia could provide coins for countries in the Far East.
Local and paid letters hold promise for Randfontein farmers

(Featured image: A group of farmers standing in a field with a sign that reads, "Local and paid letters hold promise for Randfontein farmers.")
Gold loses its reputation for volatility

By Richard Under

London - The decline in gold's price over the last few years has led to increased attention on the precious metal. With its value fluctuating, investors have been seeking alternative investments that offer greater stability.

However, the situation has been complicated by geopolitical tensions and economic concerns. The recent events in Russia and Ukraine, for example, have led to higher demand for gold as a safe haven asset. This has caused gold prices to rise, but experts warn that it is premature to conclude that gold has returned to its former glory.

The price of gold is influenced by a variety of factors, including inflation, interest rates, and geopolitical events. In the current economic climate, with low-interest rates and high inflation, gold has become a more attractive investment option for many investors.

Despite its volatility, gold remains a popular investment choice for those seeking a hedge against economic uncertainty. As such, it is likely to continue playing a significant role in financial portfolios for years to come.

In conclusion, while gold may appear volatile in the short term, its long-term value as a store of wealth and a source of security makes it a valuable addition to any investment portfolio. Investors who are looking for stability and security should consider gold as part of their overall financial strategy.
**FT GOLD CONFERENCE**

**Keeping the Au in caution**

Ranging from the bullish to cautious to downright worried, speakers at the Financial Times gold conference in London provided the 208 delegates with much to ponder. That there were any bulls at all was perhaps surprising in the light of a general consensus about the slow growth, low inflation scenario for the world economy.

As for the anxious, the most prominent being Consolidated Gold Fields consultant Timothy Green, even they felt gold looked secure, if pewter-dull, in a $300-$350 trading range. The most positive view was voiced by the conference's one chartist speaker, Brian Marber, a leading UK technical analyst. Bearish at last year's Lugano gathering, Marber stated: "By my definition, gold is in a bull market." Behaviour of the spot price and moving averages (both the three- and 12-month) signalled an upturn which could run until 1989.

Unless something happened to abort the trend, Marber said gold should reach a minimum of $403/oz. If it cleared that level, $511 (the 1982 high) was the next target, followed by a technically-based $850. The price, however, is still perilously close to the breakdown point, the 12-month moving average sitting at $331. Hence, Marber was worried about last week's abrupt reversal on Soweto anniversary day, emphasising, however, that "until and unless you get three consecutive London afternoon fixings of $330, gold is in a bull market."

Non-technical advice from Alfred Schneider, first vice-president of Swiss Bank Corporation, was that "the period of consolidation is behind us and we have entered the preparation phase of a new bull cycle that could last for several years." There was, however, no need to hurry into bullish. The world remained sceptical of gold and the new trend required clear signs of a resurgence in inflation before it was "firmly launched."

Tom Main, Chamber of Mines assistant general manager, remained a well-hedged hopeful: "No fireworks in the near future... (but) solid grounds for moderate optimism." He saw little chance of help for gold coming from the international debt situation. But Main did wonder how the perceptions of American investors would alter if US inflation doubled, if only to 6%, as falling oil prices ceased to be a factor and the weaker dollar made its impact.

Green, however, backed by Julian Baring, senior partner at brokers James Capel, argued that rising production meant the gold-mining industry could not afford to wait with its investors. This year, the only market which could be counted on for growth was Japan. The Emperor coin issue—10m containing 20g—could lift Japanese offtake to 500t, double last year's imports. It could start a craze.

Victor Lam, MD of Shearson Lehman Brothers Bullion (Asia) of Hong Kong, said allocation of the coins would be done by lottery. And the Yen 100,000 face value was a premium of some 150% to the gold content which should prove irresistible to forgers. Green felt Japan might even take as much gold as SA produces, and said this was probably the chief reason the price had held at around $340 this year. What happens if Japanese growth slows? And if India, where gold commanded a $70-$100 premium, ceases to be a strong market? Demand elsewhere was weakening. Italian fabrication was 10%-15% down as US and Middle East jewellery sales faltered.

Carat jewellery from Saudi Arabia, Yemen and Egypt has been coming back as scrap gold. Outside Japan, Far Eastern imports, which sustained gold's rally from its February low in the first five months of 1985, were down. Lam reported Hong Kong imports running at less than 20% of last year's average; Singapore was "very depressed." Taiwan idle; and gold had been flowing out of Thailand to India.

Against this background, the swelling supply picture worried Green. In 1987 Westernnew mine output could be close to 1,400t—ahead of 200t up on last year. Russia's oil and gas revenue losses and possibly the impact of Chernobyl on Ukraine food production meant "we must anticipate perhaps 300t" from the whole Communist bloc (against 210t in 1985). With Chinese sales rising, Lam reported China's gold reserves at 400t six months ago and increased internal prices to stimulate small worker production—Communist sales could regularly total 250t-350t a year.

Leaving aside scrap (276t in 1985), new supplies threaten to run at 1,650t-1,750t annually in the years ahead, said Green. He called for a radical marketing approach to jewellery—like that which launched the Krugerrand—to boost its consumption from 900t to 1,000t in 1987. Baring suggested the Western mining industry consider spending 3% of revenues on gold promotion—on Main's figure of R17m last year, Inter-gold's outlay was rather less than 1% to meet the threat of expanding production.

Overall the FT conference did little to take the steam out of gold investment. A show of hands poll on whether gold's next big move would take the price to $400 or $280 produced a split which narrowly favoured the negative.

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**SPANISH ELECTIONS**

**Democracy rules**

Belgium knocked Spain out of the World Cup on a penalty shoot out and tarnished the celebrations which greeted the re-election of Prime Minister Felipe Gonzalez's Socialist government on Sunday. It was, in any case, a solid victory, rather than a glittering triumph, which contradicted late opinion poll indications that the Socialists could lose their majority in the 350-seat Cortes.

Apathy was a strong factor. Nearly 30% of Spain's 29.2m eligible voters stayed away. That was 50% up on the 1982 total of abstentions and much of the increase was blamed on the indifference of 2m young first-time voters. This benefited the regional parties while disillusion — mainly over high unemployment of 21% — provided a fillip for two political comebacks, by ex-Premier Adolfo Suarez and the Communists.

As the FM went to press, with 90% of the count completed, both the Socialists and the rightwing Popular Coalition (PC) had lost seats. Projections gave the Socialists a safe majority of 187 (against 202) and the PC 106 (against 119). The result was expected to produce the resignation of PC leader Manuel Fraga. The biggest gain went to Suarez and his Democratic and Social Centre (CDS). From two seats it shot to 19-making the CDS the third biggest party in the Cortes — after a campaign in which Suarez traded heavily on the popularity he earned as prime minister during the transition to democracy after Franco's death. The battered Communist party doubled its representation to eight deputies. And the upsurge of regionalism in the Basque province and Catalonia gave these groups extra seats.
Coins ban won't sway gold market yet

COMPANIES

Business Day, Tuesday, July 1, 1986

The price of gold has been on the rise again. Recently, it has been quiet, but today it has spiked up to a new range of $320-$325. The price is now $315-
325. The price range has been

MEANING NIGHTS

1977...

The price range has been

Coins ban won't sway gold market yet
Listing ahead

The mining exploration section of the JSE will soon list another company — Potchefstroom Gold Areas (PGA) — which will offer investors the chance to participate in exploring for new gold mines in the “Potchefstroom gap,” between existing gold mines of the West Wits line and the Klerksdorp area.

PGA’s assets will include exploration and mineral rights currently held by Southern Prospecting in exploration ventures in the region led by Anglo American Corporation. Sponsoring broker for the issue is Martin and Co and the merchant bank is UAL.

Confirming the intention to list PGA, Southern Prospecting MD Chris von Christierson, tells me that the Potchefstroom gap has become one of the major promising areas in the gold exploration boom that has run since 1982. He declined to give details of the issue price or number of shares on offer ahead of the release of the prospectus later this month.

Von Christierson believes the exploration boom will intensify because of pressure on the mining houses to find replacement ore reserves. “If you look at the existing mines, with short expected life spans, say 10 years, then you get a figure of about 78 t a year of gold production that needs to be replaced.”

Let’s assume the current average grade for the gold mining industry remains unchanged at 4.78 g/t, which implies no further decline. That means an additional 13.5 Mt a year would have to be mined to replace this year’s short life production. To justify this new investment, reserves for 25 years — about 338 Mt — have to be proven immediately.

Assume also that a reserve of 40 Mt of ore is the minimum needed to support a major new shaft system, or a smallish new mine such as JCI’s Jool or Gencor’s Uniad. We therefore need 8.5 such new mines to be on stream within 10 years, amounting to one every 14 months.

That may not happen, but it shows why the mining houses are spending so much on exploration,” Von Christierson says.

PGA’s exploration interests include a 10% subscription right — the company does not have to contribute to exploration costs — over some 10 000 ha of ground in the area north-east of Potchefstroom. This is known as the Mooirivier venture.

The company also holds a 2% stake over some 36 000 ha in the Vynhock venture area, running from immediately north of Potchefstroom south to the Vaal River, and west to the Lucas block of Buffelsfontein gold mine. PGA has a 6% subscription right here and must contribute its share of exploration costs on the remaining 20%.

PGA also has subscription rights ranging between 8% and 10% over ground totalling 10 000 ha in the South West Vaal Venture Area, lying north and west of the farm Goedergenoeg where Vaal Reefs gold mine recently announced a major expansion.

Of the three areas the Mooirivier venture looks the most interesting: the ground is owned by the farm owner and mining concerns have been in discussion over the past 2 months to settle the outstanding disputes.

In which PGA has a stake lies immediately south of the farm Gerhardminnernemon and takes in the farm Stumpoortfontein, Buffelsrivier and Boshoek. These farms occupy key positions in the major exploration drive by Anglo and Gold Fields of SA (GFSA) to prove a possible new entry point into the Witwatersrand Basin, eight drill rigs are operating in the area.

AAC and GFSA and their associates or subsidiaries hold the bulk of the mineral rights to the area. New Central Witwatersrand Areas (NCW) holds rights to the southern portion of Gerhardminnernemon where Anglo is currently drilling. Last year NCW sold off 50% of its Gerhardminnernemon mineral rights to parent Anglo for R94.5m. The deal raised queries on whether NCW should have retained the stake in a possible new gold mine and instead held a rights issue to raise money to fund its share of the drilling costs.

In April NCW published results for borehole MGM1 in a form which did not refer to specific reef horizons but instead gave a block of reef intersections classified as: “conglomerates of the Johannesburg subgroup.” Other geologists have refined these published figures, and pointed out that MGM1 showed values of 821 and 1 736 g/t on the Bird Reef, and of 209, 60, 577, 710, 440 and 65 g/t on the Livingstone Johnstone reef series.

The focus since mid-February, when drilling first started in this area, is the Bird Reef because of the belief held by some geologists that the Bird Reef correlates with the Vaal Reef, which is exploited by the mines of the Klerksdorp field. NCW’s MGM1 Bird Reef intersections are encouraging.

A number of geologists are now convinced the Bird and Vaal reefs correlate. They feel the drilling programme around Gerhardminnernemon is aimed at proving a new mine or mines to exploit this horizon, and that the work south of Potchefstroom is looking for upthrown, isolated blocks of Vaal Reef.

They may be right, but investors keen to get some of the action through a company such as PGA should remember these are highly speculative shares. There will be no dividends and any rewards will come in the form of rights to subscribe to any new mines set up. There is also no guarantee on when developments will occur. As noted, the mining houses have been drilling this area for more than 30 years. But developments could be close to hand — an announcement says within three years — given the need to find new ore reserves and the limited areas left to explore.

No fireworks

Given the benefits of a much improved local steel market, Union Steel Corp’s (Usco) recovery hopes for the interim to end-March were dashed by unresolved teething problems at its new direct reduction plant. However, losses in the steel division have been reduced. In the previous year, the group ran up total losses of R19.5m, of which R26.8m was attributable to the steel division; at the interim the total figure was whittled down to R7.6m.

Despite a 35% drop in the non-ferrous division’s despatches, group turnover increased by 20.8% largely as a result of better local steel demand and higher billet exports. However, the group’s copper and aluminium products markets were not as buoyant. Delays in construction projects hampered demand, and this resulted in a "substantial decrease
Shift in emphasis to fighting unemployment

Inflation rates crucial to a gold price recovery

By Dr Roger Gidlow

Six years of positive real interest rates in most of the western countries and sluggish economic growth have combined to bring about a marked fall in the rate of inflation. One by-product of these conditions has been a sharp decline in the dollar price of gold as investors downgrade the merits of the yellow metal as a hedge asset in a less inflationary world.

Most analysts take the view that a sustained recovery in the price of gold will only occur if inflationary pressures begin to increase again in western countries. On this basis it is crucial to ascertain whether the very low level of inflation now prevailing in western countries is temporary or permanent.

Only time will tell, but some insights on this question can be gleaned from recent developments in the British economy where the success achieved in reducing the rate of inflation has been particularly pronounced. After rising above 20 percent in 1980 the rate of inflation as measured by the consumer price index fell to 2.5 percent in April this year, its lowest level for 13 years.

Keen debate

The British government now faces a major challenge in trying to convince the public that low inflation is beneficial and here to stay. The cost of bringing down inflation in terms of manufacturing output has not recovered to the levels prevailing back in 1979.

A keen debate is now emerging about whether the present anti-inflationary policies will produce long-term benefits and, if they do, whether they will be enough to outweigh the costs incurred in bringing down inflation.

In Britain today there is in any case scepticism about the durability of the present low inflationary environment. Political pressures are perceived to be slowing inducing the authorities to shift their priorities from fighting inflation to fighting unemployment. This perception partly explains why long-term government bonds still yield 9.5 percent while the rate of inflation is below three percent.

This failure of long-term interest rates to follow in the same direction as inflation has been a disappointment. It not only indicates a lack of conviction that inflation can remain low. It has also deprived the public of one of the most important economic benefits expected from the low inflation.

High interest rates played a key role in the original formulation of anti-inflationary policy. Once inflation was conquered the low interest rates which were to follow were supposed to be the main stimulative force which would restore full employment.

This has not occurred. The longer these potential benefits prove elusive the greater the danger that political pressures in Britain will lead to a reversal in policy, and therefore the adoption of more expansionary economic policies. This fear is deeply ingrained in British financial markets.

Scepticism about the chances inflation remaining low is only strengthened by the present outcome of wage negotiations.

Wages are rising at an annual rate of roughly 7.5 percent, and this is threatening to push up prices once the full effects of the recent fall in international oil prices have exerted their influence.

The experiences in Britain in the past few years have convincingly revealed that inflation cannot be curbed by appropriate monetary policies. Yet policymakers in Britain and elsewhere have failed to find the formula for rendering lower rates of inflation compatible with high levels of employment.

Negative impact

The presence of exceedingly high real interest rates in the face of a collapse in inflation in Britain has been especially crucial. If these rates do not fall the fears which sustain them may become fulfilled as the authorities resort to more expansionary policies and inflationary pressures become more visible.

High positive rates of interest are not confined to Britain even though they are especially marked in that country.

From the point of view of the gold market any continuation of such high rates of interest in western countries in general, although negative in the short term, may prove bullish in the longer term.

This is because policymakers could become more inclined to adopt less restrictive policies in an effort to counteract the negative impact of such high rates on employment in western countries as well as the Third World debt impasse.
Fluctuating gold price hurts GFSA’s half-yearly results

By Gareth Costa

The fluctuating rand gold price played havoc with Gold Fields of South Africa’s (GFSA) quarterly results to end-June, with the group recording working profits well below those of the previous quarter.

After achieving a better-than-average — and one of the best — gold price of R25 000/kg in the first quarter, GFSA dipped below the R24 700/kg average for the past three months to record an overall R23 743/kg.

In fact, if it hadn’t been the mines’ year-ends when capital expenditure is pushed through with a consequent tax reduction, the mines would have been in the sorry state of having earnings lower than the R246 million last time.

Instead, the 28 percent decrease in tax to R185 million helped to achieve a working profit of R252 million.

Mr Colin Fenton, head of GFSA’s gold division, ascribes the lower than average gold price to timing.

One of the main reasons must be that the group closed its books for the quarter at least two weeks before the end of June.

The gold price in this short period was a lot higher than that in the last two weeks of the March quarter, which formed a part of the accounting period, and so the average price was lower.

The group’s tonnage milled remained the same at 3.7 million tons, while gold production was slightly up from 29 661kg to 29 651kg.

Gold revenue was R36 million down at R712 million, while pre-tax profit was down from R499 million to R437 million.

The working costs per ton were up from R81.57 to R87.11, mainly due to a liability provision on the mine’s unskilled labour’s leave scheme.

Capital expenditure rose by 56 percent to R135 million, but Mr Fenton said that this was not an increase in actual expansions, but mostly the accelerated paying of bills before the year-end.

The individual mines saw Libanon and Venterspost performing better than their richer stablemates by increasing grades and limiting working cost increases.

Kloof continued to get the relatively low grade of 13g/t, but Mr Fenton said that the mine was beginning to work a rich longwall, which could see it showing grades in the region of 15g/t in about six months time.

He added that the yields did vary over time and it depended on the mix of longwalls throughout the period. After-tax profit was R9 million up at R78 million.

Driefontein performed the worst even though the gold price received was more than R24 000/kg, but the tax bill was not low enough to compensate the R20 million drop in gold revenue.

Grades remained virtually static, but they could improve as the Carbon Leader reef is worked again, while a slight drop in gold production saw working profit down at R223 million from R247 million.

Profit after tax was R6 million down at R109 million.

Doornfontein was “battling with grades”, but an overprovision for tax of R5 million helped lift the bottom line to R23 million from R14 million.

Deekraal costs “were not good” at R77 a ton which had been held down by the lack of development, while total profit was well down
$350.80 gold price pleasant surprise for SA

Financial Editor

IN these unhappy times there is one encouraging development. It is the continued firmness of the gold price — the key to South Africa's current prosperity.

In spite of forecasts by many authoritative commentators that the gold price is likely to drop to $300 an ounce, it still keeps on rising.

Today in London it reached $350.80 an ounce — its highest price since mid-March, and a gain of $3.80 since last night's London close.

This gives much cause for satisfaction. A month ago the gold price was around $330 an ounce, and a year ago around $315 an ounce. So though the improvement in the gold price during the past 12 months has not been spectacular, its cumulative effect has been fairly significant.

All told, South Africa should earn $63 million or R150 million more from gold this month than a year ago.

One reason for gold's unexpected firmness appears to be increased Japanese buying. The Japanese government this year has already taken 80 tons (equal to six weeks' South African production) from the market for the Hirohito commemorative medal.

And ordinary Japanese now are reported also to be buying the metal in worthwhile quantities. The firmness of the yen appears to have encouraged this development. Gold is now selling in Japan for 56,000 yen an ounce, which is 26 percent less than the 75,600 yen it cost a year ago.

At the same time it seems that the heavy Russian gold sales which were forecast after the Chernobyl disaster have not materialised — possibly because of that country's increased earnings from the high platinum price. In New York last night this reached $442 an ounce.

Reports of "go slow" and possible strikes on the gold mines could also be helping the gold price. If so, it reinforces the view that the gold supply-demand position must be roughly in equilibrium at around current prices.

The US dollar was quoted at 159.70 yen on the Tokyo foreign exchange market today, down from yesterday's 160.85 close.
Gold eases from 14-week high

LONDON. — Gold eased in the afternoon some $2.35 off the 14-week fixing high of $350.35 it touched in the morning, but dealers said it was too early to say that the rally of the last two days is over.

The metal closed at $347.75-$348.25 after an afternoon fixing of $348.10. Its opening price was $349.10-349.60.

Early trading featured strong physical demand from the Far East and continued speculation that Japan was buying for the coin it plans to mint to mark the Emperor's anniversary.

But there was Swiss selling in mid-morning, and New York operators took profits after starting as buyers.

Some dealers believe that because of over-subscription, Japan may have decided to mint more Emperor Coins than the 10m it has said it will issue. Others were sceptical of this.

Dealers said the buying over the last two days, reported by some to have been channelled through two Swiss banks and a US investment bank, followed a pattern similar to that seen on June 30, when a single purchaser made a strong but brief entry into a quiet market.

But they said yesterday's movements have probably left some operators short, and the next move could be a return to $350.
Strike fears boost gold on world markets

By Financial Staff

Gold bullion blipped out of its stable trading range of just over $340 an ounce, to surge $5 to $345.50 in New York, in a day of hectic trading as labour unrest news in South Africa filtered through.

Reports of 18,000 strikers — with an estimated 8,000 strikers on Gencor mines — and reports of go-slow in South Africa and various other mines including De Beers, pushed the price of gold to $347.50 in London after closing the day before at $344.85.

In New York, dealers said that diminishing stockpiles had also made the metal a more favourable hedge, while the London surge had been helped by large purchases from a single source.

Gold shares on the JSE were mixed after a quiet day's trading.

The last time gold "spiked" out of its trading range, which was around June 16, it dropped back just as sharply. Immediate past president of the Chamber of Mines, Mr Clive Knobbs said this morning that there were no fundamental reasons why the gold price should increase, rather it was the perceived extent of the labour unrest which he thought was unfounded.

He said that there was a lot of downward pressure on gold because of the over-supply situation, and there was a great need for an improvement in demand to get the the metal to move out of the narrow trading range of the past year of between $320-$340.

Mr Knobbs said that strikes were always a threat, and the market, not the industry takes a gloomy approach to them, but the track record suggests that no serious disruptions of longer than a week should occur.

Wage negotiations are still under dispute, with the Chamber of Mines having implemented an increase of between 17 and 20 percent and two hours less in the working fortnight, while the National Union of Mineworkers (NUM) is asking for 30 percent, among various other demands including a large cut in the working hours.

Mr Knobbs said that with the dispute hanging over the industry, it was susceptible to strikes. He added that the Conciliation Board would have to sit in the near future, where the dispute would be negotiated or a deadlock be reached, and the NUM would have a ballot on whether to strike or not.

He said that the implemented increase had been well received on the mines.

Gold traded at $347.50 in Hong Kong today.
Gold hedging bonus for Rand Mines

Beneficial gold hedging and a low increase in working costs at Rand Mines have resulted in most of its gold producers recording increased profits in the June quarter.

The group had a 23 percent increase in pre-tax profit to R111 million, while after-tax profit was 18 percent up at R83 million.

However, ERPM slipped into the red for the quarter, even after receiving nearly R1,000/kg more for its gold at R25,530/kg. Gold produced by the mine slipped by 90kg to 2,255kg, after a drop in grade to 3.37g/ton from 3.55g/ton.

Analysts say that while this indicates the current position of the mine, most are confident that given time things will improve when the 5g/ton from the Far East Vertical shaft starts coming through. The mine will begin working parts of the new ore body by the end of the year.

They do say, though, that it is imperative that costs are kept down, but this should be possible once the old and inefficient shaft systems are phased out and the gold plants modernised.

ERPM recorded a working loss of R8.6 million, but state assistance of R9 million pulled it into the black before taxation with R1.1 million. However, after tax the mine was R1.4 million in the red, equal to 165c a share after capex. Last quarter the loss was 91c a share.

The mine has hedged about a quarter of its production forward for the next three months at a price of R28,000/kg. Harmony increased production to 7,300kg, while the yield eased marginally to 3.52g/ton. Analysts were expecting it to move back to around 4g/ton.

The excellent gold price of R26,154/kg received from R23,930/kg the previous quarter offset the R4 higher working cost of R68.53/ton, to record revenue from gold and silver of R191 million, while working profit was R57 million.

A low tax bill due to the end of the financial year and increased capex, saw the mine's pre-tax profits rising to R61.2 million from R47.8 million. After capital expenditure of R42 million, earnings were 68c a share from the 45c last time around.

Blyvooruitzicht achieved good results for the three months, with a vastly increased ore throughput to 589,000 tons, back to previous levels after the first quarter's wildcat strike which saw it drop to 498,000 tons.

The mine produced nearly 600kg more gold even after the grade eased slightly to 8.15g/ton from 8.2g/ton. Costs came down with the increased tonnage, falling from 6.18 to 6.01/ton milled.

Working profits were R43.8 million, while the bottom line of after-tax profit was R18 million, up from R14 million. Earnings after capital expenditure were 57c a share, up from 39c.

Durban Deep recorded a "pleasing" after tax profit of R5.2 million, while working costs were down slightly at R73.47/ton from R73.86/ton.
The table provides data on various metrics related to the performance of the company over time. The table includes columns for different years and months, with metrics such as revenue, expenses, and profit. The diagram illustrates trends and changes in these metrics over time.

The graph shows a comparison between the actual performance and the forecasted performance, highlighting areas of improvement or areas that require attention.

The text above the table discusses the importance of performance metrics in decision-making and strategic planning. It emphasizes the need for continuous monitoring and analysis to ensure that the company remains competitive in the market.
Estimated capex for the year to June 1997 is R25,8m (R32m).

Available ore reserves at June 30 totalled R4,3m tons at a grade of 10,02g/t, calculated at a gold price of R24 600/kg.

Beatrix: Grade and milling improved, resulting in a 20% improvement in gold production.

Capex rose to R8m (R1,1m). The estimated capex for the year to next June is R23,8m.

Available ore reserves at June 30 totalled 1,970-million tons averaging 8,9g/t.

St Helena: There was little change in

Bracken: The gold price received was lower after hedging operations.

Tonnage was down, but lower tax helped the results which were virtually unchanged.

Marievale: An excellent reduction in working costs resulted in the aftertax profit being raised.

A lower gold price was received after forward sales.

Grootevl: Tonnage and yield were lower, resulting in net profit being down 33% at R4,1m.

West Rand Cons: Although working costs were higher, the final result was unchanged with a higher gold price and a tax credit.

Leslie: Yield and gold price received were down, but lower tax helped the end result. Net profit was down 15%.
A FEW years after the start of gold mining in Johannesburg, a general opinion was that the mid-1980s Johannesburg would be a ghost town. Reserves were finite and deep-level mining was a vague notion.

But in 1984 Karl Schneller, a mining expert from Germany, published a comprehensive study of the Transvaal gold fields. His findings provided an authoritative appreciation of the long-term potential of the gold fields, in particular the effect of deep-level mining on the life of mines. Not surprisingly, a major share boom ensued.

Having survived a long period of a fixed bullion price (R55 per ounce), helped by increasingly sophisticated mining methods and state aid in some cases, we now turn our attention to investor attitudes to gold and gold shares from 1970 onwards.

As recently as 10 years ago, few institutions regarded direct investment in the shares of gold mines as acceptable for their insurance and pension funds.

A gold mine was "a hole in the ground" whose output - the yellow metal - was subject to price determinants which were largely unsearched and decidedly irrational.

Gold was a barbaric relic of the darker periods of history which nevertheless still enjoyed an honorable status amidst a widening range of sophisticated financial instruments.

In 1973, bullion was freed from its fixed price and the gold price began to adjust to a long period of accumulated inflations.

Gold shares (see chart, right) anticipated this by a year and by 1974 they had appreciated about five-fold. There was a sharp downward retraction thereafter, with gold shares almost one-quarter of their 1974 peak.

A major share price rally in the late Seventies sent gold and gold shares rising sharply once more.

Institutions began a progressively closer examination of these "holes in the ground". Mining analysts increased in number, boasting impressive degrees in geology, finance and mineral economics.

One-handed economists joined investment teams of indubitably projectable international inflation rates and from these the future course of the gold price - namely, ever-upwards.

Even the more mystical investment letters, predicting gold prices of $3000 per ounce, received serious attention.

Despite much initial scepticism, so-called structural inflation and Opec's power crumbled in the face of the financial discipline of the major Western economies - and with it the gold price.

From the end of 1980 to mid-1982, gold shares halved in value and pessimism was at its worst.

Suddenly - in mid-1983 - the international debt crisis emerged. Economists, who by this stage had grown another hand, found convincing reasons why the major economies should reflate to avert a worsening crisis among the debtor nations.

Of course, this would have accelerated inflation and with it the gold price. However, the debtor countries survived, but bullion did not, declining steadily from $500 to just under $300.

Gold shares fell and were, truly holes in the ground - and speculative ones at that.

Anyone who sold gold shares in early 1984, expecting the gold price to fall, was quite right - it fell from $381 to $308 by the end of 1984.

But gold shares were considerably higher in value in rand terms by the end of the year.

The rand exchange rate fell sharply right to the end of 1988. As a result, gold mines received far more rand for their gold sales than before, rand profits boomed and so did share prices, surviving large-scale selling by overseas investors alarmed by adverse political news.

The first two months of 1986 have already seen far greater volatility in the ballion price. In January the price surged to $386 before retreating to the $330 level.

Significantly, the price appears far more sensitive to political events (Liberia/US than because of the Falkland War had little effect on ballion).

Already, commentators casting all the old arguments favouring a new bull trend (inflation, debt crisis, political tension) but it seems too early to argue that a new bull trend has commenced.

Perhaps the next major move will have its roots in major currency instability. In the meantime, a volatile oil price is adding uncertainty to the ballion market.

Despite major fluctuations in the prices of gold shares, returns over the past 25 years have been remarkably good, exceeding the average one-year returns on the Industrial and Financial Index by 1.6%.

Volatility has been considerably greater, as measured by a much higher standard deviation (28.6% against 28.3%) and gold shares have enjoyed an 18-to-17 positive/negative ratio over the 25 years, whereas the index has a 5 positive/negative for industrial and financial shares.

Even optimists must agree that the progress of civilisation will not be without its occasional crises - be it economic, political or social.

These crises have a positive effect on bullion, and gold shares represent a healthy insurance policy against these events.

Cynics will not be able to withstand the volatility of gold shares and will constantly suspect the risk/reward principle (i.e., higher returns for higher risk).

This is understandable, but the Board of Executors believes that to avoid investment in the mining houses is a serious omission.

We prefer to recommend long-life mines, ideally with expanding production, to investors who are happy with direct gold investments. These mines have generally outperformed the shorter-life, high-cost mines.

It is difficult to reconcile the finite lives of gold mines with their superior share price performance to industrial and financial shares over the past 25 years.

The gold share market has proved to be a magnet for profits. Nevertheless, the positive surprises have outweighed the negative influences, leaving gold shares ahead of industrials by the end of 1985.

It is worth recalling the "ghost city" fears of the early days of mining. With increasingly sophisticated exploration and mining methods, perhaps investors are finally appreciating the wealth of the country's gold reserves.

Inventor sophistication has yet to increase. Those that made the most money out of gold shares were those who endured the major cycles and who generally stayed with the long-life, quality mines.

Investor attitudes to gold shares

PIERRE GOLDIE, investment analyst, Board of Executors

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<th>PERFORMANCE OF GOLD SHARES</th>
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<th>PROFILE OF GOLD INVESTORS</th>
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Anglo mines interests higher.

Freegold profit dip.

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**Note:**
- [X] Western Deep.
- [ ] Freegold.
Gold shares boom predicted

Mercury Correspondent
JOHANNESBURG — The surge in the gold price to $355.50/$356 in New York over the weekend could herald a run on gold shares similar to the platinum boom.

The combination of a higher dollar price — convincingly above the $320 barrier — and a weak financial rand acting as protection against foreign profit-taking, could warm up the gold board this week, say brokers.

A conjunction of stars — gold remaining at $347 in past weeks, indicating a breakthrough on charts; the coming U.S. Congress debate on the national debt (the U.S. is technically in default); Bank America’s shock losses, the Bank of Oklahoma’s collapse, bringing the failure of U.S. savings and trust institutions to more than 40 this year; plus the debt repayment problems of Mexico and Venezuela, are all bullish for gold.

In the shorter term, fears of production disruption at gold mines point to a gold price rise.

Brokers have in past weeks persistently predicted a gold breakthrough. A gold price of $360 could see the rand strengthening to $0.40, easing SA’s import bill of strategic products such as oil.

Oil imports were said to have caused last week’s rand slump.

The run in diamonds, platinum and mining houses in the past week could well signal a similar run on gold shares.

But the strength of the industrial market in the face of a faltering economy came into question on Friday. Experts were calling the market overheated as yields narrowed dramatically.

De Beers stood at a yield of 1.8%. Such yields were seen in the late 1960s boom and analysts were beginning to distrust the JSE’s run when Wall Street was faltering.

New highs in mining and selected rand-hedge stocks were achieved on relatively low turnover.

The JSE’s total turnover in ordinary shares, at R109.4 million, showed only a small percentage gain on low volume trade in past weeks.

Dealers in industrials perked up at nearly R70 million, but mining board volume was relatively weak at R39.4 million.
New gold price boom?

A weekend surge in the gold price through the $300 barrier in New York and Hong Kong presages a run in gold shares and a massive jump in the Krugerrand price.

Brokers said the Krugerrand, clamped into a 6 000 coins-a-week issue to dealers by Intergold, should show a massive jump today.

Based on a dollar price of gold of $355/$356 in New York and a $553.90/$554.40 in Hong Kong on Saturday, and an only slightly firmer rand of about 80,29, the one-ounce coin’s rise could far outstrip the gain of 1960 when premiums were lifted in March.

As the gold price jumps of more than $5 in Hong Kong alone should strengthen the rand, brokers were unwilling to pinpoint the extent of the Krugerrand rise.

Dealers reported massive Krugerrand trade in the past three weeks by banks, such as Investec Bank which concentrates on wholesale deals. Heavy institutional buying of Krugerrands appears to have anticipated the clamp on local sales.

Krugerrand dealings in the JSE retail market have been running between R3m-R4m a week in the past month, indicating that smaller investors have also laid in stocks.

Brokers said the JSE deals were, by comparison, small compared with wholesale trade by banks. Investec alone could well double the amount of coins bought.

Analysts questioned the timing of the cut in Krugerrand supplies to banks when gold seemed set to break through $350.

The surge in the gold price was attributed to a number of bullish factors for the metal.

Gold could well be set for a run similar to that of platinum, whose price has soared on an imbalance between demand and supply and fears of production cuts in SA’s large producers, say analysts.

A gold price of $360 could see a rand at 80,49 and justify the run on the JSE last week — questioned by conservatives as unjustified on economic basics.

See Pages 3 and 6
Clamp on private buying of K'rands

Weekend Post Correspondent

JOHANNESBURG — Monetary authorities have clamped down on the purchase of Krugerrands as a private investment by South Africans because the Government "needs all the gold it can lay its hands on" to bolster the country's depleted foreign currency reserves.

A statement from the International Gold Corporation, the official marketing arm for the Chamber of Mines, has placed a weekly limit of 6,000 ounces of gold that may be sold in this form from Monday.

Sources close to the Reserve Bank told The Star newspaper today: "While there is no objection to the holding of gold by individuals, the increasing demand has meant there is not enough gold remaining in the State's coffers for acquiring foreign currency."

Demand for Krugerrands, as a hedge against inflation and because of the weak state of the rand, has skyrocketed recently.

The demand has pushed the price of the gold coins through the R1 000 mark — double the level at the beginning of 1985.

And the volume of coins traded has soared above the 10,000 ounces a week mark recently.

Attempts to slow sales by imposing a premium on coins sold locally failed to stem the demand.
High gold price helps West Wits

WEST Wits was the only mine in the Johannesburg Mining & Finance Corporation group to improve its profits in the June quarter. Egoii's earnings, a share fell to 2c, and taxes profits tumbled to R706,414, from the March quarter's level of R1,572,092.

March quarter results were distorted by several non-recurring items — including a R9,3m surplus on the realisation of assets and R1,5m from the sale of sand dump. In the June quarter tonnages increased to 128,706t (119,224t), with production costs/kg and the average price of gold received all up the previous quarter.

However, yield fell from 1,64g/t to 0,82g/t because of lower grade material being treated in the GGMA Vlei area. Lower grade was also recovered from the sand dump being treated at Sallies mine.

Johannesburg Mining & Finance Corporation is satisfied with Egoii's results. Said director Tony Netto: "Although operating income is down by about R100,000, we are happy that, with higher volumes of throughput, we will catch up in the next few months."

Capex rose to R57,468 because of expenditure on a Leach plant. West Wits was saved by the higher gold price of R26,551 (R22,841) received, which pushed up working profits to R5,576 (R4,749) a kilogram of gold produced.

Taxed profits rose to R1,4m. Waverley's taxed profits dropped to R250,190 (R350,705) because of problems with high concentrates of pyritic rock.

See Page 9
Quarterlies unexciting

QUARTERLY results from gold mines showed some good performances but were generally unexciting.

However, the interim dividends from Anglo's Transvaal mines, compared with a year ago, were excellent.

Beatrix, Western Deep Levels and Elandrand were among the outstanding producers, but Buffelsfontein, among the big mines, gave cause for concern.

Costs generally were high because pay increases were granted in May for white mineworkers and in June for officials.

Pay rises for blacks were granted from July 1. The full effects of all these pay rises will be felt in the current quarter.

The gold price received was only slightly higher than in the March quarter. In some mines the price was slightly lower because of the timing of deliveries.

The gold price averaged about R767/oz after the previous quarter’s R747. At the end of last week it was almost R900.

Provided they hold, the effect of cost increases, which were heavy in June and will be heavier in the current quarter, should be countered.

Freegold, which was launched in February, was disappointing financially, but mining operations were impressive, with higher tonnage and area mined.

The group could have been affected by labour unrest in recent months, although this was not mentioned in the report.

The lower grade in the Free State was partly due to mining at lower pay limits because of the high gold price and was partly ascribable to the loss of gold in the new President Brand plant.

A similar loss of gold occurred, as it always does in a new plant, in the Western Deep Levels newly commissioned plant at No 1 Shaft.

Elandrand's tonnage was back to normal after being down because of labour problems. The mine was the only Anglo producer with higher grade.

It is apparently moving into higher grade areas, which are found towards the eastern and western boundaries. The central area is lower grade.

In the Anglovaal group, one of the best performers was Hartebeestfontein where the ore reserve was well maintained and grade improved. The mine is performing well, as is Lorraine where grade and profit improved.

Lorraine’s good performance suggests that a satisfactory final dividend for the year to September will be declared.

In the Johnnies group, the feature was the report on mechanisation underground at Randfontein. Similar mechanisation has been introduced at Western Deep Levels No 1 Shaft and will be employed at the developing Joel mine.

Randfontein has cancelled its forward sales contracts. Western Areas still has forward exchange and sales contracts.

Western Areas is insuring its position as a low-grade producer, but so far has done so at a cost because hedging has resulted in receiving a lower-than-average price.

Gencor's results included a disappointing performance from Kinross which, for three successive quarters, has reported lower milling tonnages and lower yield.

Since it is a good mine, too much attention should not be attached to recent performance.

Buffelsfontein again reported problems in getting working face in the Strathmore area because of heavy faulting. Probably because of this the yield was lower.

Analysts consider the faulting could have lowered the mine’s long-term reserves. In their projections, some have cut its life from 20 to 12 years.

Should the mine get good values in deep drilling in the Strathmore area, exploitation of the reefs would be extremely costly. The present outlook is not encouraging.
Sub Nigel prepares for a listing on JSE

THE shares of Sub Nigel, a gold mine near Nigel, are to be listed on the JSE on Wednesday, August 29, after a private placing of 5-million shares at 180c each.

They are being placed through sponsoring brokers, Iver Jones and Simpson Frater, a parcel with Sub Nigel's associates and 1-milion with London brokers, James Capel.

According to the prospectus published in today's edition of Business Day, the issue is not being underwritten.

In total there will be 22.1-million shares initially listed and a further 4-million — currently 15% convertible debentures that were placed in October with James Capel — within the next two years.

Rhombus, the manager of Sub Nigel, which owns just over 13-million shares, is controlled by MD Les Holmes (90% stake) and financial director Rob Still (10%).

The balance of the Sub Nigel shares, 4.1-million, are owned by former Rhombus shareholders.

For the general investor, among some of the critical questions are what price he should be prepared to pay and will there be a proper market for the shares?

Still says he expects Sub Nigel to have at least 600 shareholders after the placing and estimates that about 2.5-million shares will be traded within the first few months of its listing and later another 2.5-million shares to come onto the market from former Rhombus shareholders.

Sub Nigel already has an infrastructure in place as it was a major producer until it was closed in 1993 and is expected to swing into full production by 1990.

In 1993 the mine is expected to have available for distribution, at a gold price of R26 000/kg and an exchange rate of $0.435 to R1, about R8,4m or 40c each year, thereafter for another 14 years.

This compares with a current gold price of about R26 500/kg and an exchange rate of $0.40 to R1.

Even so the mine is not that highly geared to the gold price with full production at 490 000 tons per annum, gold produced 2 162kg and costs amounting to R10 500/kg or R52 per ton milled (432 000 tons milled).

Total ore reserves are estimated at 15 Mt at an average in situ grade of 5.6g/t.

However, 9 Mt are classified as possible so erring on the side of being conservative the mine is expected to only have a life of 14 years from 1990 onwards.

To reach full capacity capex is put at R24m in current money terms.

Profits and money available for distribution will rise sharply from the R567 000 in the nine months to March 1990, as the mine moves towards full production.

Some investors might grumble that Rhombus, which is due to date has only received R250 000 in management fees, is to be paid for its services 2% of annual revenue received by Sub Nigel from the sale of gold and silver and 4% of gross capex.

In 1990, in today's money terms, Sub Nigel's revenue is estimated to be at least R52m with Rhombus receiving R1m per annum, and furthermore Rhombus will receive a minimum of R60 000 per month from April 1 of this year.

The management contract is less onerous than on most other mines but seems to compare less favourably with Southgo, an adjacent mine whose shares are currently on offer.

More to the point is what is Sub Nigel's debut price expected to be and around what price should investors be prepared to pay for shares offered by stags.

Using a paradigm based on expected dividends, a conservative mine life of 14 years from 1990, a gold price of R26 000/kg and working costs in constant rands, and a "real" discount rate of 8% — equal to a discount rate of 25% — the shares are presently worth about R3 each.

This rough guide suggests that the shares could hit the market at about R2.25c and investors probably should not rush out and buy the stock at a price of more than 25c.

Of course, the paradigm does not take into account the fact that this low cost producer's life might extend well beyond the year 2004 and that the gold price will hold at present levels, in today's money terms.

Gold shares on balance are probably now discounting a gold price of about R750 an ounce rather than the current R800 even though the JSE gold index is at all-time high.
Krugerrand prices set to soar

LIZ ROUSE

PRICES of Krugerrands, a favourite hedge of South Africans against an ailing currency, are expected to rise sharply this week.

The latest clamp on Krugerrand sales by Integold is expected to cause 1oz coins to rise well above R1,000 each this week — some dealers are as high as R1,248 — in initial reaction to the cutdown in supplies to banks.

'Ve see no end in sight for these prices,' says a gold dealer in Sandton. 'We've been seeing these prices all through the summer. The buying has been tremendous. It's like trying to catch fish with a net.'

'If you can't get your hands on a coin, you can't be sure of getting your hands on a bank,' he adds. 'And the banks are not issuing them either.'

'might work in our favour,' says the dealer. 'But it's not helping our customers.'

SGT's gold has jumped from R880 to R1,248 in the last week, with a further increase expected in the next few weeks. The company has had to change its policy of issuing gold certificates to holding physical gold in vaults instead of in banks.

'The market is very volatile,' says the company's managing director. 'But we're doing our best to keep up with demand.'

The company's gold certificates have been issued at a premium of 15% over the spot price of gold, with the price of the certificate currently at R1,200. This is expected to rise further in the next few days.

Institutions and pension funds are said to have stocked up with Krugerrands as an effective hedge against a falling rand or possible decline in gold share prices.

Individual investors have also turned to coins.

'The Krugerrand market has offered hefty capital gains for local investors this year — the price has almost doubled since January,' says a gold dealer in Sandton. 'And speculators have reaped short-term profits when the gold price has jumped on fears that production on the mines would be disrupted, and the rand declined.'

Integold's first attempt in March this year to dampen demand in consultation with the authorities failed in spite of hefty rises in premiums. The premium on 1oz coins was quadrupled to 12%, the half-ounce coin's premium went up to 14% (5%), the quarter-ounce coin's to 16% (7%) and the one-tenth-ounce coin's to 18% (9%).

Initially the coins' prices rose sharply, but then settled down in line with gold price movements. Holders of Krugerrands have seen their one-ounce coins increase in value from about R880 at the beginning in April to more than R1,000 — a 25% appreciation — as the rand plunged and the gold price remained steady in the $340-$350 range.

Another rise in the premium would only spark off another bout of speculative dealings. Warnings that profits on large individual sales would be taxable have also failed to stem demand.

Reason for the clamp on coins available to dealers — about 18 banks — is the need to sell the maximum amount of gold to earn dollars. Minting gold coins means losing foreign exchange earnings.
INTERGOLD has again changed the pricing method to authorised Kruger-rand (KR) agents for the purchase of new coins. SA agents who previously had to pay in dollars must now pay in rands.

The about-face comes after Intergold explained that this was in line with international payment procedures.

The 18 agents — consisting of banks — previously paid dollars which they had to buy into Intergold’s New York account and these were then repatriated within a week.

Now, prospective buyers of this week’s tender for 6 000oz of Krugerrand coins will bid in rands, leaving the conversion of the London dollar gold fix up to Intergold.

Bids for the first gold coin tender must be lodged at these agents before 11am on Friday.

The floor price will be set by the average of Thursday’s morning and afternoon London fixing, plus a 3% premium in the case of 1oz coins.

The premium for 1/4oz coins is 5% of the rand gold price, 7% for 1/2oz coins and 9% for 1/10oz coins.

The coins will go to the bidder who submits the highest price.

The results will be relayed on the Reuters monitor at 4pm and the amounts of each coin category, as well as the spread of successful bids, will be displayed.
Gold shares tumble on JSE and rand falls below $0.40

By Financial Staff

A firmer dollar and weaker gold price pushed a vulnerable rand to below the 40 US cent level once again, with foreign exchange dealers reporting that month-end sales of rands by importers could push it even further down.

On the JSE gold shares took a pounding as the market reacted to various pronouncements by Reagan and Shultz and Volker's hint that the dollar had dropped far enough.

The dollar firmed amid reaction to better-than-expected US economic statistics, with the Commerce Department confirming market forecasts of a decline in orders of durable goods by reporting a 2.1 percent rise in June orders.

A pickup in economic growth could bring higher interest rates, which make dollar-denominated investments more attractive. Also supporting the dollar was a report from the Labour Department that US Consumer prices surged by 0.5 percent in June. Higher inflation also might bring higher interest rates.

STRONG PLEA

Reaction in the foreign exchange markets to remarks by Federal Reserve Chairman Paul Volcker was mixed.

Volcker, in his mid-year report to Congress, issued a strong plea for Japan and Western Europe to do more to keep the worldwide economic recovery alive and relieve pressure on a US economy he said faced growing imbalances and strains.

The stronger dollar immediately affected gold and yesterday in New York the metal fell $4.95 to $348 an ounce, after touching $345 shortly after Mr Volcker's speech to the Senate Banking committee caused the surge in the dollar.

In Hong Kong this morning gold opened even lower at $345 as the gold bulls retreated from the market.

The rand traded for most of the day just above the 40 US cent level with a bit of Reserve Bank support, as importers did their month-end purchasing of dollars, but it fell back late in the afternoon to 39.50 US cents.

The financial rand fell to 19.58 after firming earlier in the day to 20.75 US cents, from the previous day's close of 19.50 US cents.
A new scenario?

The June quarter reports have been published at a time when mining analysts are mulling over the potential effects of an emerging scenario of higher dollar gold prices, a steady rand, and lower inflation.

If this situation lasts, as it is to be hoped, a number of marginal gold producers will have to be re-evaluated. Investors have been advised to avoid these mines previously, as rising cost structures have bumped against revenues depressed by a combination of a static dollar gold price and stronger rand.

Gold at $355/oz and the rand at US40c mean a gold price of R28 500/kg compared with mine revenues in the June quarter ranging between about R24 000/kg-R25 000/kg.

The quarter was marked also by a number of hefty working cost increases; with worse to come in September, when the full effect of recent wage increases to white and black mineworkers will be felt. In June, most mines reflected only one month of black wage increases, with effect from June 1, and about two months of white wage increases awarded during May.

Quarter on quarter, cost increases ranged up to 14%, while year-on-year figures for some in the Gold Fields of South Africa (GFSAs) stable went over 20%—severe for a house with a good record of controlling costs.

Some investors have been assessing gold shares on the basis of a 20% annual escalation in working costs. On this basis, those to buy are heavily taxed, bluechip mines such as Vaal Reefs, Driefontein and Kloof.

The advantage of paying tax at 70%-plus is that the Receiver of Revenue pays for the same proportion of cost increases when these are offset against revenue. Not so a marginal producer working on a hand-to-mouth basis, paying between zero and about 15% tax. Cost increases on these mines hit the bottom line hard.

The latest inflation figures show a drop to 16.7% for the 12 months to June, from 17.5% for the 12 months to May, in turn down from the April figure. If that trend is maintained, cost pressures on mines must ease, and a number of mines previously largely ignored.
as investments could be worth a careful look.

One is Anglovaal’s Lorraine, which reported an excellent quarter. Grade rising to 5.7 g/t from 5.4 g/t in March, coupled with a slight increase in throughput, pushed up gold production to 2,267 kg (March: 2,105 kg).

The mine started paying tax in the December quarter. For the nine months to June 30 its tax bill is R24.7m, an example of the benefits of the State Assistance programme, without which the mine could have been forced to close. The programme has now been scrapped, and replaced with an ad hoc arrangement where mines can apply for financial help provided they make a good enough case to the Department of Mineral and Energy Affairs and the Receiver of Revenue.

Hartbeesfontein. Anglovaal’s major producer, is feeling the capex pinch stemming from its new 120,000 t/month gold recovery plant. The cost, estimated at some R135m, is being met from internal funds, with Harteck holding back earnings. For the year to June it held back R16m (14.3c a share).

Eldorado, as well as Anglovaal’s other producers, Eastern Transvaal Consolidated and Village Main, have closed out all forward exchange and gold hedging contracts. This has been forced by the Reserve Bank’s decision to stop mines receiving dollars directly. Rand Mines producers have also wound down their hedging programme, but JCI’s Western Areas continues to hedge the bulk of gold sales.

In the Golden Dumps stable, Consolidated Modderfontein has published significant development results showing that the rich Black Reef, mined extensively from NEP Shaft, has also been picked up at the new No 1 Circular shaft. The results show Black Reef at 7.9 g/t over a channel width of 117 cm to give 924 kg/t; not yet as good as at NEP shaft (1,252 kg/t in March), but still encouraging. The mine also paid tax for the first time: R245m for non-mining tax and lease payments. It should begin to pay mining tax this year.

At South Roodepoort, working costs jumped 14%, mainly reflecting wage increases. Golden Dumps is not a member of the Chamber of Mines, and introduced wage increases with effect from May ranging from 30% for novice miners to 13.5% for management.

In the Gencor group, Buffelsfontein appears to be getting into deeper trouble, with geological problems at the Strathmore shaft severely affecting ore reserves. Grade dropped to 8.1 g/t (8.6 g/t) and underground production fell to 176,000 tonnes (194,100 tonnes) although mill throughput increased. A number of mining analysts have cut life-of-mine forecasts on Buffels from 20 years to 12 years, because of the Strathmore shaft problems.

Beatrice, however, is looking better and better, grade rising to 5.7 g/t from 5.4 g/t, and mill throughput rising steadily to reach 511,000 t (448,000 t).

Grootvlei disappointed with a drop in grade to 3.1 g/t (3.4 g/t), but is getting some financial relief for dewatering operations, which benefit the whole East Rand basin. Ergo paid Grootvlei R394,000 (R785,000) for water from the pumping operations at Land No 1 shaft, which Grootvlei funds.

Kinross also disappointed with its third successive grade drop to 6.1 g/t, from 6.5 g/t in December, as well as a slight drop in mill throughput.

Stillfront received R4.8m — 46% of total taxed income of R10.4m — via an interim dividend from its 80%-held subsidiary, Chemwes uranium treatment plant. This source of income was expected to drop because of lower uranium sales, but the quarterly report notes the main customer has agreed not to defer deliveries for the time being.

At Rand Mines, a solid performance came from Durban Roodepoort Deep, another to watch in a lower inflation-higher gold price scenario. The mine had only a marginal slip in grade to 3.22 g/t (3.23 g/t) and increased mill production to 602,000 t (583,000 t), which gave a production increase a nice push to 1,938,4 kg (1,884 kg).

East Rand Proprietary Mines (ERPM), on the other hand, battled with a heavy grade dip to 3.37 g/t (3.56 g/t) because of increased seismic activity in the K shaft area. Murphy’s Law (anything that can go wrong will) is relevant to ERPM, as the highest grade area (K shaft) also gets the most rockbursts.

Operations at Blyvooruitzicht got back to normal after a one-week wildcat strike in March, which cost 44,000 t lost production. Mill throughput was 589,000 t (498,000 t) — the best since September 1984.

Harmony more than offset a slight drop in grade to 3.52 g/t (3.56 g/t) by increasing production to 2,076 tons milled (2,017m). At Anglo’s Freegold — the world’s largest gold mine — there was an all-round operating improvement, with an increase in area mined and tonnage milled, but overall grade took a dip to 5.07 g/t (5.07 g/t). The new President Brand gold plant is suffering a problem common to all new plant — a lock-up of gold. The problem is expected to continue this quarter, at a diminishing rate.

Turning to Anglo’s Transvaal mines, Western Deep Levels also suffered from lock-up in the new No 1 shaft gold plant, and overall yield dropped to 6.77 g/t from 7.49 g/t.

Elandsrand showed a further improvement

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### GOLD EARNINGS

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<th>Year END</th>
<th>EPS(Se)</th>
<th>EPS(a)</th>
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* = Earnings after tax and capital expenditure. ** = Distributable earnings for the mine’s financial year to date. + = Total dividends declared to date.
Could SA be saved again by the gold price?

It is unlikely, if the investment community is correct, although the gold price shot from $347.90/oz on Friday to $353.95 on Monday on renewed fears about Third World debt and the obvious inability of debtor countries to repay; added to increased demand from the US, Canada and Japan for coin manufacture and higher industrial demand, following high growth in OECD countries.

Most observers are, however, cautious. Roy McAlpine, MD of Liberty Asset Management, says there is no reason to expect gold to "burst upwards" and a broker points out: "We have seen the gold price come back from these levels several times."

Many in the investment community consider the breach of the $350 level significant, although Dave Foor of private portfolio manager, Foor and Meintjes, thinks that a rise above $360 would be more important, he adds the price could well settle at $360 to $380.

Not only technical factors indicate that gold is on the move again. Other bullish fundamentals are the large US budget deficit; possible attempts to remedy expected lower growth in OECD countries; the deteriorating international monetary situation and foreign investor fear of labour unrest on SA mines.

The opposite view is based on low overseas inflation and, as McAlpine cautions, "the rise in the dollar price of gold could be reflecting the decline in the currency in which it is measured."

For the SA investor, there are other considerations. The only direct entry is coins. Local supply of new Krugerrands is being limited (see Economy), with a resultant sharp price increase. The main vehicle for gold investment is shares; seven gold shares and three mining houses hit new highs on Monday. However, there are other considerations with shares.

The big difference in the behaviour of the All Gold index and the rand gold price is due to the gearing effect on gold mine profits, which have risen much faster than the gold price. This has not, however, been enough to attract foreign investors.

"Gold share prices are dominated by what overseas investors do," says McAlpine. Most analysts consider that foreign investors' attitudes are determined by political factors. Kevin Carter, senior portfolio manager with Old Mutual, points out that the rest of the world thinks that SA gold shares are risky — "they have been falling in dollar terms for some time." A broker puts it more strongly: "In dollars, they are a disaster."

Obviously, foreign sales of South African equities affect the financial rand (frand). At a record discount (currently 51%) to the commercial rand, a number of observers agree with Foor that "it could rise and cause a sharp setback to gold and mining financial shares."

This must place a question mark over rand hedges. Here, too, views differ. McAlpine feels "rand hedges and bluechips will still be bought," but Carter argues that they must be assessed on fundamentals, and Foor says investors could take some profits.

Mining houses are also affected by rand commodity prices. "The discount on net asset value is pretty narrow in historic terms," says Carter. "Investors expect mineral rights to be used in the near future and there is some substance to this if the high rand price of commodities continues." A broker points out that Anglo American spent a lot of money in earlier years and this is coming through in increased production.

Platinum counters have at least one broker worried, who feels the price has been driven up by speculative demand. "If perception changes, the price could fall very fast." There are, however, differing views on De Beers. An investment manager expects improved EPS and a broker points out that the stock price is being reduced, but another broker feels it has had a sharp rise and is "scared of it now."

The outlook for industrials brings even more divergent views. McAlpine is confident that better quality counters are on everyone's buying list, but stockbroker Richard Jesse, of Martin & Co, anticipates that the shares which will run may yet not be listed. He also sees the number of DCM listings increasing and keeping private investors' interest in the market to a close.

Demand is based on the level of industrial yields. "The dividend index on industrials has shown no growth in real terms since October 1982," points out a broker. Says Carter: "Earnings and dividend growth could be pretty good, but the resulting yields may still not prove attractive by historical standards and there could be a period of consolidation for a couple of years."

There is, however, general acceptance that the lower level of interest rates should improve profits. Jesse says EPS should show a good improvement from a low base for this reason and because pre-interest margins should rise.

The weight of funds theory — that institutions and other investors have such large cash inflows and so few avenues for investment that prices of shares must rise for this reason alone — is accepted by most of the investment community, as the need to protect capital from the ravages of inflation and the lack of alternatives to the JSE.

This is no time to pile in indiscriminately. Everyone agrees that this is the time to be selective. Isn't it always?

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**Explosive effect**

For a capital-intensive business volumes are the key to profit growth. The six months to end-June did not produce wildly exciting market growth, yet the 2% volume increase was enough to boost EPS 36% to 45c (33c). Most encouraging for investors is that for the first time in five years the dividend has been increased. Declining profits have seen cover chopped to 1.3 over the past two years. Unsurprisingly, the increase in interim payment to 25c (24c) is nominal.

Expectations for the rest of the year are promising. "Earnings for the second half-year should exceed those of the first six months," say management, provided the rand and labour situation remain stable. So full-year earnings should be at least 90c. As the bulk of earnings traditionally falls into the second half, 100c may be more realistic.

As a result of better volumes, margins improved to 10.8% (9.8%). MD Mike Sandor says the plants ran reasonably well, with capacity utilisation in the plastics, chloralkali, paints and fibre divisions close on 100%. In other areas, utilisation was steady at 70%.

Demand was particularly strong in the...
Don’t count on gold to dig us out the morass

By ALEXANDER CAMARQUE

In the first half of the year, South Africa experienced a favourable trade balance of R1.1 billion, compared to R3.3 billion in the first half of 1985 (R1.67 billion and R1.1 billion). This is good news, especially considering South Africa’s modest economic growth. However, the current account surplus for the first half of 1986 was just under R3 billion.

The World Bank passes the empty hat

WHERE the World Bank closes its books at the end of its current financial year, it will have made net transfers to the economies of the developing countries amounting to zero. Yes, the world’s premier agency for promoting economic growth in the Third World is receiving as much in repayments and interest from the countries it is designed to help as it is disbursing in new loans.

But that is not all. The International Monetary Fund (IMF), the guardian of the financial order of the non-communist world, is probably making even bigger net losses on its loans from developing countries than the World Bank is in doing in.

If current policies continue to be applied, the world will continue to subsidise the rich world for at least another decade. There is no need to worry about an empty hat, as the Washington-based Overseas Development Council states.

We are facing the potentially disastrous scenario of the World Bank and the IMF becoming a drain on the resources of the developing countries. And as confirmation for the concerns of those who believe development expectations, probably the greatest dangers for the Third World are ahead.

Finally, even though the trade deficit is expected to reach US$2 billion this year, for some reason the IMF’s António Camarão explained that “the current account surplus for the first half of 1986 was just under R3 billion.”

At the same time, the World Bank is expected to announce a further reduction in its lending to developing countries.

The South African experience is an interesting case in point. The country’s economy has been growing at a rate of about 4 percent per year, and its current account surplus for the first half of 1986 was just under R3 billion. This is good news, especially considering South Africa’s modest economic growth. However, the current account surplus for the first half of 1986 was just under R3 billion.

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If current policies continue to be applied, the world will continue to subsidise the rich world for at least another decade. There is no need to worry about an empty hat, as the Washington-based Overseas Development Council states.

We are facing the potentially disastrous scenario of the World Bank and the IMF becoming a drain on the resources of the developing countries. And as confirmation for the concerns of those who believe development expectations, probably the greatest dangers for the Third World are ahead.

Finally, even though the trade deficit is expected to reach US$2 billion this year, for some reason the IMF’s António Camarão explained that “the current account surplus for the first half of 1986 was just under R3 billion.”

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The World Bank passes the empty hat
Gold shares wait on NUM

FINANCIAL analysts see no chance of South African gold shares regaining this year's high point — 357.0 on January 27 in the Financial Times gold shares index — let alone the 450 of a year ago.

They predict that there is unlikely to be a recovery in the short-term and a further fall would not be unexpected. This is despite a slight recovery from its lowest point this year — 192.3 — reached on June 12.

Investors are wary of putting funds into South African companies because there are no signs that the political situation will be solved peacefully.

For investor confidence to return in the short-term, the analysts said, there needs to be a satisfactory resolution to negotiations between the National Union of Mineworkers (NUM) and the Chamber of Mines.

Another factor influencing investment will be the outcome of the Commonwealth Heads of State meeting on August 3.
Interest rates take a tumble as gold rises

Mercury Correspondent

JOHANNESBURG—Long-term interest rates tumbled yesterday to a 12-month low as investors in the capital market scrambled to buy up available bonds to profit from the changing interest rate pattern.

An extra boost was given to the bullrun as the gold price again thrust through the S350 barrier—the metal rose S8 to an afternoon fix in London of S332.00—after Cuba suspended payments on its short-term commercial debt to Western countries because of a shortage of foreign exchange.

In Johannesburg, the bellwether government bond (RSA 15% 2005) fell 43 points to 15.9% before edging above 16% to close at 16.04%, probably on profit-taking. Other marketable bonds followed the drop with lower yields giving way to strong demand.

Escom 2006 11% 2009 plummeted to 16.5% from 16.65% on Friday. Sats 7.5% 2008 fell to 16.36% from 16.39%.

Turnover from bond trading on the JSE topped R700m even though buying interest was keen last week when turnover reached R3 500m.

Average

It appears some institutions have been caught too liquid—one reputedly has an average life of its gilt portfolio of less than three years—and are moving into the higher-yielding capital market to get better performance on investment portfolios.

Also, investors are switching to higher-yielding, longer-term gilts because they are wary of the recent peaks reached in the equity market and the accompanying low yields.

Another boost came from the rand which weathered month-end import demand, closing yesterday at S9.39.

Rates should continue their downward march if buying pressure persists, the Bank of South Africa said yesterday. The gap between long-term and short-term interest rates has been too extreme.

Also, the market fears the imposition of controls on the financial markets because of impending sanctions.

At the end of June last year long-term rates stood at 14.8%. Since then they have been rising with mounting bad news on the economic and political front to peak in November last year at 18.34%.

Discount

Abroad attention was focused on US Federal Reserve chairman Mr Paul Volcker’s congressional testimony today, dealers added.

Little impact had come after Bank of Japan governor Mr Satoshi Sumita, at a meeting of central bank branch managers earlier yesterday, reiterated that the bank has no intention of lowering its 3.5% discount rate in the near future, dealers said.

There is also little prospect of an early German discount rate cut, following statements to that effect last Friday by Bundesbank vice-president Mr Helmut Schoeninger, they added.

The market awaits the release of US trade data for June tomorrow, June leading indicators on Thursday and July unemployment data on Friday.
Scramble to buy bonds

Gilts tumble as gold leaps $350 barrier

GERALD PROSALENOS and ALAN SENDZUL

LONG-TERM rates tumbled yesterday to a 12-month low as investors in the capital market scrambled to buy up available bonds to profit from the changing interest rate pattern.

An extra boost was given to the bull-run as the gold price once again thrust through the $350 barrier — the metal rose $6 to an afternoon fix in London of $353.60 after Cuba suspended payments on its short-term commercial debt to Western countries because of a shortage of foreign exchange.

In Johannesburg, the bellwether government bond (RSA 13% 2005) fell 43 points to 15.9% before edging above 16% to close at 16.04%, probably on profit-taking. Other marketable bonds followed the drop with lower yields giving way to strong demand.

Escom loan 160 11% 2008 plummeted to 16.5% from 16.85% on Friday; Sat's, 7.5% 2008 fell to 16.36% from 16.69%.

Turnover from bond trading on the Johannesburg Stock Exchange topped R700m even though buying interest was keen last week when turnover reached R3.5bn.

It appears some institutions have been caught too liquid — one reputedly has an average life of its gilt portfolio of less than three years — and are moving into the higher-yielding capital market to get better performance on investment portfolios.

Also, investors are switching to higher-yielding, longer-term gilts because they are wary of the recent peaks reached in the equity market and the accompanying low yields.

Another boost came from the rand which weathered month-end import demand, closing yesterday at $0.30.

Rates should continue their downward march if buying pressure persists, the Bank Rate is cut as expected, gold holds above $350 and inflation continues to drop.

Analysts have for some time expected a technical correction in long-term rates. "The gap between long-term and short-term interest has been too extreme."

Also, the market bears the imposition of controls on the financial markets because of impending sanctions.

At the end of June last year long-term rates stood at 14.6%. Since then they have been rising with mounting bad news on the economic and political front to peak in November last year at 18.34%. 

To Page 2

Long-term rates tumble

From Page 1
Gold Food Proposed

Market Surplus of

By Dr. Roger Galloway
Gold closes $7 higher

LONDON. — Gold closed with a $7 gain on the day at $359.00-$359.50 or the highest close for six months as a weakened dollar and continued fears over the SA political situation caused heavy professional short-covering.

The main boost came in morning trading here, but the market remained strong, reaching a peak of $360.00-$360.75 after having opened yesterday morning with a $1.5 gain from Wednesday's closing $352.00-$352.25.

Dealers said confirmation from US trade figures of the size of Japanese gold buying also helped underpin the market. They said some resistance showed when prices tried to break above the $360 level, slipping back to an afternoon fixing of $357.50 or 25c under the morning pricing.

Platinum shared in the same price rise, climbing to its highest level for 38 months and closing at $459-$461 an ounce, following fixings of $456 and $452.25 yesterday afternoon and morning respectively. Wednesday's afternoon fixing was $446.25.

Dealers said that apart from tracking gold higher, platinum was boosted by fears that supplies from SA could be disrupted by any economic sanctions agreed upon by Western nations.

In Zurich, gold and platinum made strong gains, helped by the dollar's easier tone and steady demand from both professional traders and investors, dealers said.

Trading was active and at times hectic as fairly substantial buy orders kept flowing into the market.

The market was impressed by how steady gold was above $350, a level some dealers had thought would prompt stale liquidation. — Reuters

Krugerrands

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Cape Gold Coin Exchange

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Outlook good for rand
Golds at record level

MERVYN HARRIS

THE GOLD price rise to the $360 level sent gold and other mining shares racing to record levels on Diagonal Street yesterday.

The JSE all gold index surged 44.3 points — one of its biggest-ever, single-day rises — to hit a new peak of 1 336.2. With the industrial and platinum indices also hitting new highs, the JSE overall index was swept 25.8 points higher at a record 1 613.1.

On the back of the higher gold price and amid speculation of a further cut in Bank rate, the bull run in the capital market continued, with yields approaching levels last seen a year ago.

RCA 13% 2005 stock closed at 15.49%, sharply down from yesterday's close of 15.88%. Escom 11% 2009 stock closed at 15.75% (16.29%).

The gold price took-off started at the London morning fixing and continued in New York where follow-through buying lifted it $9 to $361.

Reports suggested German, Swiss and Chinese dealers were major buyers on renewed concern over the weak dollar.

Gold was also boosted by short-covering on confirmation of big Japanese pur-

Gold shares soar to record level

chases last month and the failure of the Howe mission to SA.

Increasing prospects of sanctions, and the possibility of retaliatory action in the form of withholding platinum exports, helped push the platinum price $4 higher to $452.25.

Diagonal Street opened on a quiet note, with prices barely changed at midday. But as the gold price began to move higher, overseas and local buyers entered the market in force and price of gold and selected mining stocks went through the roof.

Bellwether stock Vaal Reefs led the surge, rising R15 (6.7%) to scale a new peak of R278, with 3 650 shares worth more than R2,4m changing hands in 39 deals.

The higher gold price helped buoy the commercial rand, which firmed to $0.39 ($0.3840). But the financial rand eased to $0.1865, its lowest-ever level, despite strong overseas buying of SA stocks.

A huge overhang of financial rands depressed its price, said a dealer said.
Gold surge boost for SA business

By DEREK TOMMEY, Financial Editor

The prices of gold and platinum, two major South African exports, have surged in overseas markets and look like holding their new levels.

If they do it will boost business activity in South Africa.

In New York last night gold reached $353 an ounce, a gain of $11 since Wednesday, and its highest price since mid-1984. Although gold eased back to $360.55 in London today although expectations are that the metal will start to recover early next week.

The platinum price also rose in New York last night to $465 an ounce, its highest level since mid-1983 and a gain of $8 since Wednesday.

Analysts said the market was concerned that South Africa might reduce gold and platinum output to retaliate against sanctions. South Africa is the biggest free world producer of both metals.

DOWNBEAT NEWS

The weak US stock market and the decline in the dollar also helped gold.

Mr Dave Nelson, an analyst with the commodities firm Dean Witter Futures in New York, said: "Investors were looking for a place to put their money since stock prices were not behaving as well as expected."

Mr George Nickas of the commodities firm Geldermann put gold’s strength down to “anticipation that downbeat news from the US leading indicators will increase the flight to hard assets”.

From London, Neil Behrman reports that gold was able to break through a significant resistance barrier of $355 because investors are beginning to see that it is cheap in European and Japanese currency.

The immediate reason for above-average market activity yesterday was a statement by Mr George Shultz, the American Secretary of State, that the dollar would decline further unless Germany, Japan and others cut interest rates to reflate their economies.

LOW YEN PRICE

But the main impetus to the gold market during the past few months has been persistent buying by Japanese traders and investors. Part of the purchases will be minted into 10-million coins to commemorate the anniversary of the Emperor Hirohito’s reign. But the low yen price of gold has generated considerable investment interest too.

Japanese gold imports surged to 348 tons in the first six months of this year against 95 tons in the same period the previous year. Bullion dealers estimate that only about 120 tons out of the 348 tons were imported for coin minting.

Gold imports for the whole of 1985 were 187 tons.

At the current rate of imports Japanese purchases on the international markets will easily exceed previous estimates of 600 tons — about half of Western supplies.

The rand rose to 39.75 US cents today after closing at 19.95 last night.
Dividend in June

The prospectus indicates that Sub Nigel gold mine intends paying a dividend in June, at the end of its current financial year. Forecasts based on average gold prices over this period of R2 000/kg and R2 400/kg indicate total distributable profit of R2m and R2.6m respectively for this, its first financial year as a listed company; a dividend of about 11.8c a share is forecast, which would absorb R2.6m on the post-issue capital of 22.1m shares.

Based on R2 400/kg, projected profits after tax and capital expenditure are about R9.5m a year at current money values, when full production is reached in 1991. That works out to 36.5c a share on fully diluted issued capital, which will reach 26m shares over the next two years as 1.75m debentures, issued last year to raise R3.5m, convert into 3.9m ordinaries.

Sub Nigel is raising R9m through a private placing of 5m shares at 180c each. The closing date for the placing is August 7.

The adjacent Southgo, whose public offer of shares was 22 times over-subscribed, is forecasting distributable profits of R1.457m for the 10 months to December, R3.325m for the year to December 1987, and R3.19m for

1988. The Southgo prospectus does not specify when dividends will start, but indicates the company intends declaring 80% of the amount available for distribution as a dividend, which raises the possibility of a 3c dividend in December.

Brendan Ryan
Gold closes at $362.25

LONDON — Gold closed at $362.00- $362.50, the highest closing level since January this year as professional traders bought on hopes of gold maintaining its recent upward momentum.

The main factors behind the strength in gold are the weakness of the dollar, recent Japanese buying of bullion to mint commemorative coinage this year, uncertainty in stock markets, lower interest rates, fears of rising political unrest in SA and nervousness over the US banking system.

Yesterday trading activity was reduced by the absence from the market of Swiss banks which were closed for a national holiday.

This week gold has moved up from just under $350 on Monday to a peak yesterday afternoon of $362.25- $362.75 as market sentiment switched and professional operators looked to an upward move after the market failed to break below $350.

Dealers said trading yesterday morning was fairly active with a few large orders in the London market, possibly reflecting the closure of Swiss banks, sufficient to give the market a buoyant undertone.

Along with Far Eastern selling, some leading traders said at the highest levels institutional holders of gold took profits and this dampened the market ahead of the weekend.

Platinum closed firm at $466.50- $467.50 an ounce, to show a gain of $7.5 on the day, following respective afternoon and morning fixings of $464.25 and $460.45.

Dealers said the rise in platinum this week was more justified on the basis of the tension in SA but that so far the gain has been mainly on professional-type buying rather than any heavy weight of industrial off-take.

In New York, gold futures steadied on light bargain hunting demand past midday, after a brisk sell-off on news that a Senate panel had approved sanctions against SA and recommended the sale of gold from reserves.

In a nervous market, December gold delivery was off $3 at $366.70 but up from a low of $365.

Analysts said the market reacted swiftly to the gold sales threat, with speculators cashing from two days of gains.

"Traders appear to feel that the US will not sell any gold because of the potential repercussions on the already fragile international banking system," said one analyst. — Reuters
Sparkling gold price boost for SA economy

Financial Editor

SOUTH Africa's prosperity in present circumstances is directly dependent on the gold price. Thus this week's rise in the gold price to above $380 an ounce and to its highest level for two years (if one excludes a freak one-day spurt in January) is extremely good news — especially as many brokers believe that gold will hold this level and could rise further.

One of the first areas to benefit from the higher gold price will be the balance of payments and, in turn, the rand.

The higher gold price will increase South Africa's foreign currency earnings and make it easier to reduce past debts. This should make the rand a more attractive currency and cause its exchange rate to rise.

Already the rand has risen 1.9 US cents since the gold price started to spurt on Thursday to around 40 US cents and a further rally in the currency seems certain given a maintained gold price.

On the other hand in these days of a floating exchange rate the gold mines do not benefit as much as in the past from a higher dollar gold price.

They find that the rise in dollar gold price is usually partially offset by a rise in the rand. The result is that the rand price of gold tends to increase more slowly than the dollar price of the metal.

Nonetheless, gold mining profits should still increase, gold mining taxes to jump and more will also be spent on capital works — all of which are good for the economy.

For most of this year the gold price has fluctuated in a narrow channel between $350 and $550 an ounce. Dealers attribute this to Russian selling whenever the gold price broke above $350 and to central bank buying when it dropped below $340.

By breaking out of this channel to above $380, gold seems to be at the start of a new phase.

Brokers in Cape Town give a number of reasons for the increased buying which has pushed gold above $380. One is that the drop in the dollar has reduced the price of gold in terms of Japanese yen and German mark making it an attractive investment to holders of these currencies.

In Japan the price of gold is now around $5600 yen. This is about 37 percent less than a year ago and the lowest price in this decade.

In Germany, gold is selling for around DM750 an ounce against DM1000 a year ago, which also makes it an attractive purchase.

However, the Japanese, and probably the Americans, are expected to buy increasingly large amounts of the metal in the coming months as the economic problems of the United States start to stand out more prominently.

America is living beyond its means as is evident from its huge budget deficit and trade deficit, and the longer this continues the tougher and more disruptive the remedial measures will have to be.

The news that the United States trade deficit was still showing no signs of contracting, even though the dollar has fallen by a third against the yen, helped to confirm the belief that the US economy is in difficulty. It was also one of the main reasons for the surge in the gold price this week.

Fears are now being voiced that this year's trade deficit could well exceed last year's $148 billion, even should the dollar be pushed down more against the yen.

A continued huge US trade deficit and a lower dollar will not go down well with Japanese investors who have been financing much of America's trade deficit with their savings. In these uncertain times many are seeing gold as a better investment medium that the US dollar.

Prospects for gold, for the gold mining industry and the South Africa economy, therefore, look more promising than they have for several years.

The price of platinum, another major South African export, has risen strongly recently rising to $460 compared with $270 an ounce this time last year. This has also helped to boost the country's export earnings and to an improvement in the balance of payments. However, with platinum production amounting to about 3 million ounces a year, against 22 million ounces a year, against gold, by far is the more important metal.
JSE’s euphoria is in sharp contrast to London gloom

By Gareth Costa and SAPA
Euphoria swept the Johannesburg Stock Exchange yesterday as the all-gold index rocketed 73.2 points to record the biggest one-day rise ever, while in stark contrast the London Stock Exchange (LSE) experienced its biggest one-day fall.

Dealers said the strong performance of platinum, diamond and gold shares was due to the very weak financial and commercial rands, and the still buoyant bullion price of $362 an ounce.

This saw the gold index reach 1,465.9 and the overall index rise 48.9 points to 1,672.3.

The financial rand collapsed to an all-time low of 17.76 US cents, while the commercial rand was just above 38 US cents. Foreign exchange dealers report that the financial rand market was heavily oversold, pushing the currency down to current levels.

The LSE suffered its biggest ever one-day fall on Wednesday as almost R15 billion (over $4 billion) was wiped off the value of quoted shares.

The FT index of top 20 shares tumbled a record 32.1 to 1,293.7. Its previous biggest one-day fall — in terms of points — was on July 8 this year, when it fell 30.7. On that occasion R20.8 billion ($5.6 billion) was wiped off the value of shares.

The index has fallen steadily throughout the summer, pushed down by the effects of a weak pound, high interest rates, a falling oil price and the uncertain political outlook.

CONTRAST

It is now almost 200 points below its all-time high of 1,429.9 achieved on April 3, this year.

Local analysts point out that this is in contrast to the South African situation, where the weak currency bringing in escalated foreign earnings outweighs the political turmoil and looming sanctions that should be sobering the market, but some analysts are predicting a fall back to reality.

However, Santamtrust says in its market opinion that when viewed closely, the increases in the JSE over the past twelve months do not seem indicative of the market as a whole, and with the exception of a certain companies which recorded good profits, are still limited to the better quality shares.

"In this regard we specifically mean companies which are in the export market and/or which have foreign interests and therefore benefit from the weak rand."

"We do not expect any substantial reaction in the market if sanctions are imposed. Circumstances can, however, change rapidly if the resultant redundancies and accompanying strikes lead to a substantial escalation in local unrest."

In London, the selling yesterday was described as heavy, with one leading stockbroker commenting: "The traffic is all one way at the moment and it looks as though we have still further to fall."

The New York Stock Exchange was mixed yesterday as traders continued to reassess the outlook for oil prices.

The markets have reacted with some confusion and uncertainty to word of an agreement by the Organisation of Petroleum Exporting Countries (Opec) to cut production for two months in an effort to bolster prices.

At first, the news was taken as a distinct plus for the energy and banking industries, and a possible portent of a new stability in oil prices.

However, many analysts questioned whether, and for how long the various Opec members would stick to commitments to hold back on their oil output.

Another unsettling question for stock traders was the prospect of a substantial rise in interest rates which would affect the Treasury's sale of 10-year notes today and 30-year bonds tomorrow.
Gold stocks dip

HAROLD FRIDJON

THE higher price at which the Reserve Bank's reduced stock of bullion was valued at the end of July gave a misleading bloom to the bank's gold and foreign exchange reserves.

The total reserves were shown at R8,879bn, an increase of R297,3m on the June figure. Gold holdings at R2,685bn reflected a book appreciation of R82,4m but the physical gold stock dropped by about 115 000oz to about 5 674 000oz valued at R812,55/oz compared with R706,13 in the previous month.

In the past 12 months the Bank has sold or swapped about 2 897 590oz of gold to acquire dollars to finance the drain of funds out of the country.

At the end of July the central bank's foreign currency resources rose by R62,6m to R757,4m.
Gold mining getting a chance to show off

THE gold mining industry will show off its achievements in hard-rock and deep-level mining at an international congress to mark its 100 years on the Witwatersrand.

The high-powered Gold 100 conference to be hosted in Johannesburg next month will encompass the technical and financial aspects of gold.

An important focal point will be the SA mining houses' success in deep-mining techniques, according to former Chamber of Mines president George Nisbet.

Other topics to be discussed include the economics and marketing of gold, its industrial use, and its extractive metallurgy.

More than 600 delegates from the international mining and investment community are expected to attend the four-day conference.

Among speakers are London Gold Market chairman Robert Guy, of N M Rothschild and Sons; George Milling

Stanley of Consolidated Goldfields; Prof. Mikhail Salamon of the Colorado School of Mines; Minister of Finance Barend Du Plessis; Jack Holmes of Anglo American Corporation; and Prof Nic Wichtehn of Unisa School of Business Leadership.

Joint organisers are the Chamber of Mines, Mintek and the Unisa School of Business Leadership.

Overseas delegates will have a chance to view mining equipment at the Electra Mining show.

The most sophisticated equipment will be on display, along with cheaper, locally manufactured equipment.

"It will be an ideal forum for locally manufactured alternatives," says De Beers Advanced Mining Technology (Amtec) MD Dennis Haywood.

"We know we can produce many types of equipment to the same standard, or better, than imported versions."
Gold Leaps

$26 Jump bolsters rand and boosts financial rand

Dollar

Downmarkets were possible.

Gold would boost $40.41.

In Zurich dealers forecast

price of gold at $40.41.

Pern is decision in gold

30% in Zurich.

Gold prices reached $40

from 2.365.

Turmoil and losses for the US.

The London Golds.

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With dealers.

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Panic buying by surprised bears sparks gold’s surge

By Neil Behrmann

LONDON — Panic purchases by speculators and professional futures and option traders have sent the gold price surging.

The bearish traders had sold gold’s short. When the price started instead of dropping they had to cover naked options or buy back gold futures to prevent losses.

“There was frantic covering by professionals and speculators who hadn’t dreamt that there would be a gold price rally,” said Mr. Robert Mozies, a precious metals trader at Paine, Webber International Futures in London. The rise in prices attracted more investors from the sidelines and the price spiked upwards,” he said.

The gold price surge, said Mr. Alan Davison precious metals analyst at Shearson Lehman Brothers, was caused by speculators, mainly in the Middle East, frantically covering their long-term short positions.

He added that if gold penetrated $400 an ounce, the price could easily run up to $450. Gold was also influenced by extraordinary trade in platinum.

A rumour that South Africa would limit platinum exports set off a surge in orders in New York and the price jumped to a peak of $562 an ounce on Monday from $500 on Friday before retreating to $525.

Scare stories about interference with South African exports could have arisen, dealers said, and Rustenburg Platinum was rumoured to be buying platinum in New York.

Hedge sales

The mine could have been covering forward hedge sales on the futures market, dealers said. Mines guarantees themselves a certain price by hedging or selling metals futures on production that can be delivered at a later date.

Some dealers are wary about prices holding at these high levels.

Gold and platinum prices could be sent down if the Soviet Union took advantage of higher prices, a London dealer said.

“Suddenly there was business, but how long will it last?” said Mr. Mozies.

The surge was, however, encouraging, he said and prices could go higher. But if disinfation continued investors would become wary of buying gold at much higher prices.

Short-staffed

Trading was so active yesterday that dealers, short-staffed because of the summer holidays, hardly had sufficient time to answer telephones.

But the surge in orders and the dramatic leap in precious metals prices was confined to speculative activity, dealers said.

Jewellers and Japanese investors who tended to buy steadily when the gold price was depressed withdrew from the market.

Silver prices rose from $5.51 on Friday to $5.52, but at current prices the gold/silver ratio is 72 times silver, and platinum is more than 100 times as high.

UK economists said the rise would bring some relief to the battered South African economy and offset the effects of economic sanctions — if the price holds.

“The run on the gold price would need to be sustained for it to be really felt,” economist Mr John Banos said. But he said he expected the gold price to remain high for some time.

“The rise in the gold price to $394 will minimise the damage done to the economy by sanctions,” he added.

Gold was fixed at $394.50 in London yesterday afternoon, its highest fixing price since March 1984, and analysts said it could soon break through $400.

South Africa provides half of the Western world’s gold supplies and around 80 percent of its platinum needs.

Mr Banos said an annualised rise in the gold price of about $60 an ounce would replace all the revenue from coal should South African coal exports be entirely blocked. But he said it was unlikely the country would not be able to sell any coal.
Platinum price surge could be flash in the pan, analysts say

From NEIL BEHRMANN
LONDON — Rumours that South Africa will impose curbs on exports of platinum have set off an active buying spree in precious metals markets.

But informed precious metals dealers say the surge in platinum and gold prices at the weekend was based on false speculation.

They said gold was inherently strong because the "market was tight." But they were wary of the surge in platinum prices.

It was standing at a premium of 34 percent over gold because of unfounded speculation about shrinking South African supplies, they said. At their lows in 1985, platinum at $242 an ounce was at a discount of 14 percent to gold prices of $281.

Platinum was a notoriously volatile metal because world production is only 7 percent of gold supplies.

Bullion dealers said, however, that further strength in the gold price would underpin platinum.

London bullion dealers said the South African authorities had never threatened counter sanctions on platinum and other precious metals because they accounted for a substantial proportion of exports.

At current prices, gold exports generated around $8 billion and platinum $1.2 billion. Coal exports, where international sanctions were in place or under way, generated $1.4 billion at the end of last year.

South African platinum production accounted for 85 percent of Western supplies.

In an interview with the Financial Times in Johannesburg, Mr Gordon Waddell, chairman of Rustenburg Platinum, the biggest platinum mine in the world, said that South African platinum mines were producing at normal output.

As so often happened in markets, dealers were trying to find reasons for the sudden surge in gold and platinum, which only had a small impact on languishing silver prices of $31 an ounce.

But the gold market was already building up towards a breakout in July.
Biggest boom in gold exploration

Mercury Correspondent

JOHANNESBURG—The greatest gold exploration boom in the history of South African mining is now under way with expenditure of about R150m a year for the first time.

The boom has reached such proportions that up to R8m in cash, the highest price ever, has been paid for a farm to gain the mineral and mining rights in the Pechelbroom area.

Because of the programme of drilling, there is a severe shortage of drills and as soon as these are available from one area they are moved at speed to another.

About one-third of this activity has been south of the Free State mines; another third is in the area between Klerksdorp and Randfontein.

The remaining third is throughout the Witwatersrand Basin including areas close to the Evander gold mines, south of Johannesburg in the Crown Mines lease area; also to the south of Nigel and between Soweto and Randfontein Estates mine.

The drilling to the south of the Free State goldfields led to the establishment of the Bexia, Beisa and Joel mines and extensions to older mines are expected method complex geological structures previously difficult to interpret can be identified.

Mining circles are confident that a new deep level mine will be established by JCI south-west of Western Areas gold mine.

Further west is the Pechelbroom district, drilling on the farm Gerhardminnebron by Anglo American's associated company New Central Wits resulted in core assaying 1,750 oz/ton.

There are reports that another core of much higher value has been assayed.
Rush for shares as gold price takes off

JOHANNESBURG—As the gold price rocketed yesterday on European markets, soaring to a peak last reached in 1964, records were shattered on the Johannesburg Stock Exchange.

In London the metal touched $358 an ounce, easing under profit-taking to an afternoon fix of $358. The JSE turnover reached a new peak of R109 million of which mining shares accounted for R90.5 million.

With platinum as the leader, the surging prices of the two noble metals have been sparked off by fears of South African retaliation to sanctions and growing anxiety about deflation in the world economy, London analysts said yesterday.

Yesterday the Wall Street Journal predicted that gold would continue to rise sharply in coming weeks.

"As stock markets are seen to be peaking, people are looking for something else to invest in and gold is the obvious thing," said one London analyst.

Anxiety about the world economy — and particularly fears of a pending recession in the US — could send gold on an upward spiral.

Platinum jumped more than $50 dollars to $550 yesterday before falling back to $530.50. still up 7% on the day.

Yesterday, the JSE opened in high gear. It was the bull market that gold and stock market analysts had been waiting for.

Johannesburg brokers said that the inevitable correction in the gold price to $387.70 at the London afternoon fixing was not expected to stem the bull run on shares as their books were crammed with unfilled orders.

The gold board chalked up 35 new highs with individual gains stretching to more than 16%. Golds dominated the top 20 list with individual stocks' turnovers ranging from R1 300 000 to R7 000 000.

The rand did not respond to the exuberant gold price. The commercial rand could only manage a 70 point gain since Friday and closed at 4.3885.
Gold price shoots up

By GORDON KLING
Finance Editor

GOLD, the mainstay of South Africa's economy, soared to a two-and-a-half-year high worth millions of rands to the country, apparently on fears that the government might restrict supplies of the metal, and platinum, in response to the clamour for sanctions.

Sources of the unlikely rumours were hard to come by and not all analysts were convinced they were the sole cause of the growing demand for the precious metals. But world markets remained cautiously bullish last night.

The gold price jumped $26.50 an ounce to the morning fix of $394.50 before sagging to a $388 fix in the afternoon. Late-night reports indicated a resurgence of buyer interest in New York, fuelling hopes that the recovery has not lost steam.

Based on South Africa's annual production of about 20m ounces, yesterday's rise to the afternoon fix alone would be worth about R1bn over a full year. Economists accept that a sustained powerful recovery in gold would catapult the economy out of recession while largely resolving the foreign-debt problem.

Report, page 8
Sanction fears send gold, platinum soaring

JSE investors go on record R110-m spree

By Peter Farley

Turnover on the Johannesburg Stock Exchange soared to a daily record of just under R110 million yesterday as South African investors indulged themselves in a mammoth spending spree.

The buying bonanza came in the wake of steep rises in gold and platinum prices on international precious metal markets as buyers tried to anticipate the possible effect of sanctions on South Africa.

In unprecedented scenes on the trading floor of the JSE, stockbrokers stampeded to fill buying orders on behalf of clients. For the past few weeks, turnover on the JSE has been averaging about R40 million.

Although gold and platinum prices fell back slightly in late trading in London and New York, dealers expect the JSE to remain strong today as a backlog of orders is filled.

In stark contrast to previous booms on the JSE, yesterday’s was almost a private affair — with virtually no buying interest from foreign investors.

In fact, as the rand and the financial rand began to firm during the day — because of the higher gold price — overseas investors used the opportunity to take profits. After firming to 39.90 US cents, the rand dipped to end the day at about 38.80c, while the financial rand was only marginally steadier at 19.95.

Nevertheless, gold shares jumped by the biggest single day leap, with a rise in the All Gold index of more than 100 points to break through the 1,600 mark for the first time. This is almost 30 percent higher than the 1,250 level of little more than a month ago.

But other shares were almost neglected, with mining shares accounting for more than R90 million of the R120 million turnover.

The main impetus on world markets came from a surge in the platinum price to $555 an ounce from $503 at Friday’s close, after rumours in London that South Africa might respond to sanctions by cutting off international supplies of the metal.

In its wake followed the gold price, which at one point hit $360 an ounce, but later fell back to stabilise around $388 at the close in New York. In Hong Kong this morning the metal was quoted at a shade above that closing level.

Analysts now expect the gold price to consolidate around present levels, with some suggesting that a move towards $420 is possible.

Minister of Finance Mr Barend du Plessis today welcomed the latest gold price gains as “helpful financially, and also in terms of business confidence.”

But he also expressed a note of caution. “Obviously we welcome the rise in the dollar price of gold, but it all depends on how the price will perform in the longer term, and how well related parameters will perform.”

“We certainly do not inordinately pinpoint our hopes for economic recovery on the gold price. We have to continue addressing the fundamental structural problems of our economy.”
GOLD PRICE AT 29-MONTH HIGH

Financial Staff

THE price of gold — South Africa's major export — although a little lower today, was still an encouraging $367.25 an ounce in London.

This is 23c higher than this time last week and the highest for 29 months. It is also a gain of $100 from its 1983 low.

Gold traded at $391.25 an ounce in New York last night after leaping to $401.

If the price holds South Africa's annual earnings from gold could soar by almost $700-million (R1 700-million).

The precise reasons for the higher gold price are not known, but New York dealers are inclined to attribute the strong demand for gold and platinum in the last few days to fears that sanctions will force South Africa, the world's biggest producer, to limit exports.

OFF BALANCE

The upsurge in both the gold and platinum prices clearly caught off balance many speculators who sold gold short in expectations of a drop in price.

An annual rise in the gold price of about $60 an ounce would replace all the revenue from coal should South African coal exports be blocked, said a Johannesburg analyst, Mr John Banos.

Panic purchases were made by speculators and traders in futures and options in London during yesterday's unexpected gold rally.

The price increase adds an ironic twist to the arguments over imposing sanctions against South Africa, wrote Stefan Wagstyl of the Financial Times in London.

"Fears about the effect of sanctions have improved rather than damaged South Africa's balance of payments."

SURGE

A rumour that South Africa would limit platinum exports set off a surge in orders in New York and the price jumped to a peak of $682 an ounce last night from $500 on Friday before retreating to $526.

Mr Heinrich Looser, chief economist at Switzerland's Bank Julius Baer, said: "Gold could easily go over $400 an ounce and I don't rule out substantially higher levels."

• Krugerrand prices soared to record levels and dealers in Cape Town said they were offering to buy at R1 245 and sell at R1 247.

Share prices soar to record levels

THE soaring gold price has triggered a huge buying boom on the Johannesburg Stock Exchange, lifting share prices to record levels and enriching thousands of large and small investors.

Turnover soared to what is believed to be a record R110.8-million yesterday from R80.3-million on Friday and from just over R37-million a week ago as the little man and the big institutions rushed to buy a share in the rising gold mining profits.

The gold share index jumped by 6.9 percent yesterday to a new high of 1665.4 while the all-market index increased by 4.5 percent to 1773.6.

This brought the rise in share prices in the last six trading days to 9.5 percent and boosted the market value of shares listed by R18.24-billion to R20.23-billion.

The beginning of the year the value of shares listed on the JSE has risen by more than R53-billion.

• Gold shares were steady to slightly easier in quiet trading on the JSE today.

Among the trades, Buffels slipped 10c to R1.20, and Welkom 25c to R20.50, while in diamonds De Beers eased 10c to R33.25 after rising 12 1/2c yesterday.

• The rand was quoted at 39.70 US cents today in Johannesburg, after closing at 38.95 US cents last night.

• The financial rand was 19.40 US cents, down from last night's closing rate of 20 US cents.
Rush for shares as gold price takes off

Mercury Correspondent

JOHANNESBURG—As the gold price rocketed yesterday on European markets, soaring to a peak last reached in 1964, records were shattered on the Johannesburg Stock Exchange.

In London the metal touched $308 an ounce, easing under profit-taking to an afternoon fix of $306. The JSE turnover reached a new peak of R109 million of which mining shares accounted for R64.5 million.

With platinum as the leader, the surging prices of the two noble metals have been sparked off by fears of South African retaliation to sanctions and growing anxiety about deflation in the world economy, London analysts said yesterday.

Yesterday the Wall Street Journal predicted that gold would continue to rise sharply in coming weeks.

"As stock markets are seen to be peaking people are looking for something else to invest in and gold is the obvious thing," said one London analyst.

Anxiety about the world economy — and particularly fears of a pending recession in the U.S. — could send gold on an upward spiral.

Platinum jumped more than $50 dollars to $355 yesterday before falling back to $338.50, still up 7% on the day.

Yesterday, the JSE opened in high gear. It was the bull market that gold and stock market analysts had been waiting for.

Johannesburg brokers said that the inevitable correction in the gold price to $387.70 at the London afternoon fixing was not expected to stem the bull run on shares as their books were crammed with unfilled orders.

The gold board chalked up 35 new highs with individual gains stretching to more than 16%. Golds dominated the top 20 list with individual stocks' turnovers ranging from R1 300 000 to R7 000 000.

The rand did not respond to the exuberant gold price. The commercial rand could only manage a 70 point gain since Friday and closed at 30.38/35.
Germans dislike sanctions

STOCKHOLM - West German Economy Minister Martin Bangemann said yesterday he did not believe a trade boycott of SA would be particularly successful," Bangemann said.

He said West Germany was not keen on using sanctions against countries of which it disapproved.

"If we were to boycott SA because it was not observing human rights, we would be forced to boycott a string of other countries," he said. - Sapa-Reuters.
Gold buoyant at $385.79

Financial Staff

GOLD was trading at just below $385 an ounce in Far Eastern markets this morning as dealers assessed the importance of last night's speech by President P W Botha.

Fears that he might use the occasion to announce curbs on gold and platinum sales had driven the gold price to above $400 an ounce in New York at one stage on Monday and boosted the platinum price to a new peak of $362 an ounce.

Gold closed $10 lower at $364.50 in London last night but it later firmed to $365.90 at the close of trading in New York. Shortly before noon today it was $364.85.

Platinum for October delivery closed in New York last night at $444.50 an ounce after dropping to $528.

Analyst Mr Frederick Demler attributed the firmer platinum price to the hard line struck by Mr Botha in his speech and his failure to rule out retaliatory measures over sanctions, reports Reuters.

The rand slipped to 37.95 US cents after opening at 38.05 this morning. The financial rand was 18.90 US cents.
Reserve Bank cashes in on gold jackpot

GERALD PROSALENDIS
Economies Editor

THE Reserve Bank has hit the jackpot by selling large quantities of gold at Monday's peak price of $395, adding substantially to its dollar holdings.

The windfall gold sales will strengthen the current account of the balance of payments and also swell Treasury's tax receipts from the mining industry from the increased rand revenues which will flow into the economy.

The Bank does not sell gold as it receives it from the mines. Sales are adjusted according to the markets capacity to absorb bullion and the price.

It is understood that in recent weeks quantities of gold were withheld by the Bank in the belief that the gold price was set for an upward thrust. This policy has proved correct and the country has benefited accordingly.

Reserve Bank traders are said to have been working through the night in 24-hour gold market negotiating deals to satisfy demand from the major markets in both the East and West.

It is ironic that with the sanctions debate in full swing SA should get a windfall from gold that, if sustained, could offset loss in earnings from mandatory sanctions on exports of coal, iron, steel, vegetables, fruit and wine.

However, SA must avoid being lulled into euphoria. The gold market has to be seen to be consolidating at the higher price level. It could shed a few dollars while a new base is being formed. It could also drop.

Before the present surge in the price of the metal, the Reserve Bank estimated total gold revenue for the year of

Reserve Bank hits jackpot

R18.5bn. Last year the country earned R15.5bn. However, if the higher price is sustained, this figure will be substantially higher.

A one dollar rise in the gold price increases the value of South Africa's gold output by about R55m over a full year, at present exchange rates.

An average price of $385 for the rest of the year would add an additional about $275m to gold earnings to December, or R720m at an average exchange rate of $0.38. A $400 gold price would boost earnings for this year by $425m (R1.15bn).

Over a full year exports of gold exports at a price of $400 would earn R21.8bn.
Gold settles below $400

LIZ ROUSE

The gold price closed little changed in London and Zurich yesterday, being fixed at $396 in London after the morning fix of $391.25.

Gold traded at $386.50/$386.60, compared with $384/$385 on Tuesday night. Last night in New York, platinum was trading at $656, up $20 on the previous day’s London fix.

Dealers said a high of $393 was tried during an active and unusually protracted morning fixing of nearly an hour, during which there was demand from a wide range of sources, including speculative money expecting gold to reach $400.

But gold remained below this week’s two-year high of $394.50.

President Botha’s speech did nothing to assuage fears over the bullion supply, said overseas dealers.

Gold shares closed higher on the JSE in active trading, recovering much of Tuesday’s losses as buying orders waiting in the queue were executed.

In London, gold producer prices closed mostly firmer after an early bout of profit-taking.
WASHINGTON — Imports of gold bullion from SA into the US soared mysteriously to 196,671 oz in the first six months of this year from 197,702 oz for all of 1965, the Commerce Department said.

The surge initially had analysts puzzled as the US generally buys only negligible quantities of bullion direct from SA.

However, most of the metal was bought by the Japanese Ministry of Finance as part of a four-month $2bn buy world-wide for the minting of a new coin in honour of Emperor Hirohito.

Department sources said Japan stockpiled the bullion in the US before shipping it home in June.

Because such transhipments show up as exports in US trade statistics, the Japanese move had the intended effect of reducing its politically explosive trade surplus with the US.

Gold and Money Markets Analyst publisher Tom Wolfe said only a small portion of the estimated 6-million oz involved was bought directly from SA.

He said: "Most of it came from Canada, and the other usual sources, Switzerland, the UK and the Soviet Union."

Wolfe said it would be a mistake to be bullish as the buying spree was over.
Japan seen as strength behind bullion price surge

From NEIL BEHRMANN
LONDON. — International fears about the political situation in South Africa and widespread speculative buying of platinum have obscured the main reason for the sharp rise in gold prices.

The inherent strength this year comes from an extraordinary increase in Japanese orders.

So much so that the nation's new found interest in gold is expected to alter the demand side of the gold market's equation for years to come.

Japan imported 248 metric tons of gold in the first half of 1986 against 95 tons in the same period last year and 197 tons in the whole of 1985, according to Japanese customs statistics.

"At this rate Japanese gold imports could exceed 600 tons this year, 'about half of Western supplies,"' says a West German bullion manager. He estimates that purchases will continue to run at a 60-ton monthly rate.

"Without the surge in Japanese demand, gold prices would have been significantly weaker," says Reg Eccles, managing director of Metals & Minerals Research Services, a London consulting firm.

A good portion of the gold delivered to Japan will be used to mint 10 million coins each containing 20 grams of gold. The coins, priced at 100,000 yen (US$45) have been minted to commemorate the 60th anniversary of Emperor Hirohito's reign.

The coins are so popular that the Japanese authorities are issuing 50 million lottery tickets to people who want to buy the 10 million coins.

Lucky ticket holders can buy the coin at the end of October, so effectively each ticket holder has a one-in-five chance of buying the coin.

The lottery will be closely watched. If it is successful, the Japanese Finance Ministry will buy more gold on world markets to satisfy demand for the coins.

Excitement over the new coin, which is standing at a substantial premium over the gold price, is only part of a remarkable gold story in Japan.

Both Japanese jewellers and investors have become interested in the metal.

The publicity surrounding the coin, say Japanese dealers in London, has helped ignite enthusiasm for bullion.

Japanese investors buy a coin with a face value of 100,000 yen, so they are protected from any decline in the price of gold. But the Emperor coin is standing at a huge premium over world gold prices.

The coin at 20 grams is equivalent to just under two thirds of an ounce. An equivalent amount of gold at current prices of US$325 would cost Japanese investors 32,000 yen (US$145) — a discount of 82 percent.

For the average Japanese precious metals dealer the huge discount is a wonderful sales story.
advances. Lomberg also points out that 60% of Volkskas's overdrafts were secured (69% at Barclays, 65% at Standard). Farm property mortgages were security for 23%, a figure much higher than for the other big four.

After developments with Nedbank and Tronmi, investors are wary of bad debts. "Certainly our experience of the past year, like any other bank, has been an unprecedented level of bad debts," says Morkel, "but we have made sufficient provision against internal reserves." Another area of concern is gilt's. Cronje, however, assures us that Volkskas is making a profit on its portfolio.

On the subject of disclosure, Morkel is emphatic that the policy of limited disclosure is correct. He does not consider that full disclosure would help investors or depositors in cases of large bad debts. He believes that reserves are there to iron out fluctuations caused by the volatile pattern of bad debts.

Perhaps more pertinent could be that Volkskas does not have a Sanlam or Mutual to turn to and must be careful how it is perceived by the public. This is thought to be one reason why internal reserves are rumoured to be very large. In reality, though, arguments in support of non-disclosure are specious. The market does not know the size or adequacy of reserves, nor the seriousness of bad debts — surely an excellent reason for improving disclosure and, therefore, credibility.

Rumour that Volkskas holds large hidden reserves has been fed by the denial that there will be a rights issue in the immediate future. Although Morkel acknowledges that Volkskas is short of capital in terms of the new Banks Act, "by restructuring assets, we need less capital and won't have a shortage."

Other rumours also abound — one is that Volkskas will join up with Nedbank. Morkel maintains that there is nothing in the pipeline, but "our options are open — I would not exclude any of the banks." A factor that could encourage speculation about marriages is that Volkskas's major shareholder, Rembrandt, is not in direct competition with the controlling companies of any other bank.

The main question, however, must be when patient shareholders will see an improvement in earnings and dividends. Cronje and Van Vuuren say the "outflow to the building societies has stopped." The new capital ratios will affect the way scarce capital is employed. Indications are that dividend cover will not be reduced, so a rise in earnings is needed to give the share price impetus. Morkel is not encouraging. "The real benefits of rationalisation programmes will start flowing in 1988," he says. Earnings "this financial year and the next are going to be very much the same." Nevertheless, Lomberg, who has been recommending the share for a year, says purchases can still be made.

Volkskas may be gathering strength and could emerge in two years' time as a giant of the banking scene. Whether it will, must depend on the success of the new structure, including management structure, and the plan to switch entirely to quality business. After all, all the banks want the cream.

Pat Kenny

GILT OPTIONS

The world of puts and calls

One explosion is going virtually unnoticed. The quiet but rapid growth of the gilt option market is a product of the increasing importance of financial engineering to tackle the havoc wreaked on markets by political and economic turmoil.

Gilt option volume (mostly in primary trade) has almost doubled over the past year to an estimated R1 billion a month. By all accounts it is still rising — and this in a market that only really got going in 1984.

Trading in gilts is becoming increasingly popular as a hedge against economic and political instability. But you have to have considerable capital to enter the game.

Rand Merchant Bank's Paul Harris reckons "nearly all brokers, major banking groups, all but one or two insurance companies, two or three pension funds, four or five borrowers, and four or five corporates are involved." An increasing number of struggling borrowers are attaching options to primary issues to entice reluctant investors.

Why such growth? First (and perhaps most important), the political and economic climate has created a highly volatile capital market where risk management is essential.

Enabling investors to hedge against sharp interest rate movements, options are a type

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of insurance, allowing option buyers to gain (potential fortunes) from movements, while limiting the loss to the price paid. The trade has its own specialised vocabulary (see box).

Options are thus not only a trading exercise, but an asset for the holder and a useful tool in portfolio management. Through options, portfolio managers can buy or sell stock without influencing rates. Says Federated Life's Luigi Colontoni: "Buying and selling options is taking a view, and used by portfolio managers as a balancing mechanism."

Investor interest was probably triggered by the requirement that insurers and pension funds invest in gilts (so-called prescribed assets). Portfolio managers are always looking to improve the poor returns realised. Many institutions write options against long-term gilt stock bought, giving them flexibility to move out of a position. Options are also a useful gearing tool. Potential appreciation on a R1m stock can be gained with a much smaller outlay.

Most institutions are doing well out of the option books. It has been said that for options, the long end of the capital market — which faces extinction as a result of reluctance to commit funds in a time of extreme uncertainty — would be non-existent.

Most stockbrokers are involved in options, providing research, buying options (especially short options for their own account), and broking. They do not write options. Unofficial estimates are that the JSE (as opposed to the inter-bank market) accounts for about half the option trade: over 90% of overnight and day-night principal options, around 40% of principal options up to a week, but few principal options for longer periods.

Most option trade (an estimated 60%) is on the jobbers' favourite, RSA 15% 2005 stock. Some R2 billion is in issue and the entire nominal value is turned over every 12 weeks. The second most traded option is Sats 7.5% 2008, whose popularity is a result of Sats's active promotion and willingness to write box options. Escom is likely to enter the option market this year.

Individuals have access to the option market, but are not major participants. It is a complicated market, involving many fancy strategies. As JSE president Tony Norton says: "It's not for amateurs."

Also, option writers prefer dealing with bigger clients as the sums involved are large and the cost in terms of time does not warrant actively enticing individuals.

Thus the main participants, whether tookers, writers or jobbers, are institutions with access to vast sums. At current prices the move of more than 200 points in the RSA 2005 in the last three weeks is worth about R90 000. Not bad for an investment of R15 000.

Though it may appear a speculator's paradise, the true nature of the market, Frankel Kruger's Gill Raine argues, is not speculative: "It's a matter of educating people that it's a market with risks and rewards."

So it is a high-risk game. With such stakes is there not a risk of burnt fingers; more important, is stricter control not necessary?

Writing options naked, that is, without owning stock to back the option, is dangerous. There is nothing to prevent large losses (which many fear are only a matter of time). Stockbrokers are controlled — cash margins are monitored and bank guarantees required for open positions. Assures Norton: "We watch it like a hawk as the whole market can be prejudiced by the action of a single member."

But for non-brokers, the only control is trust and reputation. As Sanlam's Ronnie Mason says: "To write options, a good standing and holding a similar option or cash resources (margin account) is required."

Harris is not worried. "For buyers, knockouts are finite and limited to the premium. The downside risks, and hence the knockouts, in the physical market are much larger."

But he agrees that option grantors are exposed to losses should rates move against them. Most big option writers thus try to hedge their positions.

To improve financial security, some are lobbying for an option clearing house to lay down procedures and requirements for granting options, monitor margins and manage credit risk. At the moment, larger institutions act as informal clearing houses.

The Stals Commission, which is investigating and advising on these problems, seems to be on the shelf while chairman Chris Stals attends to foreign debt negotiations.

The JSE is aiming for a formal traded option market, but before this can be realised a co-ordinated settlement system between the JSE and banks is needed. Norton believes a clearing house is characteristic of a good market. "Overseas markets are overseen by a clearing house which guarantees performance through margin and clearance disclosure," he says.

But not all favour a formalised market. Volkstas Merchant Bank's Gunther Meier for one believes that "the size of the market does not yet justify a formal and legal framework in which all participants have to operate. An association which gives individuals maximum freedom but will protect the public, seems better."

Harris adds: "We should rather allow the market to develop in the popular stocks. We need a clearing house for physical stock but not yet for options. It would be counterproductive to establish a formal market before volumes can justify the costs."

What of the future? The market is still thin and young with relatively few participants. New markets are there for the taking. As volumes increase, markets are likely to develop in more stocks (especially in the shorter and medium term, becoming increasingly popular) and interesting variations.

**OPTION SPEAK**

- **Call option**: The right (but not obligation) to buy stock from the option grantor at the specified rate on the specified date. Calls are purchased if one expects rates to drop.
- **Put option**: The right (but not obligation) to sell stock to the grantor at the specified rate on the specified date. Puts are purchased in anticipation of a rise in rates.
- **Box option**: An option to exercise either a call or put. Call/put options can be purchased at the same points away (below in the case of calls and above in the case of puts) from spot. Because it is a hedge both ways, a box option costs roughly double that of a straight option (the combined price of a call and put).
- **American option**: May be exercised at any time prior to maturity.
- **European option**: May be exercised only on the maturity date.
- **Spot yield**: Prevailing market rate.
- **Strike date**: Final date on which an option may be exercised.
- **Premium**: Grantor's charge for granting the option.
- **In the money**: The strike price is above the spot yield in the case of a call and below the spot yield in the case of a put.
- **Out the money**: The strike price is below the spot yield in the case of a call and above the spot yield in the case of a put.
Capital outflow set to swallow gold profit

Economists and businessmen fear that the increased foreign-currency earnings will be swallowed up by stepped-up capital outflows ahead of sanctions.

Speculation is that the Reserve Bank is trying to stockpile dollars in anticipation of lower foreign earnings under sanctions. The bank's purchase of dollars from the private sector bolsters liquidity by virtue of cheap rand being exchanged for expensive dollars. Gold mine earnings along with tax revenue from them receive a fillip from a high dollar price of gold combined with a low rand. If the Reserve Bank remains an active net buyer of dollars from the private sector liquidity in the money market will increase and depress interest rates.

Coffer-filler

Economists estimate that every $10 an ounce rise in the gold price translates into an annualised $200 million boost to S.A.'s earnings. If the gold price remains above $300, nearly $2 billion could be added to S.A.'s depleted foreign-currency coffers by the end of the year.

However, with an estimated 60% of S.A.'s outstanding foreign debt falling outside the standstill net and foreign creditors nervous of further restrictions on repayments in the event of sanctions, capital outflows are likely to rise.

Gilts look good

Traders in short-term paper report a severe shortage in money-market assets, which means rates could fall further.

Long-term rates seem to have consolidated around 15%, but traders think easing is possible under the weight of funds. Relative to equities, which are expensive, and property which is depressed, gilt may yet offer the best investing opportunities.

But both gilts and equities are likely to react more strongly to bad news than to good.
What you should be doing about gold investments

WHEN I last wrote about gold, back in January, there was a flurry of interest in the metal similar to that we have just experienced.

The gold price had risen to $353, the gold share index stood at 1285, the Krugerrand was being traded at $255 and you could buy units in the Standard Gold Fund for 163.45.

My concluding advice was not to be in a hurry to buy gold investments (because I expected the flurry of interest to collapse as it did, but to "use any weakness over the next few months to build up your holding of Krugerrands and to buy gold shares or Gold Funds units".

As I write this, gold is trading at $334, gold shares and Gold Fund units are 21 percent higher than they were in January, while the Krugerrand (looking overheated) has jumped to R1 280.

What should you be doing now about gold investments?

Firstly, it is important to remember that recent action in the gold market has largely been a reflection of dollar weakness.

Proof of this is that if you use some other major currency to measure the value of gold, such as the Swiss franc, you will see that gold is not yet in an uptrend.

This is not just a theoretical argument. Our economy will get no boost from gold if, although we get more dollars for our bullion exports, those dollars have lost purchasing power.

Although international trade is a complex subject, ultimately we have to earn yen to pay for imports from Japan, marks to pay for our purchases from Germany, and so on.

Gold's failure convincingly to reverse its downtrend in terms of several major currencies suggests that there is no widespread fear of collapse of the world economy, only disquiet about the dollar.

So why the recent flurry?

One reason is that the dollar gold price is traditionally strong at this time of the year, for seasonal reasons linked to jewellery industry purchases. If it were not, that would be very bad news indeed.

Another is anti-dollar sentiment.

Foreigners need to believe that the capital gains and income they can get out of their American investments will more than offset what they are losing through the decline in the dollar's exchange rate.

If, as seems possible, the American economy is running out of steam, the capital gains could evaporate and income flows could fall. This is disquieting enough to discourage some flow of capital into America, weakening the dollar's underpinning.

In a climate such as this, some international investors, both American and non-American, may be feeling the time has come for them to make a small precautionary investment in gold.

A third reason for the recent flurry could be changes in the supply and demand situation.

For some time the Russians have been selling more gold than they produce by running down their stocks. They have been doing this because they need hard currencies to offset lower revenues from oil exports.

It could be that Moscow has run out of "surplus" gold to sell.

It could also be that the Japanese, who have caught gold fever on an amazing scale, are stepping up their purchases.

These would be encouraged by the authorities, who are only too keen to find ways to reduce Japan's embarrassingly large foreign trade surplus.

On balance, the most likely outlook for the gold price is an uptrend in terms of dollars and stability in terms of other major currencies such as the yen, the mark and the Swiss franc.

In terms of the rand — which is what matters to the mining companies, which have to pay most of their expenses in rands — the gold price is likely to stabilize in the range R$500 to R1 000 an ounce.

At present gold shares and Gold Fund units look cheap relative to the rand gold price, and may be bought with confidence.

Krugerrands, however, look overpriced to me: why pay such a large premium for an asset which yields no income and has less upside potential than gold shares?

* Martin Spring is editor of Personal Finance Newsletter.
SA’s forex, gold reserves exceed $2bn

SA’s foreign exchange and gold reserves now stood at a higher level than at any time since the imposition of the standstill last year, Reserve Bank Governor Gerhard de Kock said yesterday.

And, despite large purchases of dollars by the Bank to replenish badly depleted reserves, the rand has made a gain of 9% for the week to yesterday’s close of $0.45. Yesterday alone, the currency rose 3% to its closing price.

After the close, the currency rose even further to $0.4540, almost two cents higher than Wednesday’s close of $0.4370.

De Kock said: “The currency would have risen even higher if the Bank had not been a net buyer of dollars.”

SA’s gold and foreign exchange reserves now exceeded $2bn. Expressed in rand terms, these reserves appreciate automatically with any rise in the currency.

De Kock said: “But, what is important is that they have been rising in dollar terms.”

After declining for the first six months of the year, the opportunity to top up dollar breached the crucial DM2,000 level, SA exporters rushed to bring their dollars into the foreign exchange market.

De Kock said the monetary authorities had received complaints from industry that the rand was moving up too sharply.

He said: “We are controlling the rand’s rise and are not letting it surge upwards. At times we have bought and sold up to $100m within the same day. If we had not done this the rand’s behaviour would have been far more volatile.”

One immediate spin-off of a higher rand, and a lower dollar, is that a rise in the price of petrol is now unlikely. The government, if it is believed, has been buying oil at lower dollar prices which will enable it to hold the present petrol price even though it is based on an exchange rate of about $0.47.
Emperor's coin puts gold back on throne

Im Stanners - Washington

Central banks fought back harder after gold's recent slide.

Patriotic

The Japanese gold stocks were reported to have been sold by the Japanese government, and the yen was allowed to float. This led to a decline in the value of the yen, which caused inflation and a rise in the cost of living. The need to pay for the war effort was also a factor in the decision to sell gold.

Platinum

The platinum market was also affected by the situation in Japan. The price of platinum decreased as a result of the increased supply of gold. This led to a decrease in the demand for platinum, which in turn affected the price.

The situation was further complicated by the global economic crisis, which led to a decrease in the demand for gold and platinum. This further contributed to the decline in prices.
GOLD and platinum prices fell sharply yesterday to erase some of last week's gains as dealers regained confidence that government would not disrupt world supplies of precious metals.

Gold closed in London at £376.25, down nearly £5 from its close last week of £382. Platinum was priced at £535 from £546.50 on Friday.

Dealers in Johannesburg said trading activity in both markets was nowhere near the levels of last week when fears of restricted supplies sent platinum prices to £562, a five-year high. Gold soared to a two-year high of £394.50 last Monday and hovered around £390 until Friday.

Yesterday's activity was described mainly as profit-taking by professional investors and seen as a necessary correction of last week's gains. Traders said it probably did not indicate the start of a long-term price decline.

The rand weakened, closing 0.3c lower against the dollar at $0.3805/15 in thin trading. Dealers said the Reserve Bank stepped in to sell dollars whenever the rand seemed in danger of falling below $0.38.

The financial rand also fell slightly, to $0.1950/2000, from $0.2015/65 on Friday.
Gold still holds sway in the monetary markets

By Stan Kennedy

To a large extent, gold still holds the world’s monetary systems in balance against the vagaries of the marketplace and fluctuations in currencies.

And amid international debts and high budget deficits, the worldwide focus on gold has seldom been keener.

This point was not overlooked when the Council for Mineral Technology, Unisa’s School of Business Leadership, the SA Institute of Mining and Metallurgy and the Chamber of Mines of SA set out to make Gold 100 the most memorable conference to be held on gold.

As South Africa is the world leader in gold-mining and extraction technology, it was only fitting that this once-in-a-lifetime conference should be held in the centenary year of the “City of Gold”.

The international community — about 600 delegates are expected — has taken Gold 100 as a wonderful opportunity to gain insight into the complex and fascinating mechanism of world gold markets and technical factors governing gold production.

The conference will be officially opened at the Johannesburg Sun Hotel on September 15, by the president of the Chamber of Mines, Mr. Peter Gush.

The Minister of Finance, Mr. Barend du Plessis, will be one of the main speakers at the plenary session on the first day.

Other distinguished speakers on the first day include Mr. Robert Guy, N M Rothschild & Sons and chairman of the London Gold Market; Professor MDG Salomon, Colorado School of Mines; Professor DA Pretorius, University of the Witwatersrand; Professor Nic Wiethahn, School of Business Leadership, Unisa; Dr Geoff Gafner, InterGold; and Mr Jack Holmes, Anglo American Corporation.

From Tuesday, September 16 to Thursday, September 18, there will be presentations at the Johannesburg Sun and Carlton hotels by a prominent array of leading bankers, economists and scientists, both local and overseas, covering 22 major topics.

A special commemorative medallion has been struck.

Enquiries from coin collectors from all over the world wanting to buy the medallion are pouring in and there is a strong possibility that a special mintage in gold will be available to the public after the conference.

Despite recent bad publicity about South Africa, Gold 100 should certainly demonstrate that one of South Africa’s strongest trump cards against sanctions is gold.
GOLD

Will gold do the trick?

Once again people are looking to gold to bail SA out of its economic malaise, and once again they will be disappointed.

For one thing, foreign debt constraints have changed all the rules; for another, we can no longer get away with relying on one major export. Local labour profiles and overseas economic developments have changed all that.

Having leapt to $395/oz, the metal is already $20 lower. Although it may stay around these levels, the impact is uncertain. What is certain is repayment of foreign debt, which, in turn, will stimulate the economy.

"Normal rules," says Volkskas economist, Adam Jacobs, "are topsy turvy." The economy is so intertwined with the political crisis that economic fundamentals are of little more than academic interest. The economy simply does not move as "economic fundamentals" would suggest.

This abnormal situation is reflected in the most visible and immediate barometer — the rand. The currency has failed to appreciate in response to the higher gold price.

Why? Reserve Bank Governor, Gerhard de Kock cites adverse leads and lag action, "payment of foreign debt." "Despite this," he adds, "there has been no decrease in reserves over the past few months."

The popular market explanation is that the Bank is accumulating foreign exchange, instead of using such revenue to boost the rand. Standard Bank, discussing last week's activities in the forex market, says the Bank "for reasons best known to itself," only sporadically supplied dollars.

"This suggests the Bank is either intent on allowing market forces to determine the rand's level, or dollar receipts are being set aside for alternative purposes, possibly foreign debt repayment," it says. The Bank may be reluctant to see the rand appreciate enough to cause more outflow of foreign currency earnings.

De Kock says the Bank has not been withholding dollars nor building reserves, but has been "protecting the gold and forex reserves. Since the Bank has paid mining houses in rand, we feed all the weekly dollars from the sale of gold into the market." He says gold sold from the reserves at $390-$395 (which with hindsight seems wise); this excess of dollars has been retained. Thus, only the composition of reserves has changed, not the underlying amount — a total of R3.9 billion.

Some economists, including FCI's Arthur Hammond-Tooke, believe the gold price surge prevented the rand from falling even further.

The abnormal situation is emphasised by Old Mutual economist, Rob Lee, who says that if, on waking from a 10-year sleep, an economist was told that SA has a current account surplus of 6%-7% of GDP, he would forecast a high growth rate.

"If, on top of this, our economist was told that there had been a stimulatory policy for 18 months and yet the economy was still in recession, he would think you were nuts."

Many still rely on the "gold times, good times" Syndrome. They consume more, invest more and borrow more when the gold price is up — all conducive to pushing the economy out of the doldrums. However, it is a moot point how distorted perceptions have become and whether a gold price rise is sufficient therapy to lift spirits.

SA owes international creditors some $24 billion at the end of 1983. This is substantially lower now, given large oil credit and IMF loan repayments, as well as other debt repayments in and out of the standstill net. De Kock says new figures about remaining debt will soon be available, as a census is under way.

At present, with annual gold output of almost 22m ounces, a $30 gold price rise brings in an extra $660m annually. A $100 increase in platinum brings in $250m.

Repayments easier

Any boost to the reserves from greater gold proceeds will obviously make repayments easier and hence reduce pressure on the balance of payments and consequently the rand, but it would need a massive increase to alleviate the overall pressure of the foreign debt shackles.

Against the poor state of reserves and large capital flight gains from a higher gold price are marginal. "Dollar demand arising out of the debt and other forms of flight will impair the impact extra gold earnings would usually have," says economist, Stephen Gelb. JCI economist, Ronnie Bethlehem, reminds us that net reserves are still negative: "Before having any significant impact on the local economy, we must reconstitute reserves."

Lee believes that additional revenue from gold "should help finance government overspending," but estimates the budget deficit will, nevertheless, be R2 billion higher than the budgeted R4 billion.

It will also take a much higher gold price to entice foreign investment. While foreigners might purchase gold shares, the economy is so shaky and the hurdle factor so great that gold does not look like changing foreign minds about SA.

BUILDING SOCIETY LAW PASSED

Now that the Building Societies Bill has finally been passed (it was some seven years in the making), the United Building Society (UBS) will finalise details of a JSE listing at a board meeting on Friday. Relieved UBS CEO and deputy chairman Piet Bedenhorst tells the FM full details can be expected next week. He has little doubt the UBS will be the first to gain a listing.

The Bill was obviously a priority; it was placed first on the order paper on the second day of the new session of parliament, having lost out in the first day to a Conservative Party filibuster on KwaNatal. Second on the order paper was its sister, the Mutual Building Societies Amendment Bill, preserving a modified mutual structure for societies wanting it.

Bedenhorst welcomed the legislation as a declaration that government "is serious about bringing more equal competition into the financial arena." He is, of course, convinced the legislation will enable building societies to compete more equally and meaningfully with other financial intermediaries.

He believes the consumer will benefit from greater choice, which will boost competition, in turn meaning better rates for both depositors and borrowers through finer margins.

MONEY SUPPLY

Move into short term

The latest figures for money supply indicate a shift away from long-term deposits, strongly suggestive of a market belief that interest rates have bottomed.

Though one must never read too much into any monthly economic figure in isolation, the
bulk of profits in the Christmas-boosted second half."

Bearing in mind the group earned 103c in the second half last year, that trading in all main divisions appears to be running ahead of 1985, and that both debt and interest rates are falling, W & A should comfortably earn 200c this year. That puts it on a forward earnings yield of 22%, and assuming three times cover, a dividend yield of 7.2% — a rating that may be a bit too harsh for a company on a recovery trend whose share price is a 36% discount to asset value.

While operating income remained static at R23,2m (R23,3m), the sharp fall in finance costs to R9,5m (R18,8m) saw pretax income spiral to R10,85m (R1.77m).

With debt significantly reduced since December, the debt/equity ratio has fallen from 78% to 69%, a far cry from the 110% of barely a year ago.

Attributable profit was R4,24m (R1,24m loss), which was boosted by extraordinary profits of R6,22m on the sale of shares in Hazlewood and Jee Stores.

The curious fact is that most major subsidiaries had already reported, yet still the market seemed to underestimate performance.

One reason could be that while most are listed, some important earners, such as W & A Distributors, are tucked in unlisted corners, away from analysts' eyes. Another reason could be the group's complex structure, which was recently reorganised.

The newly constituted subsidiary, Hunts, produced strong earnings, largely reflecting stable returns from its 60% holding in General Tyre and vastly improved returns from its 51% of E W Tarry, which now contains the Williams Hunt motor division. Williams Hunt sells GM cars which, after a lean spell, have been gaining market share.

Higher up the group structure, World Furnishers reported a sharp turnaround, based partly on improved trading conditions, and partly on an improved financial structure in the wake of raising some R16m by selling shares in Jazz. Interim profits were R1,01m, virtually matching the R1,09m for the whole previous year.

The other furniture subsidiary, Bradlows, reduced its interim loss to R213 000 (R897 000), and is expected to return to profit in the second half.

On the strength of the overall performance, W & A could be due for rating.

FINANCIAL MAIL AUGUST 29 1986
Gold - 1986

Gold edges to key $400 mark

LONDON. — Gold closed at $391.25-$392.75 an ounce, up from Friday's close of 385.50-386.00 and just below the day's highs, dealers said.

They said gold closed in a quiet market in the absence of New York traders due to the Labour Day bank holiday in the US.

The day's high of $392-$393 came at the morning fix, when the market saw aggressive buying on platinum's strength.

But gold was sold off, mainly from the Middle East, at around the $393, and drifted $1 to $2 lower in the early afternoon.

Dealers said gold's upward progress looked set to continue, with an attempt on the psychologically important $400 threshold expected within the next few weeks.

They cited a bearish dollar and strong platinum as the main factors underpinning gold.

Platinum was fixed yesterday afternoon at a new six-year high of $638.00 an ounce. It later traded in a range of $635-$638.

Dealers said the market was quiet, with moderate short-covering maintaining upward momentum, and good buying at the fix.

In Zurich, platinum closed at a six-year high, while gold edged further towards the key $400 an ounce level, dealers said.

Gold closed near the day's high at $391.25-$392.25 an ounce, up some $3.75 from the opening and $8.75 from the previous close.

Platinum was up around $18 at $654-$659 an ounce. — Reuters
Shares soar as gold heads for $400

Demand for shares, particularly gold shares, soared on the Johannesburg Stock Exchange yesterday, and many gold shares reached new highs.

The moves were fuelled by the stronger London bullion price, up $6 to $391 an ounce.

The upward trend is expected to continue with talk of gold breaking through the $400-ounce level to about $420.

The main buyers yesterday were local institutions and private investors, who have nowhere else to invest their money against inflation.

The JSE all-gold index stormed through the 1700 level for the first time, closing at 1727, above Friday's previous record of 1695.

The industrial board was sidetracked with the index unchanged.

Platinum shares also reflected the strength of the metal, which is currently trading in the $600/ounce range, as Impala firmed another 75c to R57.50.

The firmer rand of 46.10 US cents did not seriously affect the upward march of the gold shares.

It did reduce the advance in the rand gold price, which would have moved through the R2000/ounce level had the rand stayed at the 39 US cent level.
expect it to keep climbing
Gold tops $1,000 and analysts

NEW YORK -- Gold topped $1,000 an ounce Thursday in Asian trading. The precious metal closed at $1,008.90, its highest level since 1981. Analysts say the rally is driven by the weak dollar and strong inflation expectations. The U.S. government reported that U.S. inflation rose to 3.1% in the first quarter, which is the highest level in 11 years. The strong dollar made gold more expensive for investors, but it also fueled demand for the metal as a hedge against inflation. Some analysts predict gold could reach $1,500 an ounce by the end of the year.
Gold fever hits world markets

By GORDON KLING
Financial Editor

GOLD FEVER resumed on world bullion markets yesterday, driving futures delivery prices through the $400 an ounce barrier for the first time in more than two years.

Although prices began to fall back in London in late trading, due to profit-taking in New York when the markets were re-opened after a holiday, many dealers believe this is only a temporary setback and the rise will be resumed.

Soaring prices have boosted confidence in SA, raising hopes that the economy may be about to pull out of its long recession.

Optimism

Economists and businessmen reported a new note of optimism in spite of the country's continuing political violence and the growing threat of economic sanctions.

"The figures are not conclusive but it looks as though the economy is picking itself off the bottom and is beginning to move," Aubrey Dickman, the Anglo-American Corp's chief economist, said.

After hectic trading on European markets, the gold price began to ease in London, where it closed at $392.25-392.75 compared with the afternoon fixing of $393.25, down from $395.50 in the morning.

The rand reflected enthusiasm for the yellow metal with a 1c gain to $0.4110/20, although the financial rand seemed impervious at $0.2035/65 from the previous day's $0.2025/35.

Gold shares led a strong advance on the JSE.

The JSE Gold and other indices rose to new records, thanks in

Closing gold prices
(In S an ounce)

LONDON: 392.25-392.75
Fixing am: 395.50
Fixing pm: 393.25
ZURICH: 393.00-396.00
— Reuters

some degree to the failure of the financial rand to respond to gold's improvement.

Platinum, which unusually, has led gold up during much of the recent rise, was fixed at a six-year high of $658.50 in the morning, but from then on drifted down to closed at $645. It was priced around $340 in 1985.

Gold for delivery in December rose $7.30 to $400.60, but the upswing ran out of buyers under the August 11 high of $404.50.

Reports from Zurich say turnover there was enormous, with millions of dollars worth of gold and platinum changing hands in hectic trading.

Trading in gold began in Zurich at $327 an ounce but dropped back a little as professional traders took their profit.

Reuters reports that dealers said both metals still looked set on an upward course.

Drift

Dealers in London were divided as to whether gold's downward drift after touching a high of $396.50/397.50 meant the metal was moving towards a downside price correction after failing to attain $400, or whether it was merely a temporary check caused by profit-taking in New York.

Many dealers said that sentiment was still bullish and the metal was poised to follow platinum up again.

One dealer said, "we are expecting another assault on the $400 mark — if not tomorrow or the next day, certainly in the next couple of weeks."
Speculators are bullish about gold again

By Neil Behrmann

LONDON — Swiss bullion dealers say investment and speculative demand for gold is beginning to outpace jewellery and industrial consumption.

Gold jumped yesterday when the New York markets were closed for Labour Day. Speculators who had sold short covered large positions in London, the dealers say.

The purchases took place during the morning session when London's five bullion houses fix the price of gold.

Mr Alan Davison, precious metals analyst at Shearson Lehman, believes that there are still large bear positions outstanding.

Speculators will be forced to cover their short positions on the options and futures market if the price breaks $400, he says. And if the price does break $400, its surge could continue as the frantic bears try to protect their capital.

Bull trend

Most of the bears, he says, come from the Middle East.

A Swiss bullion manager, however, believes most of the short positions have already been covered.

"The rise on Monday was unusual," he says. "Middle Eastern bears were covering."

But another bullion manager contends gold is "in a definite bull trend."

He maintains the market is underpinned by orders from American and other investors who have begun to build up positions in gold.

Their purchases and the higher price, however, has begun to curb industrial offtake. Japanese orders have fallen, he says.

"At the moment, the trading range is $370 to $395," says the bullion manager, "but it is only a matter of time before bullion tests $400 and if that happens the price could easily rise to the $420 range."

Ms Rosemary O'Connor, precious metals specialist at James Capel, London stockbrokers, contends industrial demand is "healthy" and jewellery sales are "good."

"The gold demand-supply balance should be in deficit this year," she says.

She says the consolidation between $380 and $400 is constructive for the market.

Since August 5, the price of gold has risen 9 percent in dollars and has appreciated in other currencies as well.

But the large price gains were seen in South African gold shares on foreign markets. They have been depressed by pessimism about South Africa's prospects, a weak financial rand,

How gold has surged this year  
--- Graph Simpson Fratta

fears of counter-sanctions on international investors.

Since August 5, however, when gold shares were at their nadir, the Financial Times gold share index has surged 30 percent.

Volatlie golds

Durban Deep, a marginal short life mine has risen by 56 percent. Harties and Doornfontein by 49 percent, Freegold by 43 percent, Kloof by 45 percent. Vaal Reefs by 40 percent. Winkelhiek by 38 percent, Venterspost by 32 percent and Driefontein by 30 percent.

South African gold shares in London and New York, however, are notoriously volatile and the spreads between buying and selling prices range between five percent to 10 percent at times.

Market makers maintain the wide spreads to protect themselves from thoughtless statements by South African Ministers, unforeseen strikes and violence and the erratic behavior of the gold price.
Precious metals could bring extra R1,5 billion

Gold soars to give economy a huge boost

By Trevor Walker

South Africa's economic prospects have brightened considerably as gold and platinum prices continue to roar ahead on the international metal markets.

If the boom continues, an extra R1 500 million is expected to flow into the country.

Gold this year has risen from $325 to more than $400, after having stagnated round $320 for most of 1985.

Economists said the increased tax receipts which would pour into the coffers of the Receiver of Revenue were unlikely to fuel inflation because of the restraints placed on the authorities by the debt standstill.

Interest rates will certainly fall in the near future, and shopkeepers are now looking forward to a much more merry Christmas than previously hoped for.

The Reserve Bank is keen to get people spending, and according to Dr Asaf Kaplan of Econometrix, boosting money supply will not increase inflation because many facilities are under-utilised.

All the signs now point to an upturn in the economy, and business confidence is strengthening.

The stock market's key barometer, the overall index, is nearing the 2 000 mark and is almost 90 percent higher than at the beginning of the year.

The market's gold index has soared to a record 1766 from a low in January of a shade above 1200.

The industrial market has lagged a little, rising to 1325 from 1050 in January.

Reflecting the rosy economic outlook, the rand has recovered to 41 US cents and the financial rand has moved above 20 cents.
Economists warn against euphoria about gold's rise

Gold price in other currencies

[Table with currency and gold price values]

Hectic demand paves glitter on gold again
Gold closes steady at $406.25

LONDON. — Gold closed steady at $406.00-$406.50, down on Wednesday's close of $407-$408 but up on the day, dealers said. They said the metal had recovered much of the early losses incurred when it slipped to a low of $401-$402 around midday on heavy selling in platinum.

Dealers said gold appeared to be consolidating its recent gains at just above the $400 threshold, before moving upwards again.

Platinum recovered from lows of around $635 an ounce to an afternoon fix of $644.50 on new US buying.

Dealers said yesterday's losses in gold and platinum were a slight correction to the strong rises of the week, led by platinum, which on Wednesday took gold over the psychologically important $400 mark. Most dealers said they expected the metals to move up again, though some said increases in gold could begin to match and eventually overtake those of platinum as gold develops its own momentum.
Gold price soars to $407

By GORDON KLING
Financial Editor

GOLD'S tentative rise on world bullion markets for the past few weeks yesterday took on aspects of the early stages of a boom capable of transforming SA's bleak financial outlook literally overnight.

The yellow metal closed at $407-$408 an ounce, well up on the previous day's $392.25/75. But feeling in the market is for a continuation of the rise.

Repeating the pattern of previous days, the price opened high at $408-$411 before slipping down to the morning fix of $407.20, the highest since September 1983, but nowhere near the $850 plus price at the time of the Iranian hostage crises in January 1980.

Orders
In Zurich, gold was backed by fresh buying orders from gold companies themselves, in spite of rumours in the London market of Soviet Union selling.

Demand for bullion was described as "hectic."

Westdeutsche Landesbank, based in Dusseldorf, West Germany, predicted that the recovery of oil prices and the weakness of the dollar could help push gold to $450 by the end of the year.

Zurich's Bank Julius Baer, which had long advised against gold, even as "insurance", recently recommended it for 5% of an investor's portfolio.

Credit Suisse, which had suggested 5% has just increased its recommendation to 2% to 10%.

Reuters notes that many mining companies had sold their production for several months ahead when prices started to rise last month.

"The fact that the mines are now buying that back means they too expect the price will continue to rise," said one analyst.

SA is unlikely to increase output.

Records

New records were chalked up by the various share indices on the JSE, and the rand gained another cent to close at $0.4220/30 after peaking earlier in the day at $0.43.

Platinum, which has led gold up for several weeks now, hit a six-year high of $665.90.

Some dealers said they thought gold and platinum could easily come down again after gains they said were too large and too rapid.

They maintained both gold and platinum had recently been boosted by short-covering.

On the other hand Shearson Lehman in its weekly metals review
International gold boom may aid SA

By Trevor Walker

A gold boom has hit the international bullion markets with the price rising no less than $25 an ounce over the past week.

The metal touched $422 in the United States yesterday and was trading around $408 in the Far East early today.

Platinum for October delivery hit a six-year high of $676 in Chicago yesterday after the earlier London fix of $649.

The Johannesburg stock market has been hitting new highs virtually every day, and the market's overall index rose just over 100 points to 1962 during the week.

In addition, the country's current account is running strongly in surplus and the foreign exchange reserves are rising every day.

Experts have been quick to point out that the surge could be short-lived and unless accompanied by dramatic political advances, the impact on the country could be limited.

Nevertheless, declining interest rates and the gold boom will significantly enhance the ability of mining companies to spend on capital expansion.

The Reserve Bank wooling of the consumer continues and the cost of money was lowered yesterday by the announcement that it has reduced the bank rate to 10.5 percent from 10.75 percent.

The downward trend in the whole pattern of interest rates has followed the sharp fall off in demand for credit and the authorities are now desperate to try to boost credit spending to raise production at idle factories.

The commercial banks have followed with a cut in their prime lending rate to 13.5 percent and Barclays moved immediately by dropping its home lending rate to 15.5 for October one.

Building societies are expected to follow in the weeks ahead.

Mr Peter von Brembsen, assistant GM of the Permanent Building Society, said "with the softening of interest rates it is inevitable that the bond rate must follow; if this is the pattern which is emerging".
Bulls look poised to mount new charge on gold.

GERALD PROSALENDIS
Economics Editor

THE gold bullrun looks poised to enter a second phase as hectic trading in New York lifts the London price.

After opening at $402, the New York price rose briefly to touch $417 before falling back to trade at about $410 early yesterday afternoon. Only hours before, London analysts were warning the price could slip below $400.

The metal was fixed earlier in London at $405.50. The see-sawing New York price confirmed that bulls were taking profits, but also that there were other buyers standing by to replace them.

Reasons given for the upward thrust were fears of sanctions against SA, a weakening dollar rekindling fears of inflation in the US and concern about the stability of the world banking system. But it appears the price is being carried along on a wave of speculation. "Investors will follow markets that are showing a strong bull trend," an analyst said yesterday.

Platinum, retreated from Wednesday's fix of $948.5 to close at $944.5 in London in what was described as a nervous market.

Investment brokers abroad were advising clients to switch out of the smaller platinum market, which seems vulnerable to manipulation, and into gold.

The commercial rand closed yesterday at $0.4185, down from Wednesday's $0.4220.
Gold, platinum, reach new heights

By AUDREY D’ANGELO, Assistant Financial Editor

THE GOLD price continued to soar for most of yesterday, surging to a new three-year high of $421.25 an ounce in hectic London trading, in spite of a strengthening of the US dollar.

Platinum and silver also rose and the rand strengthened to close in Johannesburg at $0.4210 amid renewed feelings of confidence that the worst of the recession was over.

The gold price eased slightly in New York on profit-taking but Reuter reports that sentiment was still bullish and dealers were expecting further rises.

London dealers said that a rise to $500 an ounce was a realistic hope.

The hijack of a Pan Am jumbo led to men believed to be Libyans giving fresh impetus to the rise, already fuelled by the European Economic Community decision to impose limited sanctions on SA and by reports of unrest in this country, which strengthened fears of interrupted supplies of gold and platinum.

But dealers said the main reason for the rise was fear about the state of the world economy and the resurgence of inflation, which was returning gold to its traditional role as a safe haven.

Reuter reports that gold traded late in London at a bid of $421.25 an ounce, up from $406 on Thursday and from $386 late Friday.

The last time the gold price reached more than $420 an ounce was on August 25, 1963, when it stood at $423.25 in London and Zurich.

The rise triggered automatic buying orders before profit-taking began to set in.

Platinum traded late yesterday, up some $25 from Thursday.

Silver also rose, to close in London at $5.43 a troy ounce, up from $5.35 on Thursday and from $5.12 last Friday.

In Europe's currency markets, the dollar was higher after the US released unemployment figures which were better than expected.

In London, one British pound sterling traded yesterday at $1.4879, down from Thursday's $1.4960 but up from last Friday's $1.4879 dollars.

Closing gold prices

(In $ an ounce)

LONDON: 421.00—422.00
Fixing am: 418.25
Fixing pm: 420.80

ZURICH: 421.00—426.00
(417.00—422.00)

Stake increased

LONDON. — Turner & Newall Plc said an associated company, Instant Wonder, has purchased 50,000 ordinary shares in AE Plc at 240p per share.

T & N and its associate now hold 27.2% shares in AE, representing a stake of 27.2%.

Jan de Wael, MD of Marine Products, has been appointed a director of Fedfood.
GOLD closed lower yesterday in New York at $410.40 — after a technical correction to the bull run — mainly because of the firmer dollar.

The price fluctuated wildly. At one stage it was trading at $420, later settling at the lower price. In reaction to Friday's $427, which was due to an emotional and speculative surge, dealers said the price was too high. However, the long-term outlook remains bullish.

In a nervous London market, gold closed at $415.25/$416.25, down from Friday's close of $421.00.

The short-term correction was seen by dealers as being healthy, especially after the dollar gained ground against other currencies during the day.

Platinum ended sharply lower in New York at $646.70 after being fixed at $673.75 in London on Friday afternoon. At one stage, heavy platinum selling by a single commission house shortly before the US market opened took the metal to a low of $647.00/$650.50 in London. In the New York futures market, the bellwether October delivery dropped by the maximum permitted $25 to close at $652.75.

The rand closed slightly down at $0.4170, compared with Friday's close of $0.4205. However, the financial rand showed a marginal gain to close at $0.2330, up from Friday's close of $0.2350.

Capital market rates rose marginally yesterday in thin but nervous trading. RSA 2005 13% stock closed at 14.25% after closing at 14.19% on Friday.
Gold comes to SA's rescue

CAPE TOWN—The rise in the gold price would help to prevent the sanctions campaign from placing South Africa's economy under siege, the Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

South Africa had been able to repay three billion US dollars of foreign debt since the end of 1984 and the country's ability to cope with sanctions had greatly increased.

"If we had told me in December, 1984, that we would repay three billion dollars I would have said it was impossible. But we have done it and we have survived," Dr de Kock said.

Addressing a South Africa British Trade Association dinner table, he said the higher gold price could provide the confidence that business and consumers needed for more rapid domestic expansion.

However, the increase in the gold price, even if sustained, did not mean South Africa's economic difficulties were over.

"It will certainly be of material assistance in overcoming the harmful effects of financial sanctions," he said.

He said financial sanctions, as opposed to trade sanctions, had not emerged from various demonstrations by governments or legislative bodies and were stronger than ever.

"It is a political situation," he said.

"Distorted"

Foreign investors, bankers and businesses have been troubled by uncertainty and concern about the return, export and possible consequences of South Africa's domestic political problems.

As any well informed observer must know, these perceptions are exaggerated and distorted, if not completely erroneous.

But the point is that for the moment they do exist.

Dr de Kock said the rise in the gold price should not obscure the fact that there were four basic requirements for any lasting solution to the country's economic difficulties.

Firstly, it was important to proceed with the formulation of a long-term economic strategy for South Africa.

Secondly, it was important to proceed with the formulation of long-term monetary and fiscal strategy.

Thirdly, law and order must be maintained and, fourthly, there must be comprehensive further political and constitutional reform.

He said there was no doubt that the proper exercising of vigorous control by the government of the export and import levels and the introduction of a more vigorous cyclical upturn in the short term would have a higher real average growth in the medium and long term.

The policy of monetary and fiscal discipline had entailed sacrifice, but had failed to achieve its aim of eliminating external demand and producing a large current account surplus.

Gold was fixed at $418.50 in London yesterday. —dipact
**Strong support**

Gold share prices will remain at their present high levels and could be set to move even higher in the next few months. This seems inescapable given the gold price’s breakthrough $400 and the record rand gold prices being received by the mines.

In nine weeks the JSE All Gold index soared some 50% to a record 1 839 on Friday, before weakening in two days of profit-taking this week to 1 765. Platinum shares have been just as impressive in recent months.

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**Mid-year leap**

In both sectors, historical dividend yields have been depressed to levels which are no longer alluring. But in many cases further substantial dividend increases are likely. Forecast dividend yields should ensure that local investors continue to accumulate or hold both gold and platinum couriers.

Potential returns, when magnified by exchange rates, could also attract heightened interest from abroad. Analysts note that overseas investors again appear to have turned net buyers of South African gold shares, although not yet in any big way.

Until mid-1986, the share prices were essentially supported by the weak rand, which for 2½ years has enlarged mine profits. But the current share boom is fuelled by the improved sentiment in bullion markets.

Many were surprised at the suddenness of gold’s recovery. “We are as flabbergasted as anybody,” says Colin Fenton, head of GFSA’s gold division. “When we did our forecasts for the gold price in June, we saw no reason to look for a higher average figure for the 1987 year than last year. So our forecast for the year was R24 000/kg. It looks as though we were horribly wrong.”

Fenton feels that the immediate cause of gold’s recent surge was the soaring platinum price. As Rusplats chairman Gordon Waddel’s annual review makes clear, platinum has been boosted by firmer fundamental demand. But since early August the free market price was chased higher by intense speculative demand, apparently based largely on concerns about reduced supplies from SA, which accounts for about 85% of Western world platinum production.

However, as Albert Loveless, of London stockbroker Smith New Court, points out:
"It probably isn’t any single outstanding factor that’s driving bullion, but rather a lot of small things that have been there for some time. Suddenly the market wants to listen to them." Other factors said to be bullish for gold include:

- The Japanese government’s purchases of gold for use in commemorative coins. In November Japan will celebrate this year’s anniversary of the 60-year reign of Emperor Hirohito by issuing 10m gold coins. The coin is expected to absorb some 200 t of gold this year, making Japan the biggest consumer of bullion in the world in 1986. In addition, Tokyo is said to be considering an additional issue of 5m gold coins next February;
- A dollar’s weakness since last September against other leading currencies such as the yen, Swiss franc, sterling and the German mark made gold investments cheaper for purchasers in those countries;
- Central banks increased purchases of gold. This became noticeable during 1985, when some countries felt their reserves were too dependent on assets denominated in shrinking dollars. These governments began to increase the gold content of their reserves, and the trend is thought to have continued during 1986;
- As the price moved upwards, technical buy signals were triggered, drawing more buyers into the market. Some analysts argue that gold bottomed at $284 in the first quarter of last year, after the Group of Five reached an accord on how to address the soaring dollar. "Gold’s uptrend has not been broken since then," says another London analyst;
- Mid-year rumours about possible shortfalls in supplies of gold from SA added to bullish sentiment. This was based partly on expectations of lower recovery grades, and hence reduced overall gold production, that should result from the high rand price of gold. But this can be exaggerated. SA produced 673,3 t of gold in 1985, and grade changes alone are unlikely to make much difference in the short-term. Fenton points out that grade adjustments take some time to take effect on SA’s large-tonnage mines.

"We are more than halfway through the year now, and the total gold output from SA looks like being little more than 10 t less than in 1985," he says. "That amount is not too significant in the context of the world market. It would have been more significant if supplied more than 70% of Western world gold production about 20 years ago, but today our share is only about 55%.

Also, effects of grade declines will be compensated to some extent over the next few years by expansions and new projects. These include Kloof’s Leedooan section, Western Deep Levels, the HJ Joel mine, and anticipated projects such as Gencor’s Poplar.

Probably the more important factors associated with the South African situation are purely speculative. One theory says that the gold mines could suffer strikes serious enough to reduce gold production; another says sanctions against SA could disrupt the mining industry; or that the SA government might retaliate by withholding supplies of gold or platinum from world markets.

Fenton does not believe that sanctions are likely to be particularly disruptive. "On a normal, running gold mine about 95% of the stores are made locally," he says. On a new mine a few items such as electric winders are imported, but if all such imports stopped — which won’t happen — then they could still be made here."

The SA government recently tried to allay fears that supplies could be deliberately withheld. Considering the country’s need for foreign exchange, the idea seems implausible.

With talks between the employers and National Union of Mineworkers (NUM) still continuing, a strike cannot be ruled out but remains unpredictable; at the same time, the impasse could drag on for long enough to encourage the bullion gold market for a while.

Meanwhile, the mines’ cash flow has leapt ahead. The average rand gold price was around R25 000/kg in the June quarter but climbed to R28 000 in July and R30 000 in August; on Tuesday’s gold price of $409 and the US41,75c rand, the price was just over R30 000. So with only three weeks left of the September quarter, the rand price is up by a good 20% on the first half of the year.

In theory, continued firmness in the gold price should result in a stronger rand, but it’s probable that bearish political sentiment will prevent the currency from rising very far.

This suggests that if bullion weakens again, the rand could ensure that strong increases in earnings flow through. There is, however, a risk that if bullion drops below $400 this will trigger a bout of profit-taking.

Even so, there’s no doubt that attractive dividends are in the pipeline. GFS’s mines should be due for an exceptionally good September quarter, as this is the first quarter of the group’s financial year, one when capital expenditure is normally relatively low.

And, unlike some other groups, GFS is unlikely to respond to the better price by increasing capex; previous restraints have avoided the need for this.

As shown by this week’s announcement from Randfontein, which is forecasting a recovery grade of only 4 g/t for its current year (see page 108), in some cases grade reductions could be quite significant. Certainly a gold price of R30 000/kg suggests an acceleration of the trend.

But certain mines cannot easily reduce grades, and some may even have to increase their yields — these include Buffels, Venterspost and Kloof. Two mines whose dividend potential is closely geared to revenues are Elandsrand and Deelkraal, as these do not pay tax at present.

Working costs in the worrying factor. The September quarter will show the effects of wage increases granted earlier this year to union members. When these are coupled with the effects of inflation at 17%-odd, and pressures on costs that typically occur in the gold industry during periods of good gold prices, escalations in average unit costs can be expected to remain narrowing for some time. Andrew McNulty

Steady climb
All gold index

New highs
Platinum index
Golds continue to bound ahead on JSE

By Sven Lünsche

Analysts are expecting a further rise in the bullion price and a subsequent boom of gold shares on the Johannesburg Stock Exchange following Wall Street's big crash.

Overseas investors are not expected to come directly into the South African gold market, but the renewed investment into gold and the subsequent price rise of bullion will benefit the JSE in the long-term.

On the JSE gold shares had already done extremely well throughout the week, despite the oscillating gold price, and there was no stopping investors who swept gold share prices to dizzy new highs at the close yesterday.

The shares strengthened by an average of more than five percent during yesterday's trading and the All Gold index was pulled to a record high of 1861, before closing slightly lower at 1876, as the bullion price rose by R10 to close the day at R413 in London.

Said one analyst: "Local buyers - excluding the more cautious institutions - are apparently convinced the gold price is now set to break into dramatically higher ground. There's no other explanation for their determination to grab stock at current levels, which by the usual yardsticks are glaringly risky."

"It's easy to say the market is grossly overbought. But it's relative. If you firmly believe gold will break through the next resistance level at about R460 - as most of the current JSE buyers apparently do - then it makes sense to climb into the shares now and leave the fundamentals for later inspection..."

The boom in gold shares pulled the rest of the market with it - the Overall index closed at 1999, just below its record high close of 2064 set on September 5 and up sharply from Thursday's 1913.

Looking ahead, analysts and dealers agreed there was every chance that gold shares and mining financial prices could go higher still - provided the gold price held or rose.

Said one: "Sentiment is very firm. There's been no wavering at all. Of course, there remains a question mark over the quality of buying: it could swing into reverse in minutes if there's a major correction in the gold price."

"But we've seen prices decline very little in the face of lesser corrections in gold itself this week, and this seems to indicate the optimism will take quite a hammering before crumbling."

At the JSE close, Randfontein was R15 up on R410, Vaal Reefs better by no less than R25 at R365, Venters up R33,50 at R33,50 and other shares, both heavyweights and lighter stock, especially marginals, had risen by still greater proportions.

The platinum price bounced sharply off its low yesterday in New York of $540 and tested levels above $600. However, on the JSE both Implats and Rusplats were about 100c off on the day - down to R50,50 and R53 respectively.

Mining financials and other metals followed golds lead and firming during the day's trading.

In London gold shares firmed in line with the bullion price which was set at a high for the week at R413,50 at the afternoon fix. Trading interest was moderate, dealers said.

Vaal Reefs closed at $7 up at R32,25 but has since moved to R30,75 in after-hours business, dealers added. Anggold gained $4.50 to R80 while Harties added 50c at R52 while Elsburg firmed 20c at R315.

Other mining issues were generally higher with RTZ up 7p at 611, De Beers up 13 cents at 745 and Rustenburg 12 cents dearer at 1200.

Blyvoor may increase total dividend to 230c

Given an average gold price of R28 000 per kg, Blyvooruitzicht Gold Mining Co should pay a total dividend of 230c this year against 200c last year, says chairman Mr Clive Knobs.

That price would be achieved with a rand/dollar rate of 40 US cents combined with a gold price of $350 an ounce.

Mr Knobs says in his statement to shareholders that tonnage milled will be higher than last year, but Blyvoor's grade is expected to decline. Capital expenditure is estimated at R20.8 million.

Tonmage milled last year fell by four per cent, mainly because of a one-week strike in March when about 44 000 tons were lost.

"In addition, some unavoidable delays were experienced in transferring stoping operations from the Carbon Leader horizon to the Main Reef horizon, and in the earlier part of the year a number of stopes were negotiating dykes."

Mr Knobs says the yield fell by five percent because of the concentration of mining in the lower grade western section of the mine and the increased tonnage drawn from Main Reef sources.

Gold production for the year was 1238 kg lower but, due to a rise in the average gold price, working revenue rose by 24 percent to a record R321.6-million.

Blyvoor's total working profit in 1985-86 was R26.5 million higher at R147.4 million, just over R9 million of which came from uranium.

Total profit after appropriations was R143.7 million, R7 million higher than the previous year. — Sapa.
sunrise finance

Gold and platinum bounce back strongly

LONDON — In an abrupt reversal of the trend so far this week, gold and platinum advanced strongly yesterday as investors sought refuge from a tumbling stock and bond market.

Gold was priced in London at $418.75 an ounce, or $13 above yesterday’s close, and it later traded at $423 — within sight of the three-year traded high of $435 reached a week ago.

Platinum rebounded to a London fix of $399 an ounce, some $35 above Thursday afternoon’s fix, though still well below the six-year fixing high seen last Friday of $470.75.

Analysts at leading London banks and bullion houses, most of which have expected a broad upward trend for precious metal prices, saw today’s rise as a reaffirmation of their belief after a week in which it has been tested severely.

"The market has seen a few minor upheavals recently ... but we are in a bull phase," said Graham Birch, a bullion analyst with stockbrokers Kleinwort Benson and Co.

A wave of profit-taking and speculation, particularly evident on the volatile New York futures market, has taken gold as low as $400 and platinum down to $360 an ounce this week.

The catalysts for gold’s upturn were a sharp fall in stock and bond prices on New York’s Wall Street Thursday night and then a rapid sell-off on the London Stock Exchange.

"A dreadful performance on the stock market normally stokes stores of value like precious metals," Birch said.

Also boosting gold, and weighing on the bond market, were fears of an upsurge of inflation — although the rise in US producer prices in August, announced early in the European afternoon, were fractionally below expectations of 0.3 percent.

Analysts were more puzzled by the upturn in platinum, as many had predicted that it would consolidate around the mid-$350 level.

A senior gold market source said: "Platinum fell so heavily in the last few days that some correction was inevitable."

Dealers said platinum was looking for a price level at which to consolidate after its recent violent movements, but it was too early to tell whether this had been found. — Reuters.
income needed to maintain earnings growth on the Liberty ordinarlies and servicing the new prefs could be provided by dividends from the UK interests, which have so far not paid dividends to SA (but these companies have not financed their growth from SA, either, and any income from this source must be a bonus for local shareholders).

One has the impression from Gordon that the business game in SA is getting too small. He no longer “feels the imperative to do deals” — if they work out, fine,” and, although he says that there is a “good nucleus in the UK,” there does seem more excitement in the overseas interests. The merger with the Pru, though, means “for the next couple of years, I shall probably be less free to concentrate on the overseas companies.” These have grown in importance to the Liberty group. The assets of TransAtlantic, 58%-owned by Liberty and consolidated in the accounts, now amount to about 23% of Liberty’s total assets and are worth more than those of the Pru.

The overseas expansion has been financed mainly by borrowings, but with the rights issue of TransAtlantic and the sale of almost the whole portfolio of Continental and Industrial Trust (now 88% owned by TransAtlantic). TransAtlantic is virtually debt-free and there is £100m cash. There are a lot of ideas on the drawing board and Gordon says he “hopes to come to an accommodation with Sun Life,” in which Liberty has a 26% stake but no board representation so far. Gordon still sees the core of the business as life insurance and “I have infinite patience — I can sometimes wait for a decade before deciding something I made up my mind to do.” It is this reduced gearing of the UK companies that makes Gordon think “there will be a substantial cash flow from TransAtlantic,” which “could start this year.”

Emphasising the difficulties of merging two life companies, Gordon mentions that this is the fourth merger he has experienced “and there is no chance of me doing another insurance merger in SA in my lifetime. I would like the last few years of my business life to be less pressured.”

Some hope. Liberty is big and demands attention. Gordon is relatively young and activity is in no mood to opt out. And as Gordon maintains that Liberty now has a capital base larger, with the exception of the Prudential UK, than any other life company outside the US or Japan, he is clearly going to make use of it. Says Gordon: “Liberty Life is now so strong it can withstand almost any adversity in future.”

Pat Kenney

GILTS

And still the good times roll

If Guinness kept track of financial markets, South African gilts would surely take pride of place in its famous book of records.

Consider the statistics. Market capitalisation on the JSE has risen from R1.18 billion in December 1977 to R30.2 billion at the end of last year. Impressive enough, but the real story of the great bull run in gilts is to be found in the turnover figures.

In 1977, R64m of the R11.8 billion, or less than 1% of capitalised value at end-December, changed hands during the year; in 1985, the turnover figure passed the R51 billion mark, or some 170% of market value at December 31 last year.

And that’s only the JSE. Off-market figures cannot be tracked, but traders reckon there is more inter-bank activity in gilts than on the official stock exchange. It can thus be assumed that total turnover was worth at least R100 billion last year, with most of the stock turning over twice in the 12-month period.

Why the stampede? The script shortage clearly has something to do with it. Last year, for example, only 4.1% of equity capitalisation on the JSE (at December 31) was traded. The New York trend line, by contrast, is between 30% and 40%.

Other reasons are the tremendous expansion of institutions; the growing importance of financial engineering; increasing sophistication of portfolio management; emphasis on performance; and improvement in technology (especially double-quotes through Reuters).

Also, although the trend is only beginning, gilts are no longer the sole preserve of the big legions. Operating in a market in which basic units come at a round R1m has not been for the small man and nor, for that matter, the smaller pension fund.

Now that gap is being filled by fixed-income unit trusts like the Standard Bank

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Extra Income Fund (partly in gilts) and the Hill Samuel Gilt Fund (wholly in gilts).

Individuals, explains Hill Samuel deputy MD (and fund chairman) Jurie Bester, can now participate in the market with as little as R2 000. For those who, however, have taken up the offer have little cause for regret. Since inception on November 6 last year, their investments have grown 37% — 25% capital and 12% income yield.

What is more telling, perhaps, is that the market value of the fund has doubled in two months (to R55m) and the rapid expansion continues. Because investment in the Hill Samuel Gilt Fund qualifies as prescribed assets, much of the money is coming from smaller pension funds.

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In line with the surge in activity, operators are becoming more and more sophisticated and providing keen bid/offer quotes. “The market,” says JSE president Tony Norton, “is highly professional and can hold its own anywhere in the world.”

It is still, however, underdeveloped. Three stocks account for some 65% of total trade. About 15 RSA stocks, five Escom stocks and two Sats stocks are actively traded — with the long Sats stock setting the pace.

Sadly, however, the vast turnover figures do not reflect growth in new gilt securities. Says Senbank’s Leon Krynauw: “Existing stock is merely turning over more often.”

The gilt market is less regulated than the equity market. Unlike equity broking, gilt brokers (26 of the 42 brokers deal in gilts as well as equity) are not only agents but also issuers.

There is nevertheless strict control. All deals, Norton says, must be recorded within 15 minutes. Brokers also have to work to other stringent requirements relating to cash margins and bank guarantees, among others, which ensure that, “no brokers go beyond their capacity.”

After months of technical talks, the JSE and bankers have reached basic agreement on a settlement system which could operate, says Norton, before the end of the year.

Gilt dealers, meanwhile, are cashing in on the growth. Some half-dozen reputedly earn well over R250 000 annually, and most brokers hold on to valuable gilt dealers by providing incentives. Competition for brains power is fierce, both among brokers and from Australia, which has lured away four dealers in the past year.

The 77 JSE gilt dealers (25 of them women), who are typically lured from banks and merchant banks, are highly qualified. Ivor Jones’s Sandy Patterson observes that there
Looking promising

Dr Chris Stals heads the Department of Finance. The FM spoke to him as the economy shows tentative signs of recovery. It is, too, the first anniversary of his appointment and of last year’s unilateral freeze on certain foreign loan repayments, temporary closure of the markets, and reintroduction of the two-tier rand. Stals, also chief foreign debt negotiator, will meet major foreign creditors later this month.

FM: With signs that the economy is at last on the mend, how do you view the situation?
Stals: After almost five months of rising consumer expenditure, it looks as if we are settling into a period of steady consumer-led expansion. This is a welcome change. But it is still early to talk about recovery. Encouraging news is confined to consumer expenditure, but this should absorb surplus capacity and work through to stimulate investment.
Is further fiscal stimulus planned?
The authorities have done enough through monetary and fiscal policy to provide the base for the private sector to take over. In addition we must still assess the effect of the June programme.
With government spending way above budget are we not heading for the same problems that overspending caused in 1984?
The 1984 mini-boom was excessive. Today, with the economy in strong recession, we must provide incentives through government spending and can be more accommodative without overstimulating. We have learnt from the past and do not want another mini-boom, but a long, steady upturn that feeds into wealth-creating investment.
You emphasise the shift in policy priority to the old Keynesian remedy of spending our way out of recession. How will excessive inflation be eased?
Inflation is not our top priority now; growth and employment, rather, are essential. It is too risky to go flat out and tackle inflation. With inflation of a cost-push nature caused mainly by a weak rand and wage demands, excess demand will not have much effect.
But how will inflation be brought down?
We hope the rand and balance of payments will stabilise. Already on a quarter-on-quarter basis inflation is much lower, around 13%. Theoretically we should tackle inflation with tight monetary measures and fiscal restraint. But this will be too costly in terms of employment and growth.
How will we achieve the 4.5% growth needed to absorb people coming on to the labour market, let alone reduce unemployment?
This is why our attention is on job creation and training. But responsibility falls also on the private sector.
Officials have indicated frustration with the private sector. Are there plans to force such investment?

Not really. We hope that the proposed changes to the tax structure being investigated by Judge Margo will provide incentives to invest. We can’t make them invest.
Given structural economic damage and continuing political turmoil, how realistic is an average annual 4.5% long-term growth rate?
It is ambitious. A more realistic assumption is close consumer-credit recovery over the next few years, restrained by capital flight and political changes.
Can business ignore the political climate?
It’s their view. But the political process will continue; we must learn to live within it and take a longer-term perspective.
As custodians of the economy which you agree, is undermined by political crisis, is it not the economic authorities’ responsibility to make political demands?
We can caution politicians of the consequences of their decisions, but it is not for us to tell them what to do. Similarly, they do not try to run the economy.

This has been allocated to various departments and is now their problem. How is it ensured that these departments will spend the money to advantage?
Each department provided projects — such as old-age homes, houses, creches, township development — on which it could spend immediately. There was no shortage of them. The Auditor General monitors this to ensure money is used effectively.
At times fiscal and monetary policy have had opposite objectives. What is the relationship between the Treasury and Reserve Bank?
It is still good. We liaise through numerous committees at all levels, and meet monthly at top level. It is easier to adjust monetary than fiscal policy. This is why policy has seemingly been stuck at loggerheads.
What is happening to the proposed regulation of the gilt option market?
This has been on ice due to more immediate concerns and no real urgency. However, things are moving again. At two meetings in the past month we completed draft proposals and identified areas which need more work. Proposals should be finalised within two months, ready for draft legislation to pave the way for a formal market and greater discipline.
There are two main chapters on banking supervision and accounting principles. Two people are overseas investigating electronic markets and prudent requirements.
How has repayment of foreign debt gone?
It has worked out roughly as expected in terms of the current account surplus and repayments. SA has already repaid about $2 billion of an estimated total commitment of $2.3 billion due by June 1987.
Should this ease pressure on the rand?
Theoretically yes, but much depends on leads and lags. This implies that the current account surplus in the next few quarters should exceed capital outflows. How long will SA, a developing country, export really need capital?
This is an unknown factor, largely dependent on political developments.
What do you expect from the talks in London this month with major creditor banks?
It is a technical review meeting. No matters of principle will be discussed — they will be dealt with in April when we meet again. What then, given that the ‘agreement’ in February merely put SA on probation?
Banks’ pressure against SA has not eased, but it is still early. We have not begun to consider our proposals.
What is the position of mediator Fritz Leutwiler?
He will not attend, as he is not really needed for technical discussions. Leaders from both delegations will conduct proceedings. Leutwiler may be called nearer the April talks. He has made it clear that he is prepared to assist if need be.
tax cut hopes

Gold Bonanza!

By Bob Kennedy
Chart analysis gives gold a $500 target

Current bullion price could add R2-bn to forex earnings

By Sven Linsche

The gold price could be set to rise to around $500, if the London afternoon fix remains above $405 for the next week, according to a purely charting analysis of the bullion price.

This follows the recent boom which saw the gold price break through the three-year upper channel line, a trend line which has represented the metal's upper price limit for the last three years and which currently stands at $405.

Analysts said that if the price falls back below the $405 level for more than a week, the upward trend could be regarded as a hiccups and the price would revert to movements between the three-year channel lines.

If, however, current price levels of about $410 could be maintained, the price is set to move to the $500 mark, the approximate level of the five-year upper channel line.

What seems certain at this stage is that the gold price graph will stay above the $385 mark, a level which it first crossed about a month ago and which presents the current top level of the one-year channel.

This will push the average gold price for 1986 to above $570 and earn the country more than R2 billion in additional forex earnings for the year compared with 1985.

The upward trend is confirmed by a comparison between the metal's price graph and its 40-day moving average. The gold price is currently about $40 above this average and this ratio is expected to be maintained in the coming weeks.

Gold's relative strength over the last three months expresses the ratio of daily upward and downward moves of the daily price against the price three months ago.

Over the last year a ratio of between 80 and 90 percent was maintained, but with the recent boom this ratio was pushed to over 60 percent for the first time since the boom days of 1980/81 and, with the current daily price regularly above the price of three months ago, the relative strength of gold will continue moving upwards before an anticipated period of consolidation in about two months time.

Finally, gold's momentum over the last three months also indicates that the price will continue moving upwards as the graph shows the ratio of change of the current price against the price three months ago in currency terms.

The current ratio of change is about $40 dollars, an indication that strong demand for the metal continues, a trend which started in the beginning of July and which is set to rise for about two months before a period of consolidation.
Blyvoor to maintain high dividend yield

BLYVOORUITSCHT (Blyvoor) gold mine, nearing the end of its life, is expected to maintain its high dividend yield by paying a total of 230c this year.

In his annual review, chairman Clive Knobbs says tonnage milled should increase but grade will continue to decline from last year’s 6.22 grams a ton.

However, if the rand remains at around $0.40c with a gold price in the region of R28 000/kg, Blyvoor...
S A's wealth will be shared, says Du Plessis

JOHANNESBURG—South Africa was in the midst of a programme of change that would transfer resources from its First World economy to its Third World sector, eventually merging the two completely, Mr Roelf du Plessis, Minister of Finance, said yesterday.

Addressing an international conference on gold, he said this was being done through the political and social reforms that were taking place in the country.

High growth was needed in the First World economy to fund and support the Third World component, Mr du Plessis said.

Owing particularly to gold mining, the South African economy had developed into a dual system, where certain rural areas with little mining activity had tended to fall behind in the sphere of economic development.

Food scheme for Indian school pupils

Mercury Reporter

JOHANNESBURG—The Minister of Social Security and Welfare in the House of Commons, Mr Juk assertNotNull, yesterday announced the restoration of a school feeding scheme for Indian children in some schools where parents were facing hardships because of unemployment.

In a statement to the Treasury, he said that many years ago feeding of schoolchildren was stopped because of the economic situation.

In view of the happenings, the scheme was in operation. However, the scheme has been suspended and is now being revived. The scheme is being implemented by the Department of Social Welfare and is being financed through special funds raised by the Department.

Those who have been affected have been informed and the scheme is expected to be fully operational within the next 12 months.

In the medium term, the Government has to ensure that the scheme is continued.

This is the first time that the scheme has been restored, and it is expected that it will be fully operational within the next 12 months.

Hluhluwe attack suspect arrested

Crime Reporter

KHUMABONAMBI police have arrested a man believed to be connected with the attack on an elderly Hluhluwe couple earlier this month.

On September 13, Mr Frederik Liebenberg, 77, was stabbed several times when a black man entered his house. The man managed to file a complaint to the police.

The man is currently in police custody, and the investigation is ongoing.
ET Cons profit rises 57%

EASTERN Transvaal Cons, with one of the highest yields in the gold mining industry at 9.8g/t, expects to raise its grade and gold production in the year to next June.

Chairman Rob Wilson says in his annual review for the year to June that mill throughput at Sheba mine will be raised slightly.

Grade will only be lower than 9.8g/t if the gold price rises substantially, so enabling the mines to work to lower pay limits. ET Cons' after-tax profit rose 57% to R31.3m, or 23c a share (211c), in the year to last June.

Wilson says working costs will continue to rise, so that the rand gold price will be the principal factor governing profits and dividends.

ET Cons is to investigate the viability of increasing Agnes mine's production. If the Agnes investigation is positive, then considerable additional development will be needed to support the higher production rate. The timing of any decision will be determined mainly by the Princeton project's progress — and thus ET Cons' ability to fund additional capex — and the rand gold price.

At the Princeton section the highest value PSS orebody will be mined first. Capex this year is expected to total R22m (R19.1m).
The JSE bull runs wild in the heaven amid-hell

AMID one of the country’s most severe political and economic crises, the Johannesburg Stock Exchange soars ahead. The great bull run presently underway on the JSE has been described as “heaven for a market place”.

It is also termed a “sad reflection” of South African society that a fortunate few worry what to do with surplus money while the majority battle under pathetic conditions. Under these conditions talk of a boom is cruel cynicism.

Certainly the situation is incongruous. The country is in turmoil, the economy severely depressed, the majority live miserably. Yet brokers, financial institutions and smaller investors are feasting off the boom in equity prices and the plunge in rates on the capital market.

In one year the gold index has just about doubled while the industrial index is up about 30 percent. The graphs are almost vertical.

Similarly, on the gilt market rates have dropped some four percentage points in as many months. (A fall in rates is a rise in the price and hence the investment value of the gilt.) In August alone the value of shares traded was R1,4-billion (162m shares) while the nominal value of gilt traded was an unbelievable R15,7-billion. More remarkably the JSE accounts

The situation could not be more incongruous: the country is in turmoil, yet brokers and financial institutions are feasting on an extraordinary boom. ALEXANDER CAMARGUE reports

...for under half the total gilt trade.

The “boom amid gloom” can be explained — and is indeed related.

A major reason for the good times is the amount of surplus money around due to the lack of investor confidence.

Cash-flush institutions find no opportunity to invest in factories or job-creating projects, despite no lack of need. Incredibly, they have nothing to do with their vast funds — being eroded at 18 percent a year through inflation — and so seek a haven in the equity and gilt markets, hence the booms. In this context the JSE boom is a sign of weakness.

In addition, declining short-term interest rates have drawn funds into the JSE. This is not only because partially “freed” debt-servicing funds can be invested on the JSE, but the cost of holding cash becomes increasingly high as interest rates decline.

(Consider that at present inflation is around 18 percent and short-term interest rates around nine percent.) More importantly, interest rates are expected to remain down well into next year.

On top of all this the gold bonanza has served to boost confidence, profit expectations and liquidity — giving the market a further push. Similarly improving industrial company results (notably Gencor) are also coming through and aiding sentiment, as well as increasing profits to invest in the JSE.

These are, of course, general observations. Each industry and/or company has its own attraction/detraction via its profit potential, growth prospects and so on. Some shares have indeed gone down.

Markets, after all, move on perceptions and do not necessarily reflect economic health.

For instance, because the rand has been expected to stay weak there has been considerable interest in rand-hedge stocks — that is companies likely to do well out of a weak rand, namely exporters (Sinclair, Sappi) and those with large offshore interests (Rembrandt, Plate Glass).

Whatever the exact reasons, the market has been caught in its own momentum with jobbers having a field day. Hence the great bull run that will go down in the annals of history. Most analysts agree that the trend is up. And a peculiar feature of markets is that when people believe it will go up, it will. So if you are one of the lucky few that has money, the JSE still looks a good bet.
We could get much more for it making jewellery

GOLD

Excerpt from an address given by Dr Louw Alberts — Director General, Mineral and Energy Affairs — at the Gold 100 conference in Johannesburg.

SOUTH Africa produces about half of the world's gold, and has certainly over the past 100 years contributed the major portion of the world's total stockpile. Yet we have never really gone beyond the ingot stage. Our added value component is negligibly small.

It is common knowledge that the value of the gold content in jewellery, thin wares, alloys and sheets is increased by several factors — as high as 1 000% in some cases — and yet this country continues to sell its gold in the form of crude, huge, heavy chunks known as bars of bullion.

What's more, we have done so over the past 100 years and it appears we will persist in doing so for the next.

Sure, the quality and purity is excellent and the value-a-bar is high, but for all that the shape houses less imagination than an ordinary building brick.

In 1984, SA mines produced 263 tons out of a total world production of 1 439 tons. In that year the demand for jewellery worldwide absorbed 418 tons of the new gold and 220 tons of recycled metal.

Electronics in the same year accounted for 122 tons, dentistry for 57 tons, coins and medals 174 tons and other industrial and decorative uses amounted to 53 tons.

Every succeeding government has recognised the tremendous role the mineral industry plays in the SA economy and a "healthy" partnership has developed over the decades.

As a result, a legislative and fiscal system has developed over the years which favours and supports private enterprise in the mining area. Good effort has been made throughout to provide infrastructural services — power, water and transport — to serve the mining industry.

All-in-all, the SA Government's policy towards the mining industry is one of the best in the world. However, every system has its aberrations and in many people's thinking the Government approach toward an indigenous jewellery industry is one of them.

Our jewellery industry and trade experiences the heaviest taxation among Western nations and it is retarding the entrepreneurs who want to turn our gold and diamonds into aesthetic artefacts that can add to the intrinsic value by several hundred percent.

I daresay that when the present taxation on jewellery was introduced 20 years ago the approach was that we were dealing mainly with imported luxury items and this merited the existing tax system.

While it is true that most of our jewellery is imported, the net result was as described.

SA ought to be one of the largest jewellery manufacturers in the world. We certainly have the right raw materials in sufficient quantity. The first essential step is establishing a strong home base supplying our own needs and serving as a departure platform for overseas outreach.

Turning the searchlight to the private sector, an industry as big and as powerful as the SA mining industry naturally develops its own cultural modes. One of them is the tendency to view the mining and processing of minerals as an industry separate from the industry of manufacturing the primary products into artefacts.

This has given rise to a tremendous inertia in the mining sector when it comes to added value ventures. Any well-established human activity seems to prefer revival to reformation in the minds of its leaders.

It will require a change in mental outlook, wherein mineral processing — or core-dressing, as we call it — in SA is seen as the first step in the chain.

The entrepreneurial spirit of our mining forefathers is equally necessary. In many mining sectors one faces the problem that adding value will bring you into competition with the very overseas clients that buy your primary product to re-work it.

Obviously one will have to penetrate the market wisely by bringing in overseas partnership and selecting areas where new expertise has to be developed.

In the case of gold and its higher products, that problem of the overseas customer does not enter the equation, because our gold is sold on the international markets and not transacted from primary producer directly to buyer.

One comes to the unavoidable conclusion that our gold mining industry is only interested in promoting gold rather than promoting local industries that use gold.

Intergold is a highly respected and successful organisation that has promoted gold and its applications in a general international sense. Its major sponsors are clearly our own gold mining industry. The argument simply is: if more gold is used worldwide, SA as a major producer can only benefit.

It will require courage, entrepreneurship, perseverance and even the willingness to sacrifice initially, but of all our great financial institutions, the gold mining industry should take the lead in adding value to our gold and, in so doing, our total national wealth.
Gold price up by $12

Finance Editor

Risen over $400 some weeks ago.

The sudden leap before the end wavers and commended
The sudden leap before the end wavers and continued

WORLD gold buyers soared blood somewhere as de-

Buyers go wild

Gold rush as
Gold up, but so is inflation

By GORDON KLING
Financial Editor

GOLD — South Africa's financial lifeline — has soared to a three-and-a-half-year London high of over $430.

But domestic inflation has also leapt to a budget-busting 18.7 percent, pushing hard against the additional gold price bonanza, worth R1-billion to South Africa over a full year.

Gold, which accounts for the lion's share of South Africa's export earnings, streaked out of its week-long consolidation yesterday with a leap of nearly $30 an ounce to close in London of $430-$431.

'Worst ever'

Latest statistics show that inflation is eating into consumers' pockets at an unprecedented rate. The overall 18.7 percent rise year-on-year in August is the third-highest since the rampant inflation of 1920, but for the poor it is the worst ever.

Worst-hit are the lower- and middle-income groups where the indices rose 19.1 percent for a new record rise and 19.2 percent, compared with an 18.3 percent rise for the higher-income group.

Indices released by the Central Statistical Services in Pretoria last night show that inflation for low-income earners is rising at 19.1 percent, the highest rate on record for those least able to afford the additional burden.

The middle-income group was subjected to an increase of 19.2 percent, while higher-income earners got off relatively lightly with a thump of 18.3 percent.

That means that official projections of a rate close to 15 percent for the year have now been dashed, but economists do not attribute the problem to excessive demand for goods.

Much of South Africa's inflation is imported by the weak rand which, however, gained about 3 percent this week to close at over US$0.45.

Growth in the economy remains stuck at about half the hoped-for 3 percent for the financial year ending in February.

Prosperity of better times are improving. Bank foreign-exchange desks expect the rand to continue to gather strength, and business confidence as measured by Assocom and the Stellenbosch Bureau for Economic Research is on the rise.

On the gold front, dealers say the metal is now moving independently of platinum which has led it upwards for the past two months.

The Johannesburg Stock Exchange All Gold Index hit yet another record yesterday as gold counters soared on the bullion rise, and analysts see no early end to the phenomenal bull market.

● Gold reaches 3½-year high — Page 20
Gold at its 3-year best

Both the international bullion price and South African gold shares hit new peaks yesterday as the growing business optimism continued to gather momentum.

The gold price set a new three-year peak at the afternoon fix in London of $430 and was later quoted at close to $435.

In its wake, demand for gold shares maintained the strength seen throughout the week and yesterday afternoon the JSE’s key All Gold index broke through the psychological 2 000 mark for the first time.

This was despite the rand remaining strong against the dollar at around 45 cents.

However, a note of caution was sounded with the release of the August inflation figures which showed an increase in the consumer price index to an annual rate of 18.7 percent from 18.2 percent in July and only 16.9 percent in June.
Gold nears the $450 mark

Finance Editor
GOLD yesterday neared the $450 mark at midday but as caution, and profit-taking stepped in, fell to $435.50 at the afternoon fix in London.

The yellow metal traded at $448 in London for a short time.

In currencies the dollar climbed back up against the mark from its position last Friday below DM2.62 and the yen showed no signs of falling towards 150 to the dollar being set at 1.55 yen above Friday at 131.90/70.

IMF talks
In some senses it is the silly season for currencies with the world's bankers and money men on their way to Washington for the annual meetings of the International Monetary Fund and the World Bank.

On Friday the Group of Five meet ahead of the other meetings and the stage seems to be set for confrontation.

While previous years saw the Mexican debt crisis, pressure from poor countries to get more cash this year sees a war of words between Washington, Tokyo and Bonn.

America wants to let the dollar fall so that the rest of the world will be encouraged to buy their goods; but they have to do this with the agreement of Germany and Japan, which with massive trading surpluses are not prepared yet to drop their interest rate patterns as their side of the deal.

Bonn and Tokyo are both sceptical about the effects of interest rate falls, saying their economies are too small to rescue America from its serious deficits in trade and the Federal budget.

Foreign exchange dealers got jittery at these times and they were not helped by the week-end meeting of Common Market finance ministers in Glenegles, Scotland, where they decided to tell America that stable exchange rates were preferable to continued decline of the dollar.

Rate up
A policy of official intervention was proposed at Glenegles but the Bundesbank, chief player on the scene, did not enter the market as the rate went back up to DM2.63 from the record 65 month low of DM1.9860.

In Asia there was panic short-covering which continued in early US trading.

Mr Gerhard Stoltenberg, German finance minister, refused to elaborate on the Glenegles meeting during a Bonn press conference.

Until the meetings are concluded this month the foreign exchange markets are likely to be disturbed.

Meanwhile gold and the rand showed healthy signs.

The morning fix in London was $442.75 — its highest fixing since May 13,1982. During the day it reached $448 in Europe and then settled down at $435.50 at the afternoon fix.

The rand was quietly firm at midday at round 43.30/40 U S cents, the same as last Friday, and not moving as much as expected as the dollar rebounded because of a shortage of dollars.

At the close of dealings it was 44,90/45.00 U S cents.

Analyst Mr Alan Davison of Shearson Lehman said the next upside target for gold was $450, but he added that there could be resistance to any move through the upper $440s.

If the $450 hurdle is cleared, a move to $500 could follow swiftly, he added.

In New York the dollar opened sharply higher in response to the Glenegles meeting.

Our correspondent in London said that the world currency markets are threatened with renewed uncertainty in the next few days, following growing evidence of a deep split between the Common Market and America over the US dollar.

US dollar
The ministers meeting at Glenegles have apparently agreed to a joint stand to press the US into action to halt the fall in the dollar.

At the same meeting, the Central Bank governors of the 12 decided on a joint intervention in the exchange markets from yesterday so as to prevent any further decline in the dollar against the West German mark.
The bank has a headache and we have a golden egg

As that most jovial of optimists, Gerhardt De Kock, knows full well, the nastier the world's problems, the better for gold — and for us. **DUNCAN INNES reports**

But can gold remain at $420 for a full year, which it has to do to earn us the full $1.4 billion? Over the short term I expect the gold price to pull back a bit, possibly to around the $330 mark. It has gone up too far and too fast to sustain itself above $400 for much longer.

Furthermore, the debt crisis has taken a knock recently and seems set for a short-term upward correction, which would depress gold for a while. However, I expect the gold price to rally again towards the end of the year, reaching $500 early next year.

If this is correct, then we can look forward to major improvements in our foreign exchange earnings over the next year or two. But what are we to do with this sudden manna from heaven?

There are various options. The authorities can, for example, use most of it to pay off our own foreign debt. Or they can use it to pay off our own foreign debt. Or they can use it to stimulate the economy. Or they can use it to promote the government's reform policy. Or they can use it to control township resistance and to punch Messrs Mugabe et al on the nose.

Since these options are not necessarily in conflict with one another, we are likely to get some blend of the above: a sort of economic potpourri. However, there are some signs which suggest the form this potpourri might take.

De Kock has made it clear that the Western banks are not being slow to point out, all this is marvellous news for the South African economy. Since every $10 rise in the price of gold is worth about $200-million (R5.25-billion) to Western banks and governments. And as the Non-Aligned Movement made clear at its summit last week, Third World countries are questioning both the wisdom and possibility of repaying such enormous amounts.

John Maynard Keynes once pointed out that if you owe the bank a hundred dollars and can't repay it, you have a problem. But if you owe the bank one million and can't repay, then the bank has a problem. With over $800-billion in outstanding debts, Western banks have a problem — which is good for gold.

To counter this the US authorities have embarked on a two-pronged strategy of lowering domestic interest rates and encouraging the dollar to fall in the hope of promoting US exports and inhibit imports. However, a spin-off of this policy will probably be that it stimulates inflation — which is good for gold.

Then there is the Western banks' financial exposure to the Third World, African, Asian and Latin American countries owe over $300-billion (R2.000-billion) to Western banks and governments. And as the Non-Aligned Movement made clear at its summit last week, Third World countries are questioning both the wisdom and possibility of repaying such enormous amounts.

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Strapped for cash

Vetsak acting GM Hannes Heyns says there is nothing disquieting or sinister in the fact that the central co-op has sought permission to delay publication of its financial report for the year to December 1985.

But he confirms that the co-operative giant is seeking extra cash. The report, for the 18-month period to the end of June, is now expected next month.

Heyns was responding to rumours in agricultural circles that the huge co-op was in ill-health after lean years of drought and the June departure of the previous GM MA Louw.

Impractical

He tells the FM the previous calendar year accounting period was impractical as it cut across the normal production cycle in northern summer-rainfall areas. The timetable has now been changed for purely practical reasons, he adds.

"It was extremely difficult to budget correctly for farmers' input demands while crops were still on the land and we had no certain indication of crop sizes," he says.

He says Vetsak has asked member co-ops in the Transvaal, Free State and Natal for some R20m and that he is confident, at this stage, of receiving at least 70% of this amount. "This is normal procedure as central co-ops cannot issue shares or borrow on the financial markets," he says.

Registrar of Co-operatives Nico Piennar confirms that he has granted Vetsak a six-month extension for its year-end report, and he now hopes to receive the report for the 18-

month period ending June by October.

Piennar also confirms that Vetsak has asked member co-operatives for financial contributions and says debentures are being issued to obtain additional capital.

Heyns, meanwhile, remains positive about Vetsak's fortunes after "a few good months" and the rationalisation that has already taken place. "Good wheat prospects in the Free State," he adds, "should also help."}

GOLD SALES

Coining it

The Krugerrand is dead, long live gold. While the European Economic Community sanctions package seems to have put the final nail in the Krugerrand coffin, at least as far as foreign sales are concerned, Chamber of Mines marketing arm Intergold is not sitting idly by.

Demand for fine gold for coinage and jewellery is strong in many parts of the world and Intergold is doing everything it can to encourage the trend. Among other benefits, gold held in personal collections will remove stocks from the bullion markets and help support the price.

Sales of the Krugerrand slumped to 786 000 oz last year from 2,6m oz in 1984 and 6m oz in 1978 and marketing support for the coin has been withdrawn by the South African gold mining industry.

Intergold now mints only 6 000 of the gold coins a week for the local market and only mints to order for foreign sales.

But, says chief executive Chick Hood, Intergold still has a responsibility to maximise consumption of South African gold, which represents almost 50% of free world production. It has thus turned its attention to promoting gold jewellery through extensive TV advertising, the exploitation of gold coin launches in other countries and to encouraging gold accumulation by private investors.

Hood says there's excellent potential for increased jewellery demand worldwide because of low inflation, low interest rates and a strong demand for luxury products.

Gold accumulation programmes, too, are gaining popularity. They are aimed at people who wish to protect paper investments, to secure their pensions or to build savings. The concept is simple: in fact, a physical gold unit trust.

Regular monthly savings are placed with the plan holder—a bank or any other financial institution—and the accumulated gold holding appreciates in value in line with the increase in the price of the metal. These plans are now offered in Europe, the US and Hong Kong, with the average participant accumulating 45 oz of gold at the current price.

Intergold acts as a catalyst in the field, creating demand through advertising campaigns featuring the name of the selling institution, and by providing the expertise to set up plans.

However, the most lucrative area still looks to be the promotion of gold coins. Even if they're not minted in SA they consume South African fine gold.

Winfried Kilp, investment division manager of Intergold in Switzerland, says 13m people were first-time bullion coin buyers in the Seventies and that there is potential to win three to four times as many buyers with the introduction of new coins in the next six months. Among these are the Japanese Emperor, the Australian Nugget, the American Eagle, and the Luxembourg Lion.

More than 10m Emperors are to be minted this year, consuming some 200 t of fine gold, or 15% of the estimated world supply to the market. The Western Australian Development Corporation which is to market the Nugget has set a "conservative" sales target of 300 000 oz-500 000 oz a year, but Kilp says this may well be exceeded by 30%.

Eagles are to be re-introduced after more than 50 years and it is estimated that the treasury will capture half of the US gold coin market — some 3m oz-4m oz a year. And, while estimates for the Lion have not yet been released, Kilp says the Luxembourg project would require sales of at least 100 000 oz a year to be commercially viable.

In addition, China is slowly increasing sales of its Panda, with a target of 3 t this year, Taiwan will mint about 15 t of coins to commemorate Chiang Kai Shek's birth and South Korea is producing gold coins for the 1988 Olympics.

Consolidated Gold Fields reports that before the introduction of Krugerrands, the use of gold for official coinage was 45 t a year. Since then, legal tender gold coin production had averaged 170 t a year, with peaks of 290 t in 1974, 1978 and 1979. Now the Japanese demand alone will exceed the average and, with clever marketing, SA is set to sell more fine gold than it did before Krugerrand sanctions.
High taxes killing jewellery craft

By YVONNE STEYNBERG

HIGH taxes are preventing South Africa from developing a major jewellery manufacturing industry, jewelers say.

They believe an "outdated" 35% ad valorem tax on locally manufactured jewellery should be scrapped in the interests of the economy, so that more of the country's gold could be put to better commercial use, creating job opportunities and encouraging small business ventures.

Most of the fashionable heavy gold chains sold in South Africa are imported from Italy.

Mr Derek Smith, chairman of the Retail Jewellers' Association of the Eastern Cape and director of the national executive of Retail Jewellers of SA, said the duty on local manufacturers was the heaviest in the Western world and should be scrapped.

It had been a sore point with jewelers for many years, and contributed to the loss of expert craftsmen who were leaving the country.

The jewelers' complaints have been highlighted following the statement by Dr Low Alberts, Director-General of Mineral and Energy Affairs, at the Gold 100 Conference in Johannesburg that South Africa's gold could be worth up to 1 600% more if the manufacture of jewellery, thin wires, alloys and sheets was encouraged.

He said the jewellery tax structure was outdated and recommended a strong home base supplying South Africa's needs and serving as a platform for expansion overseas.

Dr Alberts said South Africa should be one of the largest jewellery manufacturers in the world, considering its wealth of raw materials.

He accused the gold mining industry of failing to encourage local industries to use gold.

Mr Smith said Mr Tim Davidson, director of the Jewellery Council, was taking the matter up "at the highest level".

At present gold was used by jewelers mainly for rings, bracelets and simple chains.

"This does not make sense when you consider that the Government is spending huge sums training people with artistic leanings to become self-employed artisans and craftsmen," said Mr Smith.

A Port Elizabeth jeweler said it would be very expensive, if not impossible, to make by hand chains like those currently being imported.

Italian manufacturers had worldwide contracts for jewellery worth millions of rand, and one machine costing R700 000 was a worthwhile investment in such circumstances, he explained.

There would have to be help from the Government if a large, viable jewellery manufacturing industry was wanted in South Africa.
Gold
Sunny skies again?

Twice during the Seventies, the gold price gave the South African economy badly needed succour, ushering in foreign capital, economic growth, greater employment and a measure of security for an uneasy workforce.

But for some 40 months, starting in February 1983, when the price rose all too briefly above US$500/oz, it seemed that SA had been on track to a new and more potent gold. In a period when the country seemed to be heading into one of its darkest hours, the dollar bullion price was unable to sustain a level much above $340/oz, and was lodged for much of the period at substantially less than this.

Contrary to many expectations, gold regained its lustre in July, when the price launched itself on an upwards path, only to last week was fixed comfortably above $430/oz. On Monday afternoon, gold was fixed at $427/oz, some 25% up in little over two months. Does this mean that the metal will again bring relief from SA’s economic and social problems (as well as promising wealth to investors)?

Many reasons have been offered by both local and overseas commentators for bullion’s resurgence. These include purchases of gold, particularly by Japan, for use in coins, the oil price rise from its low point below $10/barrel, awareness of a speculative market in precious metals fuelled by platinum’s run-up, worries about the US economy’s weakening growth prospects, and perceptions in international markets that supplies of gold from SA could be hampered by political unrest (FM September 12).

American consultant Thomas Wolfe, in giving the US perspective on the gold price at the recent Gold 100 conference in Johannesburg, was not attaching much credence to inflation theories. As a result of the gold price drop in 1980 and a rise and fall of the silver price, he said, there is a residual attitude that gold is a volatile, high-risk, mainly speculative investment.

The earlier feeling nurtured by inflation in the late-Seventies, that gold might be useful as an inflation hedge, has pretty well faded away in the relative price stability of recent years,” he said. “The fact is that Americans have had no serious experience with inflation and have suffered no lasting adverse consequences from inflation. The inflation surge of the late-Seventies was brief, virtually without precedent, and had no lasting ill effect on fixed income investment.”

Warren Myers, vice-president, international research, at New York stockbroker Merrill Lynch, says the market was given an underlying firmness by Japanese purchases of gold. When combined with economic factors, this left the market ripe for a swing in perceptions.

"About two months ago, when US trade figures were announced, the Swiss came in as heavy buyers of gold," says Myers. "It seems the Swiss were saying that on those (trade) figures it looked as if the dollar was going to continue declining. The Swiss were already heavily invested in Swiss francs and DMs, so they decided to increase the gold holdings in their portfolios."

An indication of the views being taken in Zurich came from Rolf Schreiber, senior vice-president of Credit Suisse (another Gold 100 speaker): "We believe that the situation in the gold market will continue to improve and that the average price for the next 12 months will be above $400/oz — with some ups and downs, of course," he said.

Schréiber argued that for investors in gold, the main factor would continue to be the expected future course of inflation. "Inflation and interest rates are unlikely to rise to the same levels as in previous cycles,“ he added.

"What will matter, however, is not the size of the movement, but the direction.“ However, with bullion now consolidating after its run-up to the best levels seen since May 1983, two questions dominate the international gold markets:

□ Is gold enjoying the born-again status of a hedge against uncertainties — ranging from inflation to wobbly equities, bond markets and the international debt mountain? or

□ Has the ride simply been the result of professional arbitrating within the narrow volatile platinum market, with its supply-side jitters over South African production which ignited the price?

For the first time since the dollar started its long fall from the February 1985 peak, gold has outperformed the major hard currencies. The yen price is up 19%, while in terms of D-marks, Swiss and French francs, it has gained 16%-17%. And, with sterling undermined by poor trade figures in August, the pound price has gained 25%.

Analysts who attributed gold’s spurt to Japanese buying of the final 100 t for their Hirohito diamond jubilee coin issue (220 t in all) were confounded by the latest import figures from Tokyo. They showed August shipments had fallen to 19 512 kg from 87 340 kg in July — lifting the eight-month inflation to 817 kg, almost four times the comparable 1985 figure and in line with earlier forecasts of 500 t for the whole of 1986.

There are, of course, continued rumours in the market that Emperor Hirohito’s wish that every household in Japan should have a coin will require another 50 t-100 t to increase the issue. In addition, there has been talk that Taiwan has plans to mint and distribute its own official gold coin.

But most London bullion dealers report that physical demand has dropped in the last few weeks.

On the supply side, the evidence is cloudy. European refiners, from Degussa in Germany to Johnson Matthey and Engelhard in the UK, are reporting a rise in quantities of gold bars and jewellery coming to them for recycling. But, while the increase has been

Gold breaks out in key currencies

Source: Metals, Van Volken
considerable, the absolute amounts do not yet equal a flood: as much as 12 t of small bars in August against a few kilograms a month earlier, chiefly from the Far East.

And cash offers equivalent to $414/oz for 22 carat jewellery in London's Hatton Garden have not attracted queues of sellers. In addition, the Krugerrand quoted at $434-$437 and bullion (against gold at $437.50 and the Maple Leaf at $444-$447) is another close contender for recycling.

The tightness of supply is far from clear. No Soviet selling has been reported since July, by which time it was estimated that the Soviet Union had already disposed of 250 t, more than during the whole of last year. Nor can it be confirmed that SA has adopted a policy of letting the market come to it, rather than offering gold on a steady basis at the fixings in London and Zurich (FM September 26).

Even so, most fundamentalists, such as George Milling-Stanley of Consolidated Gold Fields, see little supply-demand argument to support the rise. Exceptions include Rhona O'Connell at stockbroker James Capel, who believes that with increasing central bank diversification of reserves out of dollars, there will be a net deficit this year of 50-90 t after taking into account East bloc sales of bullion. O'Connell also believes that by behaving more staidly than platinum in both the up and down swings, gold has "confirmed its credibility" as an investment.

**GOLD SHARES**

*When the bad times are good*

Those investors who climbed into gold shares at mid-year, when sentiment in business and investment circles was at an ebb, have been richly rewarded. In one of the fastest bull markets seen on the JSE gold board in many years, the All Gold index soared by 73% from 1 188 on June 16 to a peak of 2 061 on September 19.

In the inevitable correction, the index has since weakened to close at 1 843 on Monday, a decline of nearly 12% — but that still leaves the index up by 55%. Reasons for the surge are not difficult to find. When the rand started sliding against the dollar in the second quarter of the year, that pushed the rand price of gold upwards. Both the rand price and investor sentiment were boosted further when the bullion price suddenly moved off its perch around USS340-$350 in early August. Bullion's breaks through $380/oz, $400/oz and then $420/oz kept the bulls in full cry.

Profit margins on gold mines have leapt. This is underlined by the accompanying table which shows the break even points in rand/oz of gold produced for the June quarter. Average break even for the industry was only R422/oz, and few were above R600/oz.

Views on gold's upward progress hinge on the important level of $400/oz. A drop below this could trigger a selling spree and bring the bull run to an end. But fears of rising US inflation and acceptance of a low-level of endemically poor African political climate could mean that the game is still worth the candle.

**Turning up**

London gold price

Source: McKelvan Velden

The table shows the gold price in dollars per ounce (oz) and the conversion to rand/oz. The table also includes the average price received in the June quarter of markets in equities; and the potential banking crisis.

An early assessment of the mood at the International Monetary Fund (IMF) gatherings in Washington this week underlined the mood. Bill Martin, of brokers Phillips & Drew's economics unit, reported that the US Federal Reserve's concerns about growth "dominate its worries about inflation."

Bond markets were right to conclude that in the long term "inflation in the US has not been licked." And the Fed, Martin said, would probably "accommodate inflation up to 4% in 1987" — almost double the current rate. As for talk about help from the rest of the world to stimulate growth, turn the US trade deficit and stabilise the dollar, Martin said policy co-ordination talks are "regarded as an elaborate charade."

Against this background, chartists in London have few doubts about the trend. Short-term targets of $450 and $500 after a period of consolidation in the $430-$440 range are commonplace. And Brian Marber, of Marber Associates, says the recent rise has "the same drive as the bull markets of 1970-1974 and 1976-1980."

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**R757/oz.**

Distributable earnings from which dividends are declared, after tax, capital expenditure, both of which are likely to increase on these gold prices. On many mines, though, prospective profits and dividends will both soar if the rand price remains above R900/oz, rising in some cases by a much greater rate than the 25% increase in the profit margin. This will apply particularly to those mines which have avoided hedging contracts and will therefore receive the full benefit of the price increase.

Three main factors will probably determine where the share prices will go from here: the trend in the dollar gold price; the rand/dollar exchange rate; and the actions of overseas investors. While profit-taking may well extend further during the present correction phase, analysts are not expecting much selling by local institutions unless the gold price collapses again.

As was shown at the recent Gold 100 conference in Johannesburg, there is no shortage of bullish views on the future; nor is there any great bearishness among Johannesburg brokers on the shares (is there ever?). But some of the ardour has cooled.
FOREIGN DEBT

Third currency boost

Despite repaying an apparent US$2.3 billion of foreign debt, SA’s burden is barely dent-
ed. According to the Standstill Co-ordinat-
ing Committee (SCC) the rand’s weakness against third currencies is largely to blame for foreign debt having to be revised up-
wards.

At the rand exchange rate ruling on
August 31 1985 the total debt as at June
1986 would have been $21.4 billion. Unfor-
unately, it is the present rate that counts.
And on current exchange rates, the June 30
figure is more like $23.2 billion. This is
within a whisker of the $23.7 billion of debt
originally identified in August last year.

The paltry $500m reduction might appear
surprising in view of the dollar’s underlying
weakness. Unfortunately, however, the ex-
tent of our debt commitments in non-dollar-
denominated currencies was seriously under-
estimated.

Reserve Bank Senior Deputy Governor
Japie Jacobs says more than half of the debt
is in dollars, but he is non-committal about
the exact proportions in other currencies. It
can be safely assumed a major chunk is in
DM, yen and sterling. Anglo American Cor-
poration’s economist Jim Buys expresses the
general view that “while we are all aware of
the impact of currency fluctuations on the
debt commitment, it is greater than I thought.”

As fewer banks than expected rolled over
their loans at the higher interest rates being
offered, the repayment this year is likely to
exceed the R2.3 billion (of which $500m was
in the net) that was expected to be repaid
under the February interim arrangement.

Jacobs says foreign credits and the Re-
serve Bank’s own foreign transactions have
not all been rolled as expected. “More has
been repaid than initially assumed.” Despite
that, “SA’s reserve position has improved
markedly since the second half of the year,”
he says. There was a R500m rise in net
reserves in the second quarter alone, accord-
ing to the Bank’s latest Quarterly Bulletin.

The foreign debt burden as a proportion
of exports (including goods and services) has
dropped from 138.1% in 1985 to 131.3% in
the first half of 1986 (annualised); and as a
proportion of GDP has also dropped from
48.3% in 1985 to 43.9%. Interest payments
were 10.5% of exports (including gold and
services) in the first half of this year (annual-
ised) compared to 10.8% in 1985.

Of the revised $23.2 billion total debt,
some $4.4 billion matures in 1987 (half of
which is out the net). This is significantly
less than the $6.1 billion that matures in the
second half of 1986 (including $2.2 billion
out the net). In 1988 only $1.9 billion of debt
matures (of which $700m is out the net).

This revised structure, reflecting higher
debt commitments, Jacobs explains, is due to
foreign exchange movements and also indi-
cates the extent to which new trade credits
and project-related finance are still avail-
able.

The Bulletin considers that a continuing
large current account surplus, together with
an anticipated decline in net capital out-
flows, “holds out prospects for a more com-
fortable” debt management.

But the February arrangement merely put
SA on parole and if political progress is the
criteria used — and it is the major factor
together with growth prospects — then Di-
rector General of Finance Chris Stals has a
tough task ahead. Local bankers agree that
the credit squeeze — arguably the most
effective form of economic pressure exerted
on SA so far — shows no sign of easing.

Standard Bank’s Manfred Schutte detects
two trends in the mood of foreign banks
towards SA. The atmosphere is cool to say
the least. The fundamental issue is politics
and the world is not yet satisfied on this
score.

Similarly, Nedbank’s Meriton Dagut says
pressure is considerable. Foreign bankers are
likely to adopt a “repay more or we withdraw
trade credit” attitude. He adds there is pres-
sure to widen the definition as to what is to
be repaid.

Another banker suggests SA has the upper
hand in any future agreement. “It is difficult
to tie overseas assets, and bankers don’t own
guns and aircrafts. The greater evil is to call
all the loans in.”

Jacobs strongly denies the sides are on a
confrontation path. “There is no doubt the
mood is better.” He reckons the April 1987
talks “will be decided on the facts. It is not in
the Banks’ own interest to rock the boat.
After all, SA is one of the few countries that
can repay debt.”

But any talk about a future arrangement
is purely speculative. It is still early days and

SPEAKING TECHNICALLY

With the gold price over $440 last week
and the current account surplus running at an
annual R6 billion ($2,7 billion at
Monday’s exchange rate of US45.2c),
small wonder that some foreign banks
took the negotiating opportunity to press
for additional debt repayment.

They did this at last week’s review
meeting in London, between SA and a
technical committee representing major
creditor banks.

Some asked for an extra 2.5% to be
added to the agreed repayment of 5% or
$700m of the debt maturing inside the
standstill net. The February arrangement
was based on an average gold bullion
price of $340 per ounce and a current
account surplus of $2,25 billion at a rand
value of US45c.

The talks are believed to have been
conducted in an “amicable” way — ac-
cording to one source close to the banks.
“there was neither a showdown nor
much debate about increasing the interim
deal while SA dangled the carrot that a
sustained higher gold price could change
the situation.” He adds that bankers are
“pretty happy” with the way the interim
arrangement is working out.

Reserve Bank Senior Deputy Governor
Japie Jacobs’ version is that the talks
“turned out as expected and there was no
disappointment either side. Views were
exchanged in a positive atmosphere. SA
made no promises but did say the position
would be reviewed next year.”

He adds that it is often forgotten that
the much talked-of boost of $20m for
each dollar’s rise in the gold price is at an
average annual gold price and is obvious-
ly not realised if the price is at a level for
one day or one month.

“In addition, account must be taken of
accelerating growth which could reduce
the current account surplus through stim-
ulating imports,” he says.
Bankers' eyes on SA gold bonanza

**Dispatch Correspondent**

JOHANNESBURG — A major fight is shaping up as international bankers try to get their hands on South Africa's recent gold bonanza.

South Africa's creditor banks are widely expected to demand a supplement of another 22 per cent on debt repayments under the 'standstill act' at this week's meeting in London with the Special Committee of Co-ordinating Committee (SCC).

This amount would come on top of the five per cent - roughly R400 million - that South Africa agreed to repay by June next year in terms of the interim debt arrangement negotiated in April this year.

Originally billed as a mid-term economic review to gauge South Africa's economic growth, a special SCC meeting is to take place this week to discuss the impact of the dramatic rise in the gold price in recent weeks.

An official source said: 'They will meet pressure from bankers for new additional payments.'

But a London banking source said: 'The negotiations will be pretty tough.'

Gold closed yesterday in London at £229.50 - 55.50 higher than Friday's close - in a day of hectic trading that saw the metal fixed in the morning at a 3 1/2-year high of £215.50 and rise above £230 before falling back.

Yesterday's rise in the gold price clearly has not made things easier. Every one dollar in the gold price earns South Africa roughly an additional £25 million in foreign exchange a year.

Although South Africa's official gold and foreign exchange reserves have increased in recent weeks to above £2 billion, they are still lower than before the imposition of the standstill in September last year.

A South African official said: 'South Africa is merely replenishing reserves lost last year.'

But it is understood that the creditor banks will point to strategic stockpiling of gold, which they believe should be included in calculations of South Africa's reserves.

**Aid plan for frontline states**

JOHANNESBURG - Extensive US, Canadian, and Allied economic aid to the frontline states, aimed at restricting the flow of economic aid to South Africa, is set to be included in President Ronald Reagan's response to Congress's anti-South African sanctions bill this week.

The move is part of a new programme worked out by Washington and its European partners to reduce frontline state dependence on South Africa.

It was friends who told the Secretary of State, Mr. George Shultz, who said in testimony to the Senate foreign relations committee that the US aid was 'essential to the war effort'.

A mission to Zimbabwe and the Mozambique port of Beira was 'totally in the air', he said.

The Deputy Minister of Foreign Affairs, Mr. Paul Kruger, last night described the new aid as 'totally in the air'.

The Secretary of State, Mr. George Shultz, who said in testimony to the Senate foreign relations committee that the US aid was 'essential to the war effort', said that the US should consider including the aid in its response to Congress's anti-South African sanctions bill this week.
Strategic metals prices surge on sanction fears

NEW YORK — Prices of strategic metals rose last week on fears that South Africa would retaliate against US economic sanctions by cutting off sales.

However, many experts said a strategic-metals embargo might be more damaging to South Africa than to its intended victim, the United States, and that South Africa was therefore unlikely to declare one.

The steep rise in metals prices — platinum, for example, has soared to near $600 an ounce on the spot market from $350 as recently as January — was mainly a product of fear and the mob psychology of the trading pits, some experts said.

"Markets go up on fear and down on reality," said Mr Peter Cardillo, a metals analyst for Josephthal & Co.

Prices are so high that if South Africa actually declared an embargo, he said, "Platinum might go down."

Platinum did fall slightly on Friday, down $7 an ounce to $589.50 on the New York Mercantile Exchange for contracts for delivery this month.

Platinum had risen the daily limit of $2 an ounce on Thursday just before the Senate joined the House of Representatives in overriding President Ronald Reagan’s veto of the sanction Bill.

The threat of a metals embargo overshadowed the immediate impact on the US of the sanctions imposed by Congress. Several analysts said the impact of those sanctions in the US should be slight.

Among other things, the Bill sharply restricts new US investment in South Africa and bans exports to South Africa of militarily useful goods such as oil, munitions and nuclear technology.

Also banned are computer shipments to the police and military.

The Bill prohibits imports of South African iron, steel, arms, ammunition, military vehicles and farm products, and, after 90 days, uranium, coal and textiles.

"We don’t need any of the stuff," said Mrs Bette Raptopoulos, a senior metals analyst for Prudential-Bache Securities Inc.

"The Congress made a point of banning things that we can get elsewhere." — AP.
Gold Fields’ pre-tax profits break record

Yield on average was fractionally up at 8.2g/t (8g/t).

The markedly lower capital expenditure of R97m (R135m for June) is typical of the first quarter of the financial year.

Costs were kept constant at Kloof and Deelkraal but were up 9.7% at Doornfontein, 6.5% at Libanon and 6.3% at Venterpost.

Reports from the mines follow:

Kloof: For the first time the mine became top profit-earner in the group. Its steady rate of working costs – with an increase of only 0.37% – could have resulted from an over-provision for black workers’ leave allowances in the June quarter.

The mine was down on labour at the beginning of the quarter, whereas West Driefontein was down 28% on labour two weeks ago because of men taking paid leave under the new leave scheme.

Kloof’s earnings per share (EPS) doubled with lower capex and higher profit largely because of a higher yield of 14g/t (13g/t).

The mine is driving on 23 level to Leenedoor ventilation shaft. Driefontein Consolidated: Earnings per share were 34% up at 94c. Yield improved strongly to 10.1g/t (9.8g/t) at the East mine. The West mine had problems with seismic activity on the Carbon Leader Reef.

Libanon: Costs were up largely because of a fire in a Ventersdorp Contact Reef stope in the Harvie-Watt shaft area. The fire zone has been sealed and stopping contractors moved to other areas of the mine. About 10% of the mine in a high-grade area has been affected.

No decrease in the tonnage milled is expected, but there has been a reduction in the overall mine grade. Work resumed two days ago in areas that had been affected by ventilation closures.

Venterpost: The mine increased EPS by 14% to 106c a share. Yield was high. Profit before tax was up 185% but after-tax profit rose by only 6%.

Doornfontein: Yield dropped to 5.7g/t (6g/t) but has recovered to 6g/t since the end of the quarter. The mine has been running out of ore reserves on the Carbon Leader. However, it has been saved by the higher gold price, which has made Main Reef payable.

Profit before tax was up but after-tax was down by 15%.

Deelkraal: Yield fell to 4.9g/t (5.1g/t) but has recovered in the past week to 4g/t. The mine plans a shaft in the southern part of the lease area.
Tax, costs limit profit to R278m

Gold price boost for GFSA

By AUDREY D'ANGELO
Assistant Financial Editor

THE weak rand and strengthening dollar price for gold combined to give Gold Fields of SA a record pre-tax profit of R624m (R438m) in the three months to September.

Revenue rose by R207m to a record R919.5m, based on an average price for gold of R29,960 a kg — 26% above the R231.743 paid in the previous quarter.

But higher tax and operating costs combined to limit the rise in after-tax profit to 10.5%. Combined after-tax profit was R278.8m (R232.3m).

'Gold price rise'

A spokesman for the group said that, although the rand had strengthened, it was hoped that the gold price would also rise to maintain the higher level of earnings.

"As long as the gold price goes up and the rand at least remains stable, without rising, we shall be alright."

He said the price currently received was above R31,000 a kg.

The spokesman said a R16.2m rise in working costs, to R342.1m (R325.9m) was mainly due to pay rises for unskilled and semi-skilled workers in July.

Gold output was higher at 30,642kg (29,951kg), mainly because of higher grades.

The average milling rate remained the same but the gold content rose to an average of 8.2 (8) grammes per ton.

Kloof had done particularly well before tax and the State's share of profits. Yield was up by about a gram and working profit rose to R169m (R106m).

But after-tax profit rose only to R84m (R78m).

At East Driefontein and West Driefontein costs rose by 5.4% and 5.7%.

Pre-tax profit was R344m (R251m) and after-tax profit R124m (R110m).

Doornfontein lifted pre-tax profit by 41% to R24.5m (R17.4m). But after-tax profit was 15% lower at R19.3m (R23m).

Consolidated results

Vlakfontein lifted pre-tax profit by 20% to R1.9m (R1.6m) but profit after-tax was up by only 5% to R870,000 (R827,000).

But Deelkraal, which is not yet liable for mining tax, lifted working profit by 66% to R25m (R13m) and total profit to R27.7m (R18.2m).

Consolidated results for the gold producers in the group were: Working profit R577.3m (R386.3m). Net sundry revenue R45.3m (R49.7m). Tax R344.9m (R185.5m). Net profit R278.81m (R252.3m). Capital expenditure R97.3m (R135.2m).
Gold at $433.67

GOLD traded at $433.67 an ounce in London today, up from Friday's $431 London close, reports Reuters.

The rand was quoted at $0.4475 in Johannesburg today, unchanged from Thursday's close.

The US dollar firmed against the Japanese yen on the Tokyo foreign exchange market today, closing at 154.78 yen after last Thursday's 154.23.

The dollar sank at the weekend after a West German central banker said his country did not intend to reverse the US currency's downward trend.

It was reported that Claus Kohler, a director of the West German central bank, said the Bundesbank's recent dollar purchases on the open market were aimed at slowing the dollar's decline rather than changing its fundamental direction.
Higher rand gold price a boost for Rand Mines

THE sharply higher rand gold price enabled mines in the Rand Mines stable to increase their earnings in the September quarter, despite lower grades and higher costs.

Star performer was again Harmony Gold Mine which, after receiving R29 911/kg (R25 763/kg) for gold sales, increased its earnings — after tax and capital expenditure — by 17% to R2c a share (against earnings of R6c a share in the previous quarter).

Blyvoor gold producer had a 13% increase in costs to R161m as a result of salary and wage increases.

Capital expenditure rose to R48,2m (R43m), taking expenditure for the six months to September to R91,3m. Virtually all of this has been devoted to the new Harmony No 4 shaft complex, where commissioning of the new gold plant started last month.

Blyvoor's Blyvooricht (Blyvoor) had a less successful quarter. A fire in the upper western section of the mine disrupted operations in August and caused a 14 000-ton production loss.

Nonetheless, the higher revenue from gold sales helped lift earnings — after tax and capex — to R6c a share (57c).

The fire also affected tonnage milled, which fell to 598 000 tons (689 000).

Grades dropped from 6.15g/t to 5.73g/t but the directors say the lower yield is in line with forecasts because Blyvoor has been mining increasing quantities of the lower-grade main reef.

During the quarter, unit costs shot up from R34 a ton to R91,08, and a payment of R3,6m was made to Driefontein Consolidated in terms of the existing tribute agreement.

Durban Redepoort Deep (Durban Deep), aided by a higher gold price of R30 063/kg (R25 065/kg), moved further into the black during the September quarter.

Profits after tax and capex almost tripled to R6m (R2m), giving earnings of R28c a share compared with R8c in the June quarter.

The mill rate was unchanged at 692 000 tons, but a drop in grades from 3.23g/t to 3.10g/t caused gold production to fall to 1 867kg (1 938kg).

Durban Deep's milling results could have been better were it not for an accident with an upcoming skip in the No 6 shaft area in August. The accident caused considerable damage and prevented 22 000 tons of ore from being hauled.

East Rand Proprietary Mines (ERPM) has increased its loss (after tax and capex) to R29c a share compared with a R15c loss in the June quarter.

Higher costs of R74m (R68m) were blamed for the losses.

During the quarter ERPM had a tax reversal of R2.6m, which left losses at R336 000 against the R1.5m loss reported in the June quarter.

ERPM continued its gold-hedging operations, selling 747kg forward for the fourth quarter of this year, at the minimum price of R30 624/kg, and 378kg for the first quarter of next year, at a minimum price of R30 640/kg.
Higher gold price hoists Rand Mines profit by 18%

Financial Staff
Boosted by a sharp rise in Rand gold prices the four mines in the Rand Mines group raised their total after-tax profits by 16 percent to R30.6 million in the quarter ended September 30.

Harmony was once again the main contributor, accounting for 70 percent of the group’s bottom-line profits.

The combined success of the four mines — Harmony, Blyvooruitzicht, ERPM and Durban Roodepoort Deep — was achieved despite costs going up by R35 million, due mainly to wage and salary increases.

Unit costs for the group were 8.6 percent up at R23.30 a ton.

All four mined lower grades but this was slightly offset by a three percent increase in tonnage milled to just over four million tons. This resulted in gold produced remaining almost unchanged at 15 051 kg.

The gold price received was 17.6 percent higher than in the previous quarter at R30.123 a kg and this enabled the group to increase its pre-tax profits by 23 percent to R133 million.

Although capex was up 17 percent, the taxman increased his takings by 36 percent to R36.2 million.

Harmony increased its tonnage milled by three percent to 2,141,000 tons. This more than offset a slight drop in grade from 3.52 g/t to 3.47 g/t and helped to boost gold production by 140 kg to 7,449 kg.

Gold revenue rose by 18 percent from R188.3 million to R222.6 million, while uranium revenue increased by R3.5 million to R11.9 million, giving a total revenue for the quarter of R234.7 million (R196.7 million).

Total costs went up 13 percent from R142.3 million (R85,533/t) to R161.2 million (R75,336/t), leaving a working profit of R73.5 million (R54.5 million).

Tax and state’s share was just under R10 million, leaving after-tax profits of R67.8 million (R59.7 million).

Capex was R48.2 million and virtually all of it went on the new Harmony 4 Shaft complex, where commissioning of the new gold plant started in September.

Blyvoor lost 14,000 tons of production as a result of a fire in August and tonnage milled dropped to 588,000 tons. Coupled with a drop in grade from 6.15 g/t to 2.73 g/t, gold production was down from 3,622 kg to 3,371 kg.

Pre-tax profits rose from R42.2 million to R48.4 million which, after tax of R28.8 million (R23.6 million), left after-tax profits six percent up at R19.6 million.

Costs at Durban Roodepoort went up from R44.2 million (R73,477/t) to R47.7 million (R79,157/t) but a higher gold price of more than R5,000 a kg helped increase its revenue to R56.1 million (R48.5 million). As a result, working profit doubled from R4.2 million to R8.5 million.

With no tax payable, bottom-line profits rose from R5.2 million to R9.8 million.

Because of a sharp rise in costs, ERPM posted a loss despite a higher milled tonnage and increased gold production. Even the higher gold price, which rose by R4700 to R30,234 a kg was insufficient to cover costs, which rose by R9 million to R74.7 million (R104,417/t0m).

The mine therefore showed a working loss of R3.2 million against a loss of R8.5 million in the June quarter.

Sundry revenue of R312,000 and a tax reversal of R2.5 million brought the bottom-line loss to R336,000 against a loss of R1.5 million in June.
JSE golds take battering

THE JSE gold board was battered yesterday when small investors took fright at the sharp fall in the gold price.

Better-than-expected growth in US retail sales lifted the dollar and depressed precious metals. The all-gold index fell 69 points (3.5%) as high-priced stocks declined 2.8% and sensitive marginals recorded losses of up to 16%. Platinums and mining houses softened and the industrial board appeared to have reached a turning point.

The overall market index was down 49 points, a drop of 2%.

LIZ ROUSE

At yesterday's London afternoon fixing, gold fell to $422 from $428.80 at Tuesday's fixing and $432.50 on Monday. It opened at $422.30 in New York.

Dealers said the price fell largely because of concern over the failure of Opec ministers to reach agreement on oil product levels.

A further decline in the oil price would ease fears of inflation, which helped bolster the gold price over the last three months.
Reserve Bank poised to boost gold reserves

The Reserve Bank will soon begin to acquire gold, a move that is intended to support the economy and stabilize the currency. The bank is expected to increase its gold reserves in order to maintain the value of the currency and to stabilize the market. This action is part of the bank's broader strategy to ensure financial stability and to support economic growth.

Economic Expert

Annual Economic Projections

The annual economic projections for the year 2023 anticipate a strong recovery in the economy, with growth rates expected to increase significantly compared to the previous year. The projections also indicate that inflation will remain under control, with prices expected to rise at a moderate pace.

The Reserve Bank will continue to monitor economic indicators closely and adjust monetary policy as necessary to ensure macroeconomic stability.
Goldfields revenue jump

By Dave Edwards

THE Goldfields results show an overall increase in gold revenue of 29%. Other mining-house quarterly results are to be released in the coming week, and these can be expected to echo this clear signal.

Working costs for the group rose by only R133 million — a mere 5%. This low figure is largely due to distortions created at June year-end.

It seems likely that this low figure will not be representative of the year as a whole nor will it be representative of the forthcoming quarters.

Taxman

In fact, containment of working costs must be a major item on most boardroom agendas this year, and the full round of results should give an idea of the trend.

From the shareholders’ perspective the Goldfields results also highlight the fact that the taxman is forever at the door and takes an increasing cut as capital expenditure falls.

In Goldfields’ case capex has fallen significantly, close to 40%, a result of the gearing-up of new projects at the start of a financial year resulting in an increase in after-tax profit of only just over 10%.

There’s a lesson here somewhere.

On release of the quarterly

LIBANON, too, went up slightly to 6 690c with a marginal drop in after-tax profits following a fire on the 20 level, and despite an announcement that the area is only now being re-entered. The lowered yield grade will therefore still take some time to correct.

VLAFONTEN fell from 8 880c to 8 860c on news that more outside dump material was being treated, with a consequent lowering of dump grade from 1.2 to 1.1g/t.

DRIEFONTEIN CONSOLIDATED was also marginally down on news of increased seismic activity in the western section.
Gold shares mostly lower

Gold share prices closed mostly lower on the Johannesburg Stock Exchange in uncertain trading on the sharp decline in the bullion price, but losses were limited due to the lower financial rand, dealers said.

Randfontein ended R5 down at R42.5 but Vaal Reefs finished unchanged at R382 after easing earlier, while cheaper issues lost up to 100c, as in Lorraine at R25.50.

Mining financials were mostly easier in sympathy with Anglos down 50c at R65.50 but Cons Gold firm at R48.

Platinums had Impala Down 50c at R51.50 but off an earlier low of R51.25, while Vansa Vanadium lost 20c at 338c and diamond share De Beers 25c at R38.25. The Krugerrand fell R20 at R1,210.

Industrials closed mostly unchanged. Davgra featured with a gain to 350c after reinstatement. Trading in the share was suspended Thursday after it had risen to 150c ahead of news released yesterday that the company has taken over two subsidiaries of Loudani Holdings.

In London gold producer shares ended the day lower, after a sharp fall in the bullion price. The metal was fixed at $410.50 in the afternoon compared with Thursday's close of $423.25/424.00, dealers said.

Heavyweights lost as much as $4.50 early on but buying at these levels brought most issues off their lows. Randfontein finished $4 down at $80 after reaching a low of $79.50, while Angold was $3.50 off at $85.50 after $85. In cheaper issues, Kloof was 22c easier at 653 after 643.

Financials were also lower with Anglos 37.5c off at $12.50. De Beers closed 20c down at 697.

In Harare the market closed the week firm. In Industrials substantial turnover was recorded in Delta 20c higher at 460. Hunyani 150 and ZSR at 40 were the only other deals. The mining sector was more active, Rio Tinto featured, trading at 370 also in good turnover. — Sapa-Reuters.
US ban will hit new gold issues

The US ban on new investment in SA will probably make share issues of new gold mines inaccessible to American investors.

But the sanctions Bill, signed into law on Monday by President Ronald Reagan, should not bar them from existing shares on US markets.

The Office of Foreign Asset Control will clarify the question of investment in SA shares later this week when it publishes its formal interpretation of the sanctions package for public comment.

The issue has been uncertain since Congress voted to override Reagan’s veto of the Bill on October 2. Because the wording of the Bill is vague, simply prohibiting any new investment in SA, stockbrokers have been cautious in their dealings in gold shares. Two major US investment banks, Merrill Lynch and E F Hutton, temporarily suspended purchases of SA shares.

Ivor Jones partner Doug Brooking says: “At first, we found ourselves frozen out of dealing with our US counterparts.”

And even now, says Ferguson Brothers Hall Stewart partner Paul Ferguson, the practical outcome remains uncertain.

But local brokers say they now have indications the new law will be less severe than originally feared, and will al-

Economics Reporters

low investors in New York to trade freely in the over-the-counter American Depository Receipts (ADR) representing SA shares that already exist.

David Borkum Hare economic consultant Michael Brown says: “It doesn’t look like the intention of the Bill was to prevent US investors from holding SA shares.” Rather, he and others say, the law is aimed at restricting new capital inflows into SA.

This means investors would not be allowed to take part in any new rights issues, from either new or existing companies.

Brokers remain concerned about the effect of the sanctions Bill because trading in SA gold shares on the New York over-the-counter market typically accounts for the largest part of worldwide volume.

A ban on the purchase of any SA share, including those already issued, could therefore severely depress gold share prices.
"Malbak will be exactly the same as it always has been — a number of portfolio directors will report to Grant Thomas."

It may be thought that Malbak is moving very fast, but Zinker emphasises that "Malbak will never run faster than it can operate, we intend to continue on the growth path." Earnings will obviously continue to benefit from acquisitions.

**LIBVEST**

**Invest in Libvest**

Liberty Life chairman Donald Gordon certainly believes in taking advantage of high stock markets to raise funds. First there was the Liberty Life rights issue, then the UK subsidiary had a rights issue in London, and now Libvest, an investment company whose assets are mostly shares in the Liberty group, is to be listed.

There is no doubt of its success. At 200c, the issue price is under net asset value (218c post-issue) and deliberately pitched at a level the average investor can afford. The issue is less likely to attract institutional investors, who can buy Liberty Life directly and probably have substantial holdings already.

The question is how high the price will be bid up. Though the insurance sector has fallen into disfavour, Liberty has a premium rating. With the high prices of some new issues and the charisma Gordon has acquired, some brokers suggest the share could come on at 280c; others think 240c would be more reasonable, admitting that this is not a reasonable market for new issues.

With forecast earnings of 9.3c, earnings yield on 280c would be 3.3%, against 3.2% for Liberty; but, point out analysts, Libvest should be on a higher yield, as much of its investment is in Liberty Life convertible preference shares.

So the premium would be for "Gordon's ability to deal," as one analyst put it. But it is not clear how or what these dealings will be. Says Libvest's chief executive, Sher: "Obviously nothing will be done to the detriment of Liberty Life — we will never allow a conflict situation with Liberty. We know the sort of investments we relate to and they might well be companies associated with the group, but we have nothing specific in mind."

Nevertheless, to justify the premium there will have to be some action (what one broker calls "intelligent dealing") with the R74m cash raised by the issue, or the price could fall back to reflect only earnings on present investments.

With Gordon's well-known "intelligent dealing" ability, though, this seems unlikely, even though there are fewer and fewer potential deals in SA of a size that would interest him.

**Taxman moves in**

The main feature of the gold mining September quarter was profits. This quarter results was the hefty increase in tax provisions. What one executive terms planned further reduction in overhead costs will return Rooberg to profits at current tax prices.

Sales revenue averaged R13 000/t in the September quarter compared with R11 929/t in June but prices during October have dropped back towards R12 000/t because of the stronger rand. GFFSA says a recovery from current prices of about R3 855/t is not expected until world stocks of about 80 000 t are significantly reduced, which could take two-three years.

**MARKET TALK**

**Frasers doing well**

While its price rose from 425c last December to 675c at the end of last month, Frasers has been a weak spot of late, and is now down to 600c. Preliminary figures for the year to September show turnover 29% up, pre-tax profit 30% up, and earnings 42% up, at 58,6c a share (41,5c).

The share price rose 8.2% to 479c, mainly because of higher tax rates in Lesotho.

Good as these figures are, they represent a slowdown in second-half earnings growth and are at the bottom end of analysts' expectations, the most optimistic of which were as high as earnings of 80c.

A major dividend, declared only a couple of months ago, was raised from 4c to 7c.

The company said this was in part to reduce the disparity between the two payments, but it will be disappointing if the final is not at least maintained at the historic 11c. A total of 16c would yield 3%, slightly above average for the share sector.

Even a total of 20c would be three times covered, and yield 3.3%. If disappointment at these figures pushes the price down further, there could be useful short-term recovery potential.

**E W Tarry without GM**

General Motors (GM) made no bones about its pull-out being due to trading losses, though with a political rider (see Business).

E W Tarry, one of the largest GM dealers through subsidiary Williams Hunt (WH) and a member of the W & A group, could be involved in the management buy-out. Irrespective of this, for shareholders in Tarry and Hunts (an intermediate holding company between Tarry and W & A) there is "not much downside and potentially a lot of upside," according to MD Brian Joffe. GM SA has contracted to supply WH with Opel, Suzuki and Isuzu products for five years, but WH can give 30 days' notice of its intention to find another dealer, if this becomes necessary.

Even in a worst case situation, Joffe points out, Tarry's earnings without a motor dealership would be about the same as last year; WH's assets amount to somewhat under 20% of Tarry's total (less than 5% of Hunts' total).

**Midas shows touch**

With its sparkling interim performance, Midas has dispelled any remaining doubts about the state of the closes market, and its pre-eminence in that market. Earnings for the six months to end-August rose 52% to 13,7c (9c), on the back of a 44,4% increase in turnover. For the full year, the group seems set to beat convincingly the 27,9c EPS forecast in the prospectus.

"Our expansion programme has accelerated because of increasing demand," says MD Georg von Loepel, who notes that changes in the structure of the vehicle market have been to Midas' benefit. The second-hand market has grown by almost a third this year; this, combined with the trend to longer car ownership among car owners to delay replacing ageing vehicles, has led to a veritable boom in spares.

"We had planned 80 outlets by February, but already we have 82, compared with 53 last February." Budget is for 150 outlets by 1988. The share trades at 385c on a prospective price of 12,8, a rating thatMidas consultant Eric Levine believes is out of line for a company showing over 50% growth.
his major shareholder — the Receiver of Revenue — cleaned up because profit margins soared with the move in the gold price to an average of about R30,000/kg from the previous quarter’s R24,000/kg.

Tax provisions were also boosted because September is the first quarter of the new financial year for mines with a June year-end, such as all the Gold Fields of SA (GFSA), Anglovaal and JCI producers.

The first quarter is traditionally slow for capital expenditure outlays as mine managers watch budgets carefully. The implication is that capex on these mines will spur over the next six months to catch up the lost ground, so some of the hefty tax provisions will be written back.

Among individual mining houses the main shock was provided by Loucas Pauroulis’s Golden Dumps, which reported a 24% drop in grade at Consolidated Modderfontein from 5.27g/t in the June quarter to 4.01g/t. The results also showed an all-round drop in the amount of development work, particularly on the Reef at the North-East Prospect (NEP) shaft, the high-grade sweater that over the past two years has made the mine’s fortunes.

According to a Golden Dumps spokesman, grade was lowered purely to take advantage of the higher gold price and will be increased slightly if the gold price remains around R30,000/kg for the current (December) quarter. He says the drop in development at NEP should not have occurred but resulted from emphasis being placed on other development, principally Black Reef at the new No 1 circular shaft.

Some analysts are concerned that Cons Modder is running out of high-grade reserves and, with the operation due to start paying mining tax soon, prospects do not look attractive at such low grades as shown in the September quarter. Cons Modder’s NEP Black Reef ore reserves showed an average gold value of 7.2g/t at June 30 compared with 16.6g/t a year previously.

At South Randdeep, grade dropped by 10% to 3.72g/t from 4.14g/t in the June quarter.

At Anglo American Corporation the most noticeable aspect was the effect on gold production of industrial relations problems on certain mines. Because of labour unrest and increased rockbursts underground, Western Deep Levels (WDL) expects gold production will only be slightly higher than last year’s 37.5 t. Chairman Peter Gush estimated in his annual review that production would rise 10%, which means the mine will lose some 3.7 t expected production worth more than R100m. That is something WDL can ill afford given its high cost structure, because of the depths at which the bulk of mining is carried out.

Elandsrand was also hit by rockbursts and illegal labour stoppages. Its production is now expected to increase only marginally from 1985 levels, which means some 500 kg of gold production worth R15m will not be earned compared with earlier expectations.

Star performer in the group was the Simmergo division of Ergo, where the treatment plant seems to have at last overcome the problems which beset operations during the past 18 months. Simmergo pushed up Id production to 521 kg (previous quarter 494 kg) while acid production moved up to 7.439 t (6.738 t), despite drops in plant throughput.

Simmergo more than doubled operating profits to R6.2m (R2.6m) and paid a royalty of R1.9m to Simmer & Jack, compared with R258,000 in the June quarter.

Vaal Reefs took advantage of the higher average gold price to lower average grade 2.3% to 7.04g/t from 7.21g/t previously.

SALand has decided not to install the proposed pyrite flotation plant, which is now considered uneconomic. This means that instead of capex hitting R4.8m for the financial year to December the company will recoup about R1m.

At Freegold, the main point of interest was the promising outcome of initial development on the Basal Reef at Erfeelde, where production is expected to start next year. Results of 19.9 g/t gold over a channel width of 75.9 cm gave an encouraging 1510 centi-

metre gram an ton (cm g/t). Anglo cautions these results are from a very limited area.

In the Rand Mines stable, star performer was Durban Roadpoort Deep, which pushed distributable earnings to 258c a share (87c). The share price has had a good run because of this marginal producer’s gearing to the gold price and also because of its expansion prospects (FM August 29). The mine maintained tonnage milled despite an accident in the No 6 shaft which meant 32,000 t ore could not be hoisted.

Blyvoorithst lost 14,000 t production because of a fire in the upper Western Section, which has been sealed off.

At JCI, Randfontein Estates earned the going gold price for the first time in about 18 months now that its foreign exchange hedging programme has ended. It received R30,173/kg compared with R22,462/kg in June, when the average industry gold price was about R24,000.

Western Areas has reduced its exposure on forward gold sales and forward currency dealing to “a portion” of gold production from the previous position, described as a “significant portion” of gold production. The mine had a poor quarter with underground

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**GOLD EARNINGS**

<table>
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<tr>
<th>Year end</th>
<th>EPS(c) Jun</th>
<th>EPS(c) Sep</th>
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<td>South Rand</td>
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* = Earnings after tax and capital expenditure. ** = Distributable earnings for the mine’s financial year to date. + = Total dividends declared to date.
DATES TO REMEMBER

Last day to register for dividends:

- **Friday Oct 31:** AT Col 174c; Confed 11c; Farm-Ag 12c; Garcon 8,3c; Garlick 26c; Mobile 46c; NDH 7,5c; Nictus 2,5c; Rentheil 2,5c; SBB 7,5c; Tencor 150c; Umdoni 3c; Witt Coll 280c.

Meetings:

- **Monday Oct 27:** Safran (Cape Town).
- **Tuesday Oct 28:** KWV Bel (Suider-Paarl).
- **MCM (Harare).**
- **Wednesday Oct 29:** Nictus (Randburg).
- **Rand Leases (Florida).**
- **Thursday Oct 30:** Dundee; Searcl (Cape Town); Tef (Steenberg).
- **Friday Oct 31:** Concor; Ed Bate (Boksburg North); Mermin (Randburg); Metro; Sasol (Sasolburg); Welfit Oddy (Port Elizabeth).

All meetings are in Johannesburg unless otherwise stated.

Kloof's grade recovered to 14 g/t from 13 g/t as a new high-grade VCR longwall came into production.

In the Anglovaal group, Hartbeefontein moved grade up marginally to 9.9 g/t (9.8 g/t) and production to 793 000 t (773 000 t) but profits were heaved by an 88% jump in tax provision to R107m. Capital expenditure dwindled to R6.5m (R3.6m) in the first quarter of the new financial year.

Moving to the independents, Rand Leases will start trial milling in its new metallurgical plant this quarter, while Sub Nigell says commissioning of its No 1 shaft is three months ahead of schedule and its reduction plant is on schedule for completion in March next year.

Southco has pegged another 118 precious metal claims in the Noyedale area which will provide additional reserves.

Egoli's West Witwatersrand Gold Holdings provided R5.5m for the acquisition of mining rights below the 205 m level at certain sections of Randfontein Estates' old Randfontein section as well as full use of the No 16 shaft and its infrastructure.

Waverley's heap leach plant is still battling and could only manage a slight improvement in yield to 0.27 g/t (0.26 g/t).

Over costs.

Libanon took a knock in grade to 5 g/t (5.6 g/t) because of a fire in a high-grade Venterdorp Contact Reef (VCR) area, since re-opened.

GOLD QUARTERLY

<table>
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<th>Uranium</th>
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<tr>
<td>R0’000</td>
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**Anglo American**

- **Breeders:** 2 239 (2 267) 9 405 19 017 230 (2 267) 30 044 370 359 (358) 5 6 (5,7)
- **Anglovaal:** 851.27 (537.30) 50 926 128 (160) 29 684 369 91 (94) 7.3 (7.6)
- **Hartbeesfontein:** 9 001 (1 904) 30 303 377 729 (772) 5 9 (5.9)
- **Randfontein:** 23 257 (2 267) 30 044 370 359 (358) 5 6 (5,7)

**GFSF**

- **Debraalf:** 1 980.1 (1 921.5) 15 684 196 (213) 29 282 364 376 (375) 4.3 (5.1)
- **Doornfontein:** 2 086.2 (2 267) 10 250 250 (244) 30 540 386 366 (366) 5.7 (6.0)
- **Klein:** 5 726.0 (2 267) 19 017 230 (2 267) 30 044 370 359 (358) 5 6 (5,7)
- **Libanon:** 2 318.5 (2 267) 30 684 369 91 (94) 7.3 (7.6)
- **Venterdorp:** 23 257 (2 267) 30 044 370 359 (358) 5 6 (5,7)
- **Witbank:** 23 257 (2 267) 30 044 370 359 (358) 5 6 (5,7)

**Rand Mines**

- **Phalabor:** 9 001 (1 904) 30 303 377 729 (772) 5 9 (5.9)
- **Darren:** 1 670.7 (1 904) 30 684 369 91 (94) 7.3 (7.6)
- **Harmony:** 617.4 (1 904) 30 303 377 729 (772) 5 9 (5.9)

**Independent**

- **Casa Model:** 9 001 (1 904) 30 303 377 729 (772) 5 9 (5.9)
- **South Red:** 23 257 (2 267) 30 044 370 359 (358) 5 6 (5,7)

* Figures in parentheses refer to previous quarter
† Calculated at R1=30.40 when dollar figure not given by other
§ Dividends to Joint Metallic/plant Scheme.

Bredan Byran

FINANCIAL MAIL OCTOBER 24 1986
considerable, the absolute amounts do not yet amount to a flood: as much as 12 t of small bars in August against a few kilograms a month earlier, chiefly from the Far East. And cash offers equivalent to $414/oz for 22 carat jewellery in London’s Hatton Garden have not attracted queues of sellers. In addition, the Krugerrand quoted at $434-$437 in London (against gold at $436-$437.50 and the Maple Leaf at $444-$447) is another close contender for recycling.

The tightness of supply is far from clear. No Soviet selling has been reported since July, by which time it was estimated that the Soviet Union had already disposed of 250 t of gold. More during the whole of last year. Nor can it be confirmed that SA has adopted a policy of letting the market come to it, rather than offering gold on a steady basis at the fixings in London and Zurich (FM September 26).

Even so, most fundamentalists, such as George Milling Stanley of Consolidated Gold Fields, see little supply-demand argument to support the rise. Exceptions include Rhona O’Connell at stockbroker James Capel, who believes that with increasing central bank diversification of reserves out of dollars, there will be a net deficit this year of 500 t to 900 t after taking into account East bloc sales and secondary supplies. O’Connell also believes that by behaving more staidly than platinum in both the up and down swings, gold has “confirmed its credibility” as an investment.

![Turning up](chart)

Fundamentalists worry about demand and supply, once the Japanese have completed their coin programme, tend to be swamped by the uncertainty hedge argument. Its advocates outnumbered the more cautious voices by 3:1 in a FM telephone poll of London opinion last week.

The points made have become a familiar litany in the market for some months: the dollar; a resurgence of inflation since the oil price stops falling and money supply keeps rising in an attempt to boost growth in the main Western economies; tired-looking bull markets in equities; and the potential banking crisis.

An early assessment of the mood at the International Monetary Fund (IMF) gatherings in Washington will have underlined the mood. Bill Martin, of brokers Phillips & Drew’s economics unit, reported that the US Federal Reserve’s concern about growth “dominate its worries about inflation.”

Bond markets were right to conclude that in the long term “inflation in the US has not been licked.” And the Fed, Martin said, would probably “accommodate inflation up to 4% in 1987” — almost double the current rate. As for talk about help from the rest of the world to stimulate growth, turn the US trade deficit and stabilise the dollar, Martin said policy co-ordination talks are “regarded as an elaborate charade.”

Against this background, charts in London have few doubts about the trend. Short-term targets of $450 and $500 after a period of consolidation in the $430-$440 range are commonplace. And Brian Marber, of Marber Associates, says the recent rise has “the same drive as the bull markets of 1970-1974 and 1976-1980.”

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**GOLD SHARES**

**When the bad times are good**

**These investors** who climbed into gold shares at mid-year, when sentiment in business and investment circles was at an exceptionally low ebb, have been richly rewarded. In one of the fastest bull markets seen on the JSE gold board in many years, the All Gold index soared by 73% from 1 188 on June 16 to a peak of 2 061 on September 19.

In the inevitable correction, the index has since weakened to close at 1 843 on Monday, a decline of nearly 12% — but that still leaves the index up by 55%. Reasons for the surge are not difficult to find. When the rand started sliding against the dollar in the second quarter of the year, that pushed the rand price of gold upwards. Both the rand price and investor sentiment were boosted further when the bullion price suddenly moved off its perch around US$340-US350 in early August. Bullion’s breaks through $380/oz, $400/oz and then $420/oz kept the bulls in full cry.

Profit margins on gold mines have leapt. This is underlined by the accompanying table which lists breakeven points in costs in rand/oz of gold produced for the June quarter. Average breakeven for the industry was only R422/oz, and few were above R600/oz.

**Views on gold’s upward progress hinge on the important level of $400/oz. A drop below this could trigger a selling spree and bring the bull run to an end. But fears of rising US inflation and acceptance of a low level if evendomically poor South African political climate could mean that the game is still worth the candle.**

**McKie van Velden’s Boeshoff... correction ahead?**

Monday’s gold price of $429/oz translates into a rand price of about R950/oz at the rate of US$45c, which compares with the average price received in the June quarter of R757/oz.

Distributable earnings from which dividends are paid are calculated after taxation and capital expenditure, both of which are likely to increase on these gold prices. On many mines, though, prospective profits and dividends will both soar if the rand price remains above R900/oz, rising in some cases by a much greater rate than the 25% increase in the profit margin. This will apply particularly to those mines which have avoided hedging contracts and will therefore receive the full benefit of the price increase.

Three main factors will probably determine where the share prices will go from here: the trend in the dollar gold price; the rand/dollar exchange rate; and the actions of overseas investors. While profit-taking may well extend further during the present correction phase, analysts are not expecting much selling by local institutions unless the gold price collapses again.

As was shown at the recent Gold 10 conference in Johannesburg, there is no shortage of bullish views on bullion; nor is there any great bearishness among Johannesburg brokers on the shares (is there ever?). But some of the ardour has cooled.
IMF AND WORLD BANK MEETINGS

Crisis and paralysis

The annual joint meetings of the World Bank and International Monetary Fund (IMF) are part medieval trade fair, part debating society, and part shopping spree for the 5,000 finance ministers, central bankers and commercial bank loan officers who crowd the Shoreham-Sheraton hotel complex in Washington DC.

It would be hard in the best of times for a single dramatic solution to the problems of the economic free world to emerge during the week of debates, cocktail parties and impromptu hallway conferences.

Therefore it does not sound like particularly urgent news that the latest annual World Bank and IMF meeting was notable for the paralysis which gripped it, impeding any real decisions being taken on genuine crisis issues.

The trouble is that this year’s annual meeting in Washington was the most crisis-threatened session since the Mexican government sprang its first bank loan default on an unsuspecting Bank-Fund meeting in Toronto in 1982.

Well, the Mexicans are back again; this time with a total debt burden swollen to US$97 billion (against the $70 billion of four years ago) and the De la Ma-

John Ferryhaugh, at Alexander, Laing and Cruickshank, said: “Even after the jump, a share like Vaal Reefs is still offering a prospective earnings yield of 14%. The Germans, Swiss and French are interested again and the Japanese, who funded 30% of the US budget deficit and have taken a hammering on treasury bonds, are switching some money into gold. There is a feeling that while the unrest in SA will plod along, the shares are still a reasonable investment with the financial rand discount remaining close to 50%.”

A lot now hinges on what happens to the US gold funds. Money is starting to come in — but not to any great extent, according to John van Eck, president of International Investors Incorporated (III) in New York. He told the FM that while the $900m III fund, which is 47% invested in South African shares, had seen its net worth per share rise 48% since mid-July, August sales of $12m compared with repurchases of $15m.

By contrast, its gold resources fund (which holds no South African shares) was enjoying a net inflow in spite of a more modest 28% increase in net worth. “We haven’t seen too much so far but the big institutions are starting to look at gold and a few smart people are diversifying their risk by investing in gold. Next year US inflation could be 3%-4% and what about 1988-1989? And the uncertainties about the banks are still with us.”

The FM’s Washington correspondent, Jim Srodes, reports on the issues crystallising at the latest International Monetary Fund and World Bank meetings in the US.

Bullion has been consolidating above $420/oz, offering encouragement to those who hold the shares; but this is the indicator that now needs to be watched closely. An unexpected fall could well temper these views — and quickly too.

Andrew McNaught and John Cavill

role in foreign exchange markets — neither are those who talk about gold’s re-entrance taken very seriously.

No, everyone agrees that interest rates must be cut and that the US must move to reduce its horrifying trade deficit, and take some credible steps toward shaving back its equally horrifying budget deficits. Everyone agrees that everyone else must act. But no one acts. And there it stands.

Nowhere is the impasse at the World Bank-IMF conclaves in starker relief than in the meetings that went on all week at the US Treasury. There the Group of Five (G5) — the richest governments in the world — installed the finance ministers of the US, Britain, France, Germany, Japan (the G5) as well as Canada and Italy, in an effort to reach some common cause that would restore world confidence.

There are two points worth noting about the deadlock that gripped the G5 finance ministers and kept them from doing more than issuing a summary of each others’ positions, much less agreeing on a common strat-
Gold caught in tug-of-war

LIZ ROUSE

GOLD was subject to a tug-of-war last week between a stronger dollar, which was a significant bearish factor, and expectations that oil prices would rise, a bullish factor.

Gold sales by the Soviet Union through Zurich could also have contributed to gold dipping below the psychologically important level of $400 for the first time in two months.

Most analysts saw the short-term outlook as bearish, as the price hinged on the stronger dollar. But it is not certain if the dollar would maintain its strength.

An encouraging factor was that gold moved above the critical mark so quickly on Friday, although part of the recovery could be attributed to short-covering.

Johannesburg analysts had expected the metal to decline rapidly to about $385 after breaching the $400 level.

The final quote was $400,50/$401.00 in London on Friday. Gold was fixed at $401.50 in the morning and $401.00 in the afternoon.

The European quoted low, shortly after the morning fixing session, was $387.50.

However, gold recovered to $407.50/$408.40 in New York and traded at $405.80/$406.40 in Hong Kong.
Prospective Dividend Yield
Based on US Dollar prices - November 3, 1986
Prospective gold price of $425 per ounce for 1987

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<th>Region</th>
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<tr>
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<tr>
<td>Global Average</td>
<td>51</td>
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DESPITE scary short-term fluctuations, the gold price should average more than $425 in 1987, says international gold analyst Warren Myers, vice-president of international research at Merrill Lynch, told delegates at the conference yesterday that the world was in a bull market in gold and gold shares.

With these conditions, gold shares would do well in the short-term — depending on the local gold price.

"In a very weak currency, such as the rand, the local gold price has all the trappings of a classic bull market," said Myers.

In the September quarter, the SA gold mines were in aggregate, more prosperous than during any previous quarter, and that includes the March 1986 quarter when the price of gold hit $850 an ounce and averaged around $630 an ounce for the three-month period.

But for SA to continue to capitalise on the weaker rand, a higher gold price was needed. This would help alleviate some of the political problems facing SA, Myers added.

On a global scale, Myers said many international fund managers were

Gold set for a lustrous future

CHERILYN IRETON

shunning South African shares and diverting funds to Australian, Canadian and US gold mine shares.

"I cannot agree with those who excise SA mines from their share portfolio as SA still produces some 98% of newly mined Western gold and is likely to remain a dominant producer for the remainder of this century at least."

Between the end of July and mid-September 1986, the JSE all gold index climbed by 76% (in US dollar terms).

"This is the stuff of gold share bull markets. A 76% increase in value in less than three months should be enough incentive to retain some balance on this issue," added Myers.

Eight SA gold mines featured in Myers' assessment of the world's top gold mines. They were Western Deep, Southvaal, Kloof, Libanon, Vaul Reefs, Deelkraal, Elandsrand and Lorraine.
Active Russian
SELLING TRIMS GOLDS
W/FT AMERAS 11/1/86 79

By NEIL BEHRMANN
LONDON. — Gold prices hovered around the $400 mark this week because of aggressive Russian sales, London and Swiss bullion dealers say.

The market was also nervous because better-than-expected trade figures boosted the dollar and alternative investment havens such as the stock and bond markets.

The Russians were so active that they had open telex lines to the bullion dealers asking for bids.

Mr. Edwin Arnold, metals analyst at Merrill Lynch Pierce Fenner and Smith in London, said: "This was very confusing. Normally the Russians are shrewd operators and sell secretly and in strong markets."

Clear stocks
Dealers could not disclose volumes because the Soviet Union sells in several centres, including New York and Hong Kong.

But in October and November last year they were also selling actively, so dealers believe that economic committees have decided to clear metal stocks, including gold, before the year-end.

The Bank For International Settlements estimates that communist bloc countries, mainly Russia, sold 250 tons last year, 100 tons more than in 1984. Sales estimates for 1986 range between 200 and 250 tons.

The Russians were on a gold selling spree earlier this year. Analysts estimated that in the first two months alone 50 to 60 tons were sold.

Japan’s imports
But until the past week, the Russians have been discreet, say Swiss and London bullion sources. They bought gold at times and helped the price surge through $400 a few months ago.

"While they were buying in one centre, they could have sold in another," said a Swiss dealer.

Japanese gold dealers estimate that Japan’s gold imports from the Soviet Union could total around 25 to 30 tons this year, according to current custom statistics.

Some dealers believe the Russians knew about the impending change because they are significant exporters of oil. A decline in oil prices would dampen Soviet export revenues and have a negative impact on gold prices.

Metals and Minerals Research Services estimates that communist bloc gold sales could reach 300 tons this year. But the consulting firm says the supply estimate will include sales of 100 tons by China.

Most of China’s gold sold in the middle of the year went to Japan, which imported 461 tons in the first nine months of this year, against 197 tons in the whole of 1985.
Down with gold

With the gold price slumping under $400/oz (largely because of platinum’s fall below $900) the rand has been unable to stay above US45c, the level it reached on Friday. When the FM went to press on Tuesday it was around US44,7c.

Citibank says the short-term implications of a lower gold price are “difficult to assess since corporate interest has been very low.” Should demand for dollars re-emerge it will be up to the Reserve Bank to decide whether to defend any particular level. “Given the current scenario we anticipate that US45c will be the top and a good level to buy dollars, whilst US44c might be easily defended.”

Mild elation

The falling gold price interrupted a relatively good week in the market. Standard Bank talks about “a mild element of elation” pervading the market as the rand breached US45c, aided by a weakening dollar and, at that time, a steady gold bullion price.

Volkas believes the rand is “holding up relatively well against the sharp retreat in the gold price.”

The rand did not depreciate as much against other currencies. On Friday, before the fall, it was DM90,75 and 72,7 Yen (£1 was R3,16). By Tuesday it was down to DM89,63 and ¥72,37 (£1 was R3,20).

Barclays says the Bank “was largely subdued,” but picked up (as a proportion of total volume) from Friday to support the currency against a falling gold bullion price.

Assuming a gold price of $400, Standard calculates that, over and above so-called “rand support,” the Bank should make some $160m available each week to cater for debt servicing, other invisible payments and importers’ needs. One should thus distinguish between “supporting” the rand — using gold and forex reserves to bolster the currency — and injecting the sales proceeds of bullion: “Only the former can theoretically be defined as official support.”

Standard says that though short-term gold may continue to ease, downward pressures on the rand will probably be counteracted by Bank intervention. Says Barclays: “The Bank is likely to maintain its presence, but it is not expected that this will ward off pressures on the rand altogether.”

Standard feels that importers with longer-term commitments would not be exposed to undue risk by staying out of the forward market at current levels (US44,6c) but could consider short-term cover. “Exporters could consider staying out of the forward market.”
### 5. WAGES


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**SOURCE:** CSS, S.A. Statistics.

### 5. WAGES

#### 5.70 AVERAGE MONTHLY EARNINGS IN CONSTANT (1980) RANDS - MANUFACTURING FOOTWEAR: 1960 - 1985

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¹ figures for these years included in Clothing.

**SOURCE:** CSS, S.A. Statistics.
Gold, platinum prices plummet

GOLD has slipped below the $400 mark as precious metals slump on world markets.

The New York gold price fell to $396.75/$397.75, finishing at about $398.80, down from the London Friday afternoon fix of $408.25. The metal closed in Hong Kong on Saturday around $398.

And platinum futures plunged the daily limit of $25 on Friday as speculators continued to sell contracts in a fast-moving market at the New York Mercantile Exchange.

The New York platinum price plummeted to $502.30, down $30.70 on the London Friday afternoon fix. Platinum for delivery in January ended at $509.90, falling $58 in the week to three-month lows. The decline has been attributed to speculators unloading stocks on rumours of SA restricting supplies.

As far as gold is concerned, a fall through the resistance point of $403 is considered by some analysts to be the crucial mark for a potential decline to $395.

The metals' decline mean that Diagonal Street — which coped in a professional manner last week with a huge US sell-off of gold and other mining shares to transmit funds ahead of the US Congress deadline for new investment — faces another uncertain week.

Good local absorption of non-residents' stocks and a decline on the financial rand to about $22.50, which dried up foreign selling, stabilised the JSE all-gold index at 1 858 on Friday after last week's low of 1 831.

However, a lower finrand (which

Gold plunges below $400 mark

cushions declines in mining shares) and short-covering by precious metals operators might brighten the picture today.

New York traders said weakness in the gold market spilled into platinum amid an absence of the type of supportive news concerning SA that fuelled a speculative buying binge last summer.
Brokers push fresh theory on gold price

ADAM PAYNE

At a time when many analysts doubt the strength of the gold price, London stockbrokers James Capel have advanced a fresh theory as to why the outlook for the price is encouraging.

They base their argument on the SA Reserve Bank’s recently-announced policy of withholding from the market a part of newly-mined production, and of unravelling gold/currency swaps.

In mid-October, Reserve Bank Governor Gerhard de Kock said SA might start to increase its gold reserves. However, moves had apparently already started.

In August, the gold reserves rose by 140 000 ounces, or 4.4 tons, with a further 110 000 ounces, or 3.4t added in September — in other words a little under 47t annualised.

Capel says: “We doubt that these increases, individually relatively small by SA standards, represent reversed swaps.

“SA’s daily production on a 260-day year is in the region of 2.6t. The swap amounts were significantly larger.

“The increases in August and September, therefore, represented gold purchased from the mines as usual, but not on sold to the international market.”

This could have been part of the reason for the strength of the gold price, which rose to $435/oz on September 22 from $360 at the beginning of August.

Sanctions benefiting Swaziland

MBABANE — Swazi Commerce, Industry and Tourism Minister Derek von Wissel says economic sanctions against SA are benefiting Swaziland’s investment climate.

Von Wissel told a productivity workshop at the Royal Swazi Sun convention centre that many investors pulling out of SA were now coming to Swaziland.

This was because of the country’s “excellent tax and other incentives”, as well as its record of political stability, harmonious labour relations and its available workforce.

Another factor that drew investors to Swaziland was that English was one of the two official languages, which was vitally important to the business and commercial world.
Gold will have to wait for platinum to settle down

By Neil Behrmann

LONDON — The slump in the gold price to below $380 re-traces a large proportion of the gains seen since late July this year.

Dealers said there was a major slide in New York because gold penetrated "critical chart points".

As gold slid, "stop-loss orders" came into force as speculators and commodity funds bailed out of the market.

The market was particularly nervous as delivery dates on futures contracts fell due.

Dealers believe the gold market will settle only when the illiquid and volatile platinum market calms down.

In only eight trading days platinum prices slumped $110 to $484 an ounce.

The pressure on platinum knocked gold and silver, which fell from $5.80 an ounce to $5.21 in the same timespan.

From their peak in September platinum has dropped 33 percent, gold 14 percent and silver by 18 percent.

Platinum slumped because speculators realised that South African production had increased during the past six months.

Speculators had mainly bought platinum and to a lesser extent gold because they believed that violence, sporadic strikes on the mines and the threat of sanctions would disrupt supplies from South Africa. Instead the mines sold more metal at higher prices.

Nervous market

A Swiss banker expected gold to consolidate in the $370 to $380 range once the speculative panic was out of the way.

The nervous gold market is a reflection of world financial markets which are swaying between fears of deflation and worries about inflation.

"The US economy remains balanced on the razor's edge between a debt deflationary decline and an inflationary run," says Mr Arnold Moskowitz of Dean Witter Reynolds.

"The US economy entered the decade of the 1980s with excessive debt levels and it will take years to unwind these problems," he says.

"The risk is that these debt problems may get out of hand and cause massive bankruptcies.

"The overall debt problem is heightened because more financial institutions are threatened with insolvency," he says.

If the debt problem is contained and liquidated in an orderly manner, then this period of deflation favours the financial markets, says Mr Moskowitz.

Sufficient pessimists in the United States and elsewhere, say Swiss bankers will continue to buy gold as insurance against the worst scenario. With US banks failing at the rate of one a day, say Swiss bankers, funds will find their way into the gold-bolt hole.

Meanwhile, the latest Organisation for Co-operation and Development statistics show that in the 12 months to August there was deflation in Japan and West Germany, Netherlands and Luxembourg.

Inflation in the United States was only 1.6 percent, France 2 percent and the United Kingdom 2 percent.
Gold price boosts Anglo dividend by 25%

Own Correspondent

JOHANNESBURG. — An improved gold price has contributed to a 25% interim dividend increase for Anglo American Corporation (Anglo).

The R21bn mining house has lifted its interim dividend to 62.5c (50c previous year) from earnings of 172c a share (140c) in the six months to September.

Chairman Gavin Rity expects the results for the year end to show a similar improvement.

At the halfway stage, equity account earnings — which include a portion of the retained profits of associated companies — had risen by 27% to R379m or 254c a share.

Anglo's net worth at the end of September was 9.369c a share, almost double its value of 5.469c calculated at the previous half year. Yesterday the share was trading at 6.750c.

The increase in profits was chiefly due to the higher gold price, which boosted investment income to R400m (R384m). Increased dividends from De Beers, its platinum and ferroalloy interests also contributed to the satisfactory growth.

The higher gold mine dividends reflect a 22% in the rand gold price in the first six months of 1986, during which period it averaged about R758 an ounce (R622). The rand gold price was boosted by the continuing weakness of the rand in relation to the dollar and the 11% increase in the dollar price to $3.43 an ounce ($3.10).

Trading income rose 5% to R235m due to an increased contribution from Amco. Other net income shot up from R6m to R43m.

Taxation, which rose to R182m (R140), wiped out much of the benefit from the higher profits.
Dollar nosedive gives gold a lift

THE growing political imbroglio over US arms shipments to Iran yesterday pushed the dollar to its lowest level in six years and gave gold a fillip, briefly lifting it above $400.

The dollar, which had traded comfortably above DM2.0 only a month ago, dropped to DM1.9555 on foreign exchange markets yesterday, bringing to a convincing end the supposed bullrun which began in mid-October, but which had run out of steam by last week.

Later in the day, it recovered to around DM1.9650 in response to dealers' fears that they would be caught short if central banks began buying the currency to prevent it being totally routed by the German mark.

The underlying weakness in the dollar is based on persistently lacklustre US economic data.

But it was uncertainty about US President Ronald Reagan's political future, following the Iranian arms deal, that plunged the dollar into its present nosedive.

In response to the shaky dollar, gold leapt $10 to a London morning fix yesterday of $399.00 before easing to an afternoon fix of $395.50. At one stage the metal briefly pierced the important $400 mark.

Analysts said the sharp rise in the gold price was not matched in New York because of differing perceptions across the Atlantic of the fall in the dollar and the seriousness of Reagan's crisis.

The rand rose marginally in response to a weaker dollar and firmer gold price to close yesterday at 40.4545, up from an opening of 40.4522 and Friday's close of 40.4505.

**Graph:**

The movement of the dollar and the gold price form a fascinating mirror image as this graph shows. As the dollar lost value, the gold price rose.
World rush into gold on way, says top US banker

From JOHN SPIRA
JOHANNESBURG. — The world is on the verge of the biggest transfer of wealth in all of history — from those who hold paper to those who hold gold.

This is the view of Mr John Exter, former vice president of the Federal Reserve Bank of New York in charge of international banking and gold and silver operations and later senior vice-president of Citibank (then First National City Bank).

Mr Exter, now a consultant, exposed as a myth the theory that gold would not increase in value in a deflationary world environment.

TUMBLING DOWN

According to Mr Exter: "Volcker is watching the United States economy slip relentlessly into a deflation which, with Reagan's blessing, he wishes to avoid at all costs. That is why he is locked into an exponential curve of Federal Reserve credit creation.

"If ever he stopped creating that credit, stopped buying ever more government securities, the whole house of cards would come tumbling down and the dollar economy — indeed, many other economies too — would tumble into a deflation far worse than that of the thirties. And he and Reagan would get the blame.

"Today, no matter how much credit his Fed creates, it cannot prevent the banking system from contracting and destroying purchasing power — which is deflationary.

Mr Exter explains: "People buy gold in both inflation and deflation. In inflation because of greed and in deflation because of fear — fear of default.

"Even in the Great Depression people bought gold. We had a scramble for liquidity. As banks first began falling in 1930 and 1931, depositors were content to take their money out of weak banks and put it into strong. But as the number of failures picked up, more and more of them demanded Federal Reserve notes.

"Then, in September 1931, Britain went off gold and the pound fell against all currencies remaining on gold, which meant that the price of gold in pounds rose significantly. Soon depositors in American banks began demanding gold. They were not satisfied with Federal Reserve notes because they feared the price of gold would rise in dollars as it had in pounds and Roosevelt raised the gold price partly because of an internal drain.

"Both countries depreciated their currencies for competitive reasons but Britain floated the pound because of a huge external drain of gold, while Roosevelt raised the gold price partly because of an internal drain.

"Money. Mr Exter points out, has three functions: A standard of value, a means of payment and a store of value. The best money serves all three functions. Yet none in the world is doing so today.

"Since 1971, paper currencies the world over have been standards of value and means of payment but all have been poor stores of value — at least until the recent slowdown of inflation.

"Gold, meanwhile, has been neither a standard of value nor a means of payment, but has been far and away the best store of value. No wonder central banks, who now own some 15 percent of all gold in the world, still cling to that gold and have recently begun increasing it.

Mr Exter contends that the dollar system has gone into a period of contraction that is affecting other currencies, too.

"Very few market participants realise what is going on and fewer still realise the consequences of contraction. "Real rates of interest are more important than nominal rates. Nominal rates have fallen a lot, yet real rates have risen because the rate of inflation has fallen even more. As we slip into actual deflation, the rate of deflation will have to be added to the nominal value of interest to get the real rate.

"Falling prices and large trade deficits are obviously bad for business because they squeeze profits and destroy values. No wonder I look in disbelief at our soaring stock and bond markets. Most participants have yet to recognise the consequences.

"Once they do those markets will tumble. Also we will have more and more runs on our banks and thrifts. Once the scramble for liquidity gets under way, only a tiny fraction will have to go to gold to make its price soar."

He points out that no currency can be a reserve currency unless its central bank pursues an expansionist policy that produces chronic payments deficits which foreigners voluntarily finance by building up holdings of that currency.

He foresees that the creditors of the illiquid dollar will start a run. Foreign dollar creditors will be attracted to gold. Only those who travel in the US or in countries where inflation causes the dollar to collapse will have any use for the dollar.

GET OUT OF DOLLARS

"The overwhelming majority will want to get out of dollars altogether and back into their own currencies or out of currency altogether and into gold.

"Foreign central banks who now hold about $250-billion to back their currencies would be even more tempted to buy gold.

"We have already seen the rush out of paper money into gold in the inflationary late 1970s. The rush in the deflationary 1980s will be even greater."
By Dave Edwards

INVESTORS chased precious-metal shares this year as a hedge against the fallen rand.

Thirty-eight companies in this year’s Top 100 are in mining or have strong mining connections — and all but one are tied to sanctions-proof gold or platinum and diamonds.

The lone, which squeezed in, is Associated Manganese (97).

Most of the qualifying gold shares continued the gradual appreciation which started in mid-1985 and continued throughout to October 1986.

Stable

The early trend was fuelled by a stable dollar price of gold and a falling rand. But from the third quarter of 1986 the dollar price of gold jumped and the rand stabilised — an enthralling combination which pushed overall gold-share prices up.

The JSE All-Gold Index, which had hovered around 800, raced to an all-time high of 2 000 points in early October — the Top 100 evaluation year ended on September 29.

Subsequently the dollar price of gold shuddered — but it was too late to substantially affect this year’s results.

In the same time, platinum followed a similar pattern to gold.

Realisation that the Western world was almost totally dependent on South Africa cast platinum in the trigger role for gold dollar-price movements.

Lower grades

In the third quarter of 1986 the dollar price of gold rose by 25% and caused investors to reappraise the potential of several lower-grade mines. Chief among them was Rand Leases (25), which rose by 20%. Vinkfontein (83), a dump operator, went up by 147% and Lorena (18), long considered a marginal, rose by 116%.

Other shares to show nearly 100% price gains were ET Cons (6), Venterspost (66), Western Areas (78), Western Deep Levels (47) and Winkelhaak (87).

Although a vibrant third quarter may have been sufficient to push many gold mining shares into the limelight those companies with a solid year long performance have carried off the top prizes.

Freddove (2) hived off its share portfolio, acquired Southern Mining, and that stimulated investors into a buying frenzy which resulted in a gold exploration company outperforming a stack of gold mines.

Merger

Rustenburg Platinum (5) and Impala Platinum (20) rose on the back of the platinum price which soared in reaction to fears that South Africa might restrict sales.

Consolidated Middedorfertain (6) reached the top echelon, spurred by expectations of a beneficial merger with Springs Dagga.

Randfontein Estates (7) has appreciated considerably in the past year in line with its production expansion and a mechanised mining programme.

Eastern Transvaal Consolidated (9) has been on an upward trip, stimulated by low working costs and investor expectations of enlarged ore reserves.

Houses

With the gold mines performing so well, most mining houses also joined the list. Johnnie (13) ranked head and shoulders above the rest with a performance based on an impressive mining portfolio. Freddove (2), Rustenburg Platinum (5), Randfontein Estates (7), De Beers (58) and Western Areas (78) all made their contribution.

Gencor (31) is the second mining house to have achieved a strong upward readjustment of share price after a major organisational change. Significantly, all the Evander mines were in the Top 100. Anglogiaal (38) and Anglo-American (44) are not far behind Gencor but Gold Fields of SA (86) seems slightly out of touch.

Mining Holdings were also well represented, Duiker (43), Wit Deep (46), Mid Wits (83) and Amgold (76) doing well.

All in all this has been a precious year.
GOLD SHARES

Thin value

Gold shares are set to continue to offer ultrathin yields. Aside from those which show potential for "dividend-stripping," few if any offer much incentive to investors who are interested in dividend income. Analysts currently feel that most of the shares are expensive, and that the uncertain prospect of the dollar gold price resuming its upward march now represents the best motivation to invest.

The JSE Actuaries All Gold index has weakened from the peak of 2.061 set on September 19, but not by much; at last week's level around 1.890, it is lower by some 8%. Since the September quarter when the gold mines earned record profits, the rand gold price has dropped, while working costs, capital expenditure and taxation have all remained on a rising trend.

During the September quarter, the gold mining industry received a rand gold price of R929/oz. This is an average figure which is distorted by figures at those mines which have continued to hedge sales. Quite a number actually received prices closer to R950/oz. But with the December quarter virtually completed as the FM went to press, a realistic average figure for the three months was about R911/oz, certainly no more than R915/oz.

Effects of the cost squeeze are shown when comparisons are made with the September 1983 quarter. Although the rand gold price of gold rose over the 12 months by 34%, the industry's cost figure in R/oz increased by 27% to R457/oz and total tax and lease payments leapt by 31% to R1.1 billion.

In that period capital spending rose by 21%, in line with historical trends. Higher revenue normally leads to increases in expenditure. The implications for the mines' distributable earnings are not encouraging. Indeed, analysts feel that for some figures this will be slightly lower in the current quarter than at the end of last year.

As has already been shown by some of the announcements so far, dividend declarations over the December and January period will, in many cases, end up looking disappointing after the high expectations of a couple of months ago. Not all analysts have set their sights too high. Some point out that GFSA, for example, generally adopts a conservative dividend policy anyway, and the house's management could have been expected to adopt an even more cautious approach on retentions once the gold price softened.

There will always be exceptions to this trend. Among them are the fairly small number of producers which are bringing production expansions on stream, or are looking at rising recovery grades. These include Elandsrand, Western Deep Levels, Randfontein, Southvaal, Ergo, and Rand Mine Props. Some low-cost, low-grade producers are still enjoying excellent profit margins on the strength of the higher gold price, while certain of the large mines have the flexibility to adjust production enough to ensure that dividends remain high.

For the rest, we are looking at a lot of mines that have gone ex-growth. This does not mean that the share prices will necessarily drop. Dividends have yet to be declared and paid, with Anglo American's mines due to declare theirs only in late January. A lot of investors who bought shares on the way up will want to hold on, at least until the dividend is paid. Others would still consider it worthwhile to buy for current dividend payments, and in this connection such shares as Buffels, Beatrice and Freegold are cited.

There are still widely held views that the US dollar will continue to weaken, forcing the dollar gold price back up towards the mid-$400/oz range by, say, the second quarter of 1987. If it doesn't happen, gold shares could be expected to slide into a weaker trend. But even that may be too pessimistic a view. To local investors, gold shares may not offer much value for the present, but they remain good rand hedge investments. Many still believe the rand will remain weak.

Also, the scenario is bedevilled nowadays by the financial rand, which analysts are finding difficult to forecast. There is a growing feeling that the financial rand market has become a lot bigger than is generally realised, and now involves far more players than foreign traders of South African equities. It is bound to contribute to erratic fluctuations in gold share prices that may be unrelated to the value of the shares. Investors who buy in the new year should be prepared to ride out some stormy weather.

Andrew McNulty

As our production leadtimes are abnormally long over the festive season, no stockmarket prices and indices appear in this issue, and nor will they be published in the January 2 issue. We regret any inconvenience.
GOLD - 1987

JANUARY — OCT. —> DEC.
The rot that lies behind the twinkling gold price

This year proved to be an exciting year for gold bugs. A year ago the gold price was languishing below $400 an ounce, having briefly penetrated the $400 mark on the upside but failing to hold those gains.

Gold moved up swiftly to reach the $400 mark by late April and then set off in pursuit of the psychologically important $500 mark. However, this latter point proved elusive and gold pulled back, having touched $460 in May. After a long period of consolidation above $450, gold finally breached $500 (reaching $503.50) on December 14. Since then gold has again pulled back to around $480 and seems unsure about which way to go.

For South Africans the future course of the gold price is not simply of academic interest since it affects everyone. A rising gold price strengthens our whole economy, not just the gold sector, while a falling price has the reverse effect.

This year our economy managed to battle its way out of a severe recession, but the recovery is still fragile and a major drop in the price of gold could throw us into recession again.

On the other hand, a continued increase in the price of the metal will provide further impetus to South Africa's recovery.

However, it is not easy to predict the future movement of the gold price.

Traditionally, the gold price responds to a wide range of factors, including trends in world inflation, the state of world debt, the Third World debt situation, fluctuations in the US dollar and the price of oil, movements in world financial markets, political upheavals and fears about South Africa's future.

The trick in determining the future course of the gold price is to work out which of these many factors is likely to be the prime determinant at any given moment in time.

A number of commentators, for instance, thought that the National Union of Mineworkers' strike this year would cause foreign investors to buy large quantities of gold because of the dangers the strike posed to the South African economy. But the gold price fell, suggesting that it was respondi
Gold pushes up to $567.50 an ounce, a new high for the year. London dealers reported a strong bid for gold, with prices rising to $567.50 an ounce, a new high for the year. The rise was attributed to a combination of factors, including tightening of monetary policy by central banks, geopolitical tensions, and the depreciation of the dollar. Dealers reported strong demand for gold bullion, with the metal trading at its highest level in nearly five years. The price of gold in London rose to $567.50 an ounce, pushing the metal to its highest level in nearly five years. The rise was attributed to tightening of monetary policy by central banks, geopolitical tensions, and the depreciation of the dollar.
Rand hits year's high, gold at $494

Business Editor

THE value of the rand edged up to almost 52 American cents today and was quoted at a 12-month high of 51.05 cents in Johannesburg, up from 51.30 cents. The rand eased later to 51.40 cents.

It was boosted by a rise in the gold price above $490, which followed a fall by the dollar to new lows on news of a record United States monthly trade deficit of $17.6-billion for October.

The rand also gained slightly against sterling being quoted at R3.58 for £1 after last night's R3.59.

GOLD JUMPS $10

The financial rand rose to 33.50 US cents from yesterday's 32.88 cents.

Gold traded around $494 an ounce today in Hong Kong — a $10 jump in 24 hours.

The price slipped to $491.50 later at the opening in London, up $3.75 on yesterday's close.
After school, what next?

CAREERS

CHOICE

How parents can help children to choose a career

How much do parents really know about short courses and further education? The increasing number of opportunities available to students makes it easier than ever for parents to help their children decide on the future.

WHAT SHOULD MY CHILD DO NEXT?

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WHAT SHOULD MY CHILD DO NEXT?
Moscow short of hard currency

Soviet gold sales rise dramatically

From SIMON BARBER
WASHINGTON — Soviet gold sales are rising dramatically and are likely to remain “heavy” for at least the rest of the decade, according to a CIA analysis released yesterday.

The sales, which tripled to more than 300 tons a year between 1984 and 1986, are being driven by shortages of hard currency due to the collapse of world oil prices and the decline of the dollar.

But David Giese, gold analyst with stock broker firm, Davis Borkum Hare, says he would be surprised if Soviet gold sales this year exceeded the expected 250 tons.

“We have definitely not seen anything in the market to suggest otherwise,” he said, adding that his impression was that the international gold market was stabilising.

And he said that the gold price had managed to creep up to its current price of $490/490.50, despite the fact that gold producers, including the Soviet Union, sold gold after the crash on the world stock market.

The CIA estimates total Soviet gold reserves at $300-billion based on a price of $400 an ounce.

Massive borrowing

Soviet hard currency problems are also reflected in massive borrowing from Western banks totalling $6 billion over the past two years.

Increased borrowing and gold sales are an unusual combination: Previously Moscow has used gold sales to reduce its borrowing requirement.

Oil exports account for half of the Soviet Union’s hard currency earnings. Since these exports are priced in severely depreciated dollars, the earnings have taken a double blow.

“Moscow must contend with a sharp erosion of its buying power caused by the likelihood that the US dollar could remain depressed vis-a-vis other Western currencies.”

The bulk of Soviet hard currency exports, such as energy and raw materials, will continue to be priced in dollars, while many imports, especially machinery and equipment, will be priced in non-dollar currencies.

The CIA analysis was published by the Joint Economic Committee of Congress as part of a major review of Soviet economic prospects under Mikhail Gorbachev to coincide with the Washington summit next week.

Rapid infusion

“The Soviets tend to use gold primarily as a financing mechanism rather than as a trade commodity like oil,” the study notes.

“They generally sell more gold when they need a rapid infusion of cash, and less, even when prices are high, when they are in a good cash flow position.

“Thus, during the mid-70’s when they needed to finance large purchases of equipment and grain while holding down debt, gold sales were high.”

“Gold sales slumped between 1982 and 1984 — averaging under 100 tons a year — as record oil sales from the West obviated the need for extra cash.

“The decline in oil earnings sparked increased gold sales, estimated at almost 200 tons in 1983 and more than 300 tons in 1986.”

The CIA predicts that the gold sales will remain unusually high even if Moscow keeps its real imports at levels comparable to the mid-70’s.

This is premised upon continued borrowing, though at less than 1985-86 levels, the oil price remaining at around $16 a barrel, and Moscow’s continued inability to increase substantially non-energy exports, including arms.
Gold's shot in arm for SA

SOUTH AFRICAN business and investor confidence received a powerful shot in the arm yesterday as the gold price soared to its highest level since 1983.

Although it failed to reach $500 an ounce and slipped on profit-taking to a close of just above $492 in London after reaching $497 — its rise pushed up prices on the Johannesburg Stock Exchange (JSE) and the rand closed higher at $51.35.

The rise was triggered by a further fall in the dollar and fears of rising US inflation.

Optimism returned to the battered JSE as the All Gold index surged 11.3% to 1 905 points, restoring some of the value wiped off shares in recent weeks.

Handsome profits were made on the day by owners of some quality gold shares, which rose by as much as R50.

Confidence

Significantly, dealers report that much of the buying of quality South African gold shares came from London.

The All Gold index has now regained almost 32% since plunging to a low 1 449 on November 5.

The increased confidence spilled over into other sectors. The Industrial Index rose 24 points to 1 460 and the Overall Index 121 points to 4 925.

Investment consultants, who have been pointing out that the South African economy is fundamentally strong, said a stronger gold price had provided the impetus needed to get the market going again.

But goldgin' dealers in Cape Town were inundated with orders from investors preferring to buy gold than trust money in the share market.
Gold breaches $460 barrier

LONDON. -- The dollar remained under pressure today, but statistics suggesting that the British economy was growing more strongly than had been thought buoyed sterling and the London stock market.

But a US report that fewer new houses were started last month suggested just the opposite for the American economy, dealers said.

Wall Street shares were mixed, while gold -- a haven for investors who fear the dollar will weaken -- was firmer.

Gold closed at $460/460.50, just below the day's highs of $460.73/461.25 and up from Wednesday's close of $458.30/458.80.

"We are just sitting around and waiting," said one New York currency dealer.

"The underlying tone is bearish for the dollar, but nonetheless it's well supported at 1.91 marks," Traders are waiting for next week's International Monetary Fund meeting in Washington, on the chance that new policies could emerge to change the so-far gloomy prospects for the dollar.

Gold futures closed higher in New York, on fresh buying by politically sensitive traders as fighting resumed between Iran and Iraq after a UN sponsored attempt to negotiate a truce apparently failed.

December gold was ahead $1.80 at $466.00 with the early support leading up to a high for the week of $468.40.

In Zurich, a small burst of buying in New York after the Comex opening helped gold end here slightly above the previous close, dealers said.

Gold ended here at $460.00/50 an ounce, $1.10 above the opening and $1.70 above the previous close.

Platinum ended at $581/586 an ounce, $1 above the previous close.

In New York, gold closed at $459.80/460.30. — Reuter
Anglo American Corporation's mines went for higher grade through limited high-grading of ore reserves, and the recovery of sweepings and vamplings to compensate for lower tonnage throughput. Results varied from mine to mine, with Western Deep Levels (WDL) the worst hit. It was unable to increase grade from underground while the grade of the 710 000 t (June quarter — 485 000 t) milled from surface waste dumps fell to 1.31 g/t (1.35 g/t). Overall recovery grade dropped to 4.94 g/t (6.57 g/t).

Assuming a mine was completely closed for the duration of the strike, it should, in theory, have lost about 25% of its underground production for the quarter. WDL's underground production, measured by area mined, fell 34% to 142 m³ (215 m³) while underground reef milled was 39% down at 624 000 t (1.03 Mt). Most of the workings are very deep, and the break in mining operations has allowed pressures at these depths to extensively damage the workings.

Vaal Reefs held up much better. Area mined was down 24% but tonnage milled from underground reef fell only 18.5%, indicating use of surface stockpiles, while overall recovery grade was increased to 6.74 g/t (6.43 g/t). That meant gold production dipped only 9% to 16 756 kg compared with WDL's drop in gold output of 34% to 6 586 kg.

The big question now is how fast the mines can return to normal output. It should be achieved in the current quarter while, say some sources, the industrial relations climate appears to have improved in the aftermath of the strike, which apparently has left NUM's organisation in disarray on many mines.

East Rand Gold and Uranium (Ergo) had a superb quarter, pushing tonnage throughput to 8.95 Mt (7.84 Mt), despite a two-week strike by most of the black work force at the Ergo and Daggafontein divisions. Daggafontein division appears to be an all-round success story; after only three months of operation, it has met its forecast yield and exceeded design capacity.

Ergo is installing additional pumping capacity at Sallies No 1 Shaft, which has rekindled speculation on resumption of underground mining operations at Sallies. Pumping capacity is a crucial factor for this project.

In the Gencor stable, effects of the strike were offset to varying degrees by use of reef stockpiles and surface waste dumps; these mines did not raise their grades. Unlike Anglo, Gencor does not break down its tonnage milled figures into surface waste material and underground reef.

Winkelspruit's area mined fell 26% but tonnage throughput was down only 14%; at Kinross, area mined dropped 29% but tonnage was only 20% down. Buffelsfontein, less badly affected by the strike than the Evander mines, increased throughput to 723 000 t (678 000 t) by using surface material and because it has stopped sorting the ore feed.
the mills. The cost was a drop in recovery grade to 6 g/t (6.5 g/t).

Leslie has published very attractive borehole results from 3w of its No 1 Shaft and is now developing towards the area. However, gold division CE Bruce Evans is cautious on the 2,300 cm g/t value revealed, pointing out that it is on Kimberly Reef, which is notoriously erratic, and also that nothing like this value has been picked up in nearby boreholes. This suggests the area is limited in extent.

After the grim September results from Consolidated Modder, Golden Dumps chairman Loucas Pouroulis had better be right in his prediction made in a recent presentation to analysts that the mine's results would start improving from the December quarter. Analysts were told that Cons Modder's results for the September quarter would be about the same as for the June quarter; instead, the yield has collapsed by a further 26% to 2.12 g/t from the June quarter's 2.34 g/t.

What is more, with the exception of the No 1 Shaft at Springs Dagga and the No 14 Shaft, development results are poor. Average value on the Black Reef at NEP Shaft has fallen to 4.1 g/t (6.5 g/t). At the No 1 Circular Shaft the average Black Reef value is down to 3.4 g/t (7.3 g/t). Development on Kimberley Reef at No 14 Shaft improved to 4.1 g/t (3.7 g/t) while the Springs No 1 Shaft is showing an average value of 6.1 g/t on Kimberley Reef. Cons Modder improved gold production to 701,1 kg (667,1 kg) thanks to tonnes milled of 247,875 t (173,836 t) caused by first-time inclusion of production at Springs Dagga.

South Roopepoort, by comparison, had a good quarter, pushing grade up to 3.12 g/t (2.92 g/t) which, coupled with higher tonnage throughput of 110,157 t (92,258 t) lifted gold production to 344,1 kg (269,3 kg). Operations at the Langlacht section were included for the first time.

In the Rand Mines group, ERPM and Harmony battled despite managing to contain unit working costs to a creditable 3.2% increase over June quarter levels. Harmony's recovery grade fell to 2.93 g/t (3.31 g/t) but management says stoping operations are being moved to better areas and grade will

### GOLD EARNINGS

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* = Earnings after tax and capital expenditure. ** = Distributable earnings for the mine's financial year to date. + = Total dividends declared to date.
Gold's healthy shine

Fears of another oil crisis emerged with rising tensions between Iran and Iraq in the Persian Gulf. It was this fear of skyrocketing oil prices that triggered off a frenzy into gold.

Between July 31 and August 5 gold jumped approximately 20 dollars (from $457 to $476).

Tension

As tension in the gulf subsided, gold edged downwards towards the $460 level. The subsequent drop in price to $453.60 an ounce was an over-correction in the market.

The $460 price is still thought of as the longer-term base level from which the price should slowly rise.

The average price of gold (January to July 1987) presently stands at approximately $433. This compares favourably with the $390 average and it correlates strongly with rising oil prices.

Oil today fetches somewhere between 19 and 20 dollars a barrel — far cry from the $10 a barrel highs in 1986. But whereas during July the oil price was rising, it has recently seen a downward trend.

Both oil and gold prices are formed extremely emotively in markets. It was the political factors in the gulf that pushed the price of oil up above its market level sending investors rushing into gold.

The fundamentals (demand and supply for oil) point clearly to a downward movement in price. Oil producers are being cheating on their quotas resulting in an oil oversupply which will yield downward pressure on prices especially as the gulf-war subsides.

Fears of a substantial drop in the price of oil will probably result in a price war between nations, although it is unlikely that oil will go below $17 a barrel in the near term. Oil prices have already dropped below the significant $18 a barrel mark.

While a lower oil price is obviously better for inflationary purposes, it is certainly not good for gold, which thrives on crisis situations.

Yet, perhaps there is not too much reason to worry as gold is becoming an increasingly important part in investors' diversified portfolios.

The gold price has been seen against a weaker dollar at a greater than necessary extent. The historical inverse relationship between the dollar and gold was broken in the gulf in June when prices of both were moving in parallel — the dollar gaining ground as a "safe haven" currency.

Fear

Gold has appreciated significantly in Deutsche Mark and especially in Yen terms where it has reached an all time high. The fear of inflation both domestically and abroad is also fuelling interest in gold as a hedge against rising prices.

Even though gold prices have risen, the rand has not been allowed to appreciate accordingly as exporters are already disadvantaged as a result of a relatively higher rand, rising costs and sanctions.

With political sensitivity rife both domestically and abroad, substantial foreign exchange reserves (due largely to gold sales) are vital. In addition the liquidity that is flowing into the South African economy due to gold exports is deemed desirable by the Government as it is probably weather a gold price of around $150 fairly easily. Yet, with a 1.6 percent growth rate (2nd quarter 1987) and an economy that is battling to take off, we become much more dependent on "the barbarous relics of gold".

South Africa produces 50 percent of the world's gold production. This figure becomes 33 percent when the Soviet Union and various smaller suppliers are taken into account. Gold accounts for 40 percent of all exports earnings. Inflowing funds from gold exports have contributed greatly to the current account surplus.

This surplus is estimated to reach around R5.5bn by the year end and it will enable the Government to make substantial debt repayments, keeping interest rates low, thus promoting credit demand and investment.

The Johannesburg Stock Exchange (JSE) Actuaries Index has risen 63.5 percent overall (July 1986 to July 1987). Gold shares which have a very heavy weighting in the JSE grew 75.9 percent contributing greatly to the overall rise.

Shares

Inflationary fears are sending money out of stocks and bonds and back into gold shares. The movement in the gold price and subsequently gold share prices have been echoed in other precious metal markets (e.g. silver and platinum) which also form a substantial part of South Africa's exports.
JOHANNESBURG. — The firm gold price on world markets should help cushion South Africa's mining companies against production losses caused by the nation-wide pay strike by black miners, analysts said.

Gold shares on the Johannesburg Stock Exchange closed quietly easier in calm trading yesterday.

In London, gold closed at $459.25, little changed from an opening $459.25, but below Friday's close of $464.

South Africa mined about 640 tons of gold last year, an average of 1,75 tons a day.

Mining analysts estimated that the strike could cost the country about $30m, or one ton of gold a day in lost production.

Fears of disruption to SA's mining industry have helped keep gold prices buoyant in recent weeks.

"A 10% rise in the gold price can make up for an awful lot of lost production," said John Rogers of stockbrokers Edey, Rogers & Co. SA banks cautioned that the rand could weaken further as a result of the strike, a development that would further bolster the mines' profits since gold sales are transacted in dollars. — Reuters
Gold in the centre of $8 range

LONDON. — Gold held in the middle of the day’s $8 range during routine late trading, with the market settling around the $470 chart level, dealers said.

Bullion closed at 469.60/470.10, down from its opening and previous close of 474.20/474.80 and 474.90/475.40, respectively.

The market’s falls yesterday reflected follow-through liquidation and profit-taking from Tuesday, prompted by the rise earlier this week to 21-month highs.

The lack of fresh developments in the gulf also encouraged some nervous long holders to close positions yesterday, they said.

Gold dipped below $470 during the morning fixing of $469.85 and this triggered stoploss selling down to around $460.

However, market fundamentals remain constructive, based on tension in the Middle East and the threatened SA miners’ strike. Prices consequently rallied back to the $470 level in early afternoon trading.

Platinum also fell back yesterday under profit-taking, closing above the lows at $638/$638, although this was still $12 down from Tuesday night.

In Zurich, gold recovered some of its morning losses, but still ended below the previous close after swinging widely in nervous trading.

Dealers blamed the fall largely on the lack of escalation of events in the Middle East.

Gold ended here at $470.00/0.50, $4.60 below the opening and $4 below the previous close.

It dipped as low as $466.50 around midday, before climbing back.

On New York, gold closed at $466.00/467.10.

— Reuters
JSE soars to new high as gold price gains $11

By AUDREY D'ANGELO
Financial Editor

THE Johannesburg Stock Exchange (JSE) soared to new heights yesterday as the gold price rose by more than $11 an ounce on Euro-
pean markets.

International investors stampeded into gold and other precious metals - a safe haven in times of high inflation or interna-
tional trouble - as a result of increased tensions in the Gulf.

These sent oil prices rocketing, a move likely to push up inflation in industrialised countries.

Huge profits were made on the JSE as share values rose. One gold share, Southvaal, gained as much as R12.

The All-Gold index reached a new record of 2,496. The industrial index also rose, to 2,177, and the overall index to 2,695.

But although gold rose to $475 an ounce in Zurich in after-hours trading - its highest price for two-and-a-half months, it slipped back in London on profit-taking to close at $473.25 an ounce.

However, dealers and analysts forecast the tendency is for gold to continue to rise and it could reach $500 in the next few months.
Rembrandt tipped for Stanbic

LIBERTY LIFE and the Rembrandt Group are being tipped as buyers in what is likely to be the biggest banking disinvestment move so far, British Standard Chartered's sale of its 38.9 percent stake in Standard Bank Investment Corporation of South Africa.

Trading in Stanbic's shares was suspended a week ago in anticipation of the disinvestment announcement. By Tuesday this week, negotiations were said to be under way, and the shares have now been suspended again until stock exchange trading resumes.

Stanbic managing director ConradStrauss told a press conference that if the transaction takes place, it will be substantially larger than any previous banking disinvestment.

The move would make Standard Chartered the third foreign parent bank to sell its South African holdings.

Britain's Barclays plc sold its 40.4 percent stake in Barclays South Africa, now First National Bank, last year for R527-million. The sale gave Anglo American Corporation and its associates, Southern Life and De Beers, ownership of more than half of First National. Earlier this year First National paid American parent Citicorp R130-million for its South African banking arm Citibank SA.

Weekly Mail Reporter

In the wake of Barclays' disinvestment last year, Stanbic's Strauss told Weekly Mail that Standard Chartered would be interested in the South African banking group to about 25 percent.

But now it seems likely that the British bank is considering pulling out altogether. The move has probably been prompted by its situation in the London finace world, rather than any sudden pressures on the South African front. In response to pressure from rival Lloyd's Bank, it may choose to buy another London bank. Disinvesting would give some cash and, by removing the taint of a South African connection, might assist it in raising further capital.

Liberty Life is the second biggest shareholder in Stanbic, with a 22.8 percent stake and is almost certainly one bidder for Standard Chartered's stake. But in terms of the Banks Act a life assurance company such as Liberty is not allowed to own more than 10 percent of a bank.

The mystery then is who else will buy in. Liberty is likely to be looking for a friendly partner.

Speculation is that the Rembrandt Group may be in line for the remaining chunk of Stanbic.

The tobacco multinational recently bought 10 percent of Gold Fields of SA from British-based Consolidated Goldfields. Gold Fields is already a significant shareholder in Stanbic and may be bidding to enlarge its stake.

Rembrandt has been moving into the field of finance, acquiring interests in companies such as Sage and Allied and building close ties with Volkskas.

If it sells, Standard Chartered will probably take the money out in financial rands, presently at 30 US cents.

Own Correspondent

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Weekly Mail Reporter

War and strike talk drive up gold

War and strike talk drive up gold

Weekly Mail Reporter

JUST a couple of weeks ago economists were predicting that the gold price would hover between $440 and $460 for a while. But this week gold shot over the $470 mark, reaching $475 before dropping back somewhat.

The crystal ball gazers are now confidently predicting that the gold price will reach $500 before the end of this year.

This week's increase was largely a result of the escalating war in the Gulf, although talk of a South African minerals strike also had something to do with it.

Gold is seen by investors as a "safe haven" for their money in times of political uncertainty in the world — and particularly when the uncertainty involves oil as it does in the Gulf.

The prices of other precious metals such as silver and platinum have also been rising.

The gold price in rand terms is now around R380 an ounce and this increase is reflected in the leaps of the gold index of the Johannesburg Stock Exchange this week.

The soaring gold price may lead people to believe that the South African economy is taking off, but this says one economist, could be a misconception.

An unusual feature of this week's events in the financial markets was that the dollar also rose against other currencies — although usually gold and the dollar are inversely related.

But it seemed, investors were also seeing dollars as a "safe haven": The dollar's rise certainly did not reflect any improvements in the American economy.

The dollar was soon restored to its previous levels.
Gold down after
Gulf tension cools

Financial Editor ARCUS 4/8/87 (79)

THE gold price eased to $474.95 an ounce in Lon-
don today after earlier rising in Hong Kong to
$478.25 — its highest price for 4½ years.

The safe passage through the Strait of Hormuz
of the Kuwaiti gas carrier Gas Prince and a belief
that Iran will not cause trouble in the Persian Gulf
until its 150,000 pilgrims in Saudi Arabia return
home have helped ease tension.

Meanwhile the threat of a strike by black gold
miners seems to have had little effect on foreign
bullion markets. A Swiss banker said today the
strike had already been discounted.

Gold last night closed at $473.25 an ounce in
London and $477.96 in New York.

Platinum also surged in New York, rising to a
6½-year high of $638.50 an ounce before easing to
$634.50.

The dollar, following its usual trend in times of
uncertainty, has risen against all major currencies
— including the British pound, which on Friday
weakened to $1.5780 from $1.5910.
Gold price surges by $11

LONDON. — The price of gold jumped $11 an ounce in Europe yesterday as tension heightened in the Persian Gulf with the Iranians ordering naval maneuvers and warning foreign shipping to keep out of their territorial waters.

The US dollar strengthened in European trading against all major currencies except the Canadian dollar.

Gold is a haven for investors and speculators in times of international turmoil, but although the price rose there was no sign of any flight from dollars and traders said they expect the dollar to strengthen.

The higher gold price consolidated on news that SA's black miners were ordered by their union to walk out on Sunday from gold and coal mines for a 30% pay increase.

The strike could close all the 28 gold mines in SA, which produces half the Western world's supply of gold.

Some bullion dealers said they thought the gold price might reach $500 within the next two weeks.

In London, gold remained below earlier 29-month highs during late trading, responding to profit-taking, but still closed higher at $473.00/$473.50.

Earlier yesterday afternoon gold rose to just above $475, yesterday morning bullion opened at $470.75/$471.50, well above Friday's final level of $461.50/$462.50, but apart from bouts of dealer short-covering it was never overactive, and did not build significantly on the opening firmness.

The closing price in Zurich was $474.00, up $11 from $463.00.

Earlier in Hong Kong, gold rose $5.81 to close at $470.79 bid from Saturday's $464.98.

Silver traded late in London at a bid $5.55 a troy ounce, up from $8.24 late Friday.

The dollar has been rising slowly against the West German mark in recent weeks and it traded late Monday at 1.8620 West German marks, up from 1.8570 late Friday and its best rate since June 17 when it was 1.8575.

But dealers in Frankfurt said they don't see the American currency going above 1.8700.

With the start of August vacations in Europe, foreign exchange dealers said there was little activity in their markets but there was still buying of dollars in spite of the Gulf tension.

In New York, gold closed at $477.70/$478.20.

Sapa-Reuters/AP
Gold price jumps $6.79; oil tops $20 a barrel

Financial Staff

GOLD and oil prices have jumped amid renewed tension in the Persian Gulf.

The price of gold went up $6.79 an ounce to $473.25 in early trading in Hong Kong and oil prices surged to over $20 a barrel.

For gold, this is the highest price since April 27 when it closed at $474.75 an ounce in London.

Gold opened at $466.46 an ounce in Hong Kong today, up $1.48 from Saturday's close of $465.98. It closed in New York at $464.00 on Friday.

MARKET CAUTIOUS

Financial markets in Tokyo turned cautious after the news from the Gulf. The dollar rose slightly against the yen, partly in the belief that oil-importer Japan would suffer greatly from any supply disruption, Sapa-Reuters reports.

An escalation in hostilities in the gulf could lead to a severe disruption in oil supplies and cause prices to 'leap by as much as $10 a barrel, oil traders said.

Britain's North Sea benchmark crude, Brent Blend, rose by a dollar to $20.83 for cargoes loading in September.

The Middle East marker grade Dubai jumped between 20 and 40 cents on the Tokyo spot market.

Gold prices are expected to soar further this week on news that about 200,000 South African miners are to hold a nationwide strike at many of the country's gold and coal mines.

The assistant general of the National Union of Mine Workers (Num), Mr Mareel Golding, said the exact date and other details of the planned walkout would be revealed at a Press conference later today.
NEW YORK. — Gold prices plunged by as much as $15.20 in a technical sell-off on Friday, while the American dollar pushed higher in spite of central bank intervention.

Republic National Bank in New York reported gold fell to a late bid of $453.50 from $468.70 late on Thursday, its second major drop last week.

The metals market opened sharply lower but was seriously hit when silver fell below $8 a troy ounce in the early afternoon, triggering computer-generated selling.

Analysts noted that the fundamentals of the day — lower oil prices, a bond market rally and no fresh news from the war-torn Persian Gulf — were negative for precious metals.

Adding to the market's downward spiral was a dollar that refused to retreat in the face of concerted central bank intervention.

The dollar closed near the highs of the day and reached levels against the West German mark and the British pound unseen since early this year, said James Vick, vice-president and senior corporate trader at Manufacturers Hanover Trust Co.

Dealers said the Federal Reserve Bank entered the market when the dollar was trading at 1.8685 marks. The Bank of England also was believed to have made an appearance, selling dollars to buy marks.

There were rumours that West Germany's Bundesbank participated, but some traders speculated instead that the US and British central banks may have acted on behalf of the West Germans.

Market participants seemed satisfied with the way the central banks had carried out the intervention.

"The style that they're using . . . is relatively steady and unspectacular," Vick said. "It's non-disruptive."

Dealers noted that participants were not willing to be short of dollars over the weekend in the event that conflict heats up again in the Middle East.

In New York, the dollar ended the day at 151.82 Japanese yen, up from 151.42 on Thursday. The British pound cost 1.5627 dollars, cheaper than 1.5773 dollars the previous day.

Other late dollar rates in New York included: 1.8930 marks, up from 1.8029; 1.5912 Swiss francs, up from 1.5650; 6.3050 French francs, up from 6.2742; 1.305 Italian lire, up from 1.363.50.

Gold plummeted $13.40 to close at $44.60 dollars on the New York Commodity Exchange, and silver fell to $7.590 from $8.260 on Thursday.

In Hong Kong, gold dropped the equivalent of $10.38 on Saturday, opening at $437.81. It closed on Friday at $408.19. — Sapa-AP
Stronger gold fuels JSE boom

By AUDREY D'ANGELO
Financial Editor

THE higher gold price fuelled the boom on the Johannesburg Stock Exchange (JSE) yesterday, pushing it up to new levels undreamed-of a year ago.

The All-Gold Index closed at a record 2 362 compared with 2 346 on Tuesday. The Industrial Index soared to a close of 2 118 compared with 2 106 and the Overall Index to 2 506 compared with 2 585.

But, with caution learned from experience, some investors took handsome profits towards the end of the day as they saw the US dollar strengthening. So although the indices closed at new peaks, some shares slipped from the heights they had reached.
Promise of R90-m gold bonanza

By TOM HOOK
Business Editor

AN additional R50-million a year could flow into the country from sales by the gold mines if the current gold price is maintained, according to Reserve Bank calculations.

Gold has jumped by $14 an ounce in two weeks, influenced by a lower dollar, rising crude oil prices and fears of the Gulf war intensifying. The international gold price is around $455.

About R140-million was added to share values on the Johannesburg Stock Exchange yesterday as the gold rush continued.

The upturn is bolstered by the rising gold price which, if sustained, could bring a dramatic increase in the earnings of the gold mines.

NEW PEAKS

The mines would receive around R18-billion a year for their gold sales at the present gold price of R30 250 a kilogram.

The leading share indices closed at new peaks yesterday, breaching Tuesday's record closing levels amid constant demand for quality shares.

High prices were maintained today on the JSE, with a few gold mining shares rising slightly.

A new toy company to make its debut, Redgewood Holdings, opened at 130c a share, far above the issue price of 50c when its offer of 4-million shares to the public was enormously oversubscribed. The price dropped later to 100c.

A series of company reports today showed sharply higher profits for the first half of the year and helped to underpin industrial shares.
Gold price touches 4-year high of $482.50

By DEREK TOMMEE
Financial Editor

THE gold price rose $1.50 in New York last night and a further $5.40 in the Far Eastern markets today to reach a new four-year high of $482.50 an ounce before easing to $481.55 in London at mid-morning.

But for a number of reasons, including the possibility that the market is being manipulated by some of the smaller gold producers and the low overall demand for gold in the United States, the higher price had little impact on the Johannesburg Stock Exchange.

Dealers in New York said institutional investors were becoming jittery about the outlook of the US economy, the level of interest rates and the dollar's ability to maintain its present rates. This had led to increased investment in cash assets and probably in gold.

THIRD-WORLD DEBT

There was also concern about the stability of US banks because of their huge loans to Third World countries.

Gold shares on the Johannesburg Stock Exchange firmed slightly in early trading, recovering part of yesterday's losses.

However, dealers said the market tended to remain cautious, especially in the light of Monday's warning by the Governor of the Reserve Bank, Dr Gerhard de Kock, that the gold price could fall as quickly as it rose.

The rand firmed from last night's 50.20 US cents to a 14-month high against the dollar of 50.38 US cents. However, the rand is still at a low against the British pound.
Gold slides $10 as dollar strengthens

LONDON.—Gold bullion ended at $437.00/50, more than $10 below Friday's $447.50/48.00 close, weakened by long liquidation prompted by the firmer dollar and bearish sentiment, dealers said.

In New York, gold closed at $437.30/30.

The London market opened lower at $442.75/443.25, following the decline in New York on Friday, but held fairly steady during the morning, supported by some European buying.

Afternoon trading featured long liquidation as values on comex eased, taking the metal to a low of $436.75/437.25, its cheapest level since April 13.

The dollar's rising strength forced gold prices down in Europe, dealers said. The US dollar rose cheerfully against all major foreign currencies except the Canadian dollar in European trading yesterday.

In Tokyo, where trading ends before Europe's business day begins, the dollar rose to a 10-week high, closing at 145.30 yen from Friday's 144.49.

Later, in London, it was quoted higher at 145.45 yen.

Sterling weaker

In London, the British pound felt the pressure of the healthier dollar, and was quoted at $1.6105, down from Friday's $1.6185.

Platinum ended the day at $550/552 an ounce, little changed from its afternoon setting of $552 but down on its morning fix of $564.75 and Friday's close of $570.75, dealers said.

Wall Street continued to navigate further into uncharted waters, closing at a record high for the fifth consecutive session. The gain was fuelled by strong dollar and bond markets, and a growing conviction that the worst of the inflation concerns have passed, traders said.

"With each passing day we seem to gain a little more confidence, particularly with the dollar moving up showing we are not going to get any kind of surge in inflation," said analyst Hugh Johnson of First Albany Co.

The Dow Jones industrial average, which rose 13 points on Friday, tacked on another 25 points to close at a record, 2445. — Sapa-Reuter
Gold up after bigger US trade deficit

Finance Staff

GOLD, which jumped $6 yesterday in the wake of news that the US May trade deficit deteriorated to $14.4-billion, today continued to hold above the $450-level for the first time in a month.

Gold was fixed at $452.90 an ounce in London today, unchanged from yesterday's fix but up $5.90 from Tuesday night's close of $447.00. The metal closed in Hong Kong at $453.15 an ounce, up $5.50 from yesterday's $447.65 close.

The US Commerce Department's report that the deficit had widened from $13.5-billion in April to $14.4-billion was a far cry from the $11-billion rumour which swept through currency markets on Tuesday. Shook waves went through the financial markets, with the dollar tumbling against major currencies.

Following the announcement, the dollar sank about 1.5 percent against the Japanese yen, West German mark and British pound in hectic trading which was cooled off by rumours that central banks had intervened to buy dollars in support of the US currency.

However, the currency regained some ground on the Tokyo Foreign Exchange market today closing at 149.35 yen, up from its 146.85 close in New York but still down from yesterday's close of 151.23 yen in Tokyo. Later in London it firmed further trading at around 1.8325 German marks against its 1.8265 mark close yesterday and 1.8325 mark close in Tokyo today.

The sharp fall in the dollar strengthened the rand to $0.4892 at its close in Johannesburg yesterday, up from its Tuesday's close of $0.4867.

THE RAND

The rand traded at $0.4904 in Johannesburg today, while the financial rand firmed to $0.4925 from $0.4880 yesterday.

The worsening of the US trade deficit followed two months of improvement.

Fears have also been raised among traders that the dollar needs to fall farther to correct world trade imbalances.
Gold expected to rise to $475

From MIKE ROBERTSON

VENICE. — The gold price was set to rise further and could average $475 this year, Julian Baring, gold specialist at James Capel, said yesterday. Baring said at the Financial Times Gold Conference here that he based his assessment on an indication that the Swiss were going to increase investment in gold and the relative attraction of gold compared to equities.

A colleague of his had been told recently by the Swiss that the gold weighting of a model portfolio had recently increased from 5% to 10%.

"The rise in equity and bond markets worldwide has reduced the gold content in portfolios to levels which the Swiss now believe need topping up. This time it looks as if they are going to do something about it.

"Estimates vary as to the amount of discretionary money managed in Switzerland, but $500 billion seems to be an acceptable estimate. Five percent of this is $25 billion — more than enough to buy the entire Western world's production for a year at $500 an ounce."

Baring said gold was considerably below its historical average relationship with equity markets in the US, UK and Japan.

In Britain alone gold would have to rise to $1,000 an ounce, or the FT All Share Index fall from 1,078 to 465, to restore the relationship.

There had been a strong bull trend in the gold price and if the Swiss did come to the market, the price might average $475 this year, $660 next year and $750 in 1980 before falling back.

This was not impossible if one remembered how cheap gold was in comparison to equities.
US fears boost gold to 4-year high

FEARS of inflation in the United States and the possibility of industrial action on the South African gold mines helped push the gold price to a new four-year peak in the major bullion markets today...

Gold was trading at $477.25 an ounce in London at mid-morning. This was a drop of $1 from the $478.25 peak price in Hong Kong earlier today, but a gain of $7.35 on Friday afternoon's price.

The last time gold was at these levels was in February 1983.

The possibility of a cut in gold production did not deter gold mine investors. Stockbrokers reported that gold share prices were higher where changed.

The rand benefited from the higher gold price, opening at 50.20 US cents after closing at 50.15 US cents on Friday. The financial rand was fractionally higher at 31.25 US cents.
LONDON. — Gold closed steady at $460.50/$461.00, little changed from the afternoon fix of $461.05, and slightly lower than Wednesday night's final $461.25/$461.75.

The market held in a tight range ahead of yesterday's US March trade data, with operators waiting to see how the figures would affect dollar sentiment, dealers said.

Dealers said the market remained in a consolidation phase, requiring new speculative interest to spur a move beyond the current narrow trading range of $450/465.

Platinum ended the day at $605/611 an ounce, compared with the afternoon fix of $610 and Wednesday's closing $615/617.

Platinum futures gained almost $10.00 in New York yesterday on light buying generated by a dollar-based upswing in gold.

The leading July delivery rose $9.60 at $615.00 an ounce which was just under a technical line of resistance at $615.50.

In Zurich, gold closed steady to higher on good all-round buying interest, with the easier dollar providing a firm undertone, dealers said.

In New York, gold closed at $465.70/$465.20.

In London, the dollar closed weaker at the end of a fairly quiet day's trading in Europe.

The dollar closed at 1.7885/85 marks, down from its opening 1.7950/50 and from Wednesday night's closing 1.7985/85. Against the yen it drifted down to close at 133.40/50 after starting at 140.00/10 and closing on Wednesday night at 139.70/80. — Reuter
Stampede for gold sends price soaring

By AUDREY D’ANGELO
Financial Editor

THE stampede of international investors into gold as a safe haven for their wealth, as the dollar weakened and the world financial system seemed less healthy, sent its price soaring again yesterday.

It was fixed $9.75 an ounce higher on the day in London at $479.75 after profit-taking brought it down slightly from the morning setting of $476.70—the highest since February 1985.

It closed at $470.00/$471.00 in hectic trading, but below new four-year highs set at the morning fix.

Gains followed rocketing silver prices, with enthusiasm for silver’s meteoric rise yesterday to a high of $11.40 an ounce, spilling over into gold, London dealers said.

The plummeting dollar and fears about inflation accelerated the move to transfer money into tangible assets like gold, dealers said.

Gold continued to lag silver’s rise, but dealers said gold now looked cheap against silver and this might prompt further speculative buying near term. They did not rule out a test of $500.

Platinum posted strong gains in line with the firm trend in gold and silver, and closed near the day’s highs at $537/$542 an ounce, compared with Friday’s $523/$530, Reuters reports.

The rand closed firm at 90,501/522, compared with the opening 90,501/7 and Friday’s 90,495/94. The financial rand firmed to 0.3175/3225 compared with 0.31 on Friday.

Some gold shares on the Johannesburg Stock Exchange, initially stronger, eased on profit-taking.

SA analysts are unanimous that gold will continue to rise and the dollar to weaken.

International news agencies report that London dealers forecast a continuing upward trend for gold, saying it would reach $500 soon.

Silver has been helped in recent days by a decision by Peru, the second biggest producer, to restrict exports and possibly try to start a silver cartel.

In New York the dollar’s recent steep decline continued at the opening amid fears that this week’s summit of US and Japanese leaders in Washington will fail to produce any significant easing in bilateral trade tensions.

Gold price “due to volatile market”, page 11
Gold perks up slightly after $30 dip

Business Editor

GOLD recovered slightly in London today from its $30 plunge last night in New York.

Bullion was fixed at $455.75 after opening at $452.75 (R916.95) an ounce, an advance on earlier trading in Hong Kong.

Gold reached $460.50 in New York, its highest price since February 1963, but tumbled on the back of a 30 percent fall in silver prices as the American dollar halted its decline on currency markets.

Influenced by the lower bullion price, the rand eased to 49.70 US cents in Johannesburg early today, down from 50.60 cents last night.

The financial rand, quoted at 39.50, was sharply lower from yesterday's 32 cents.

The US dollar improved to 139.45 yen in Tokyo today from its low of 137.25 yesterday.

Gold's reverse hit share prices which reached new peaks on the Johannesburg Stock Exchange yesterday.

See Page 28.
Gold price: Now we can be happy

The current rise in the gold pricebreaking the $450 per fine ounce, is good news for South Africa. Considering that gold accounts for roughly 40 percent of our foreign exchange earnings, the surge in the price of this commodity is expected to provide meaningful stimulus to the South African economy.

The release of the American trade deficit figures for 1986 (a massive $170 billion deficit) was instrumental in the surge of the gold price. This rise of course means that our foreign reserve holdings should dramatically improve and further ease the burden of our foreign debt repayment.

The most important benefit from the rise in the price of gold is that it improves South Africa's economic growth prospects. Also it is likely to increase the government's growth prospects. Also it is likely to increase the government's tax revenue from the gold price, possibly allowing it to make more tax concessions to the individual taxpayer.

The appreciation of the gold price has however brought woes along for the non-gold exporters. The rand exchange has appreciated to levels hovering around 50.0 US cents. This is causing non-gold exports to become less competitive in the international markets, a situation made even more uncomfortable when viewed within the perspective of economic sanctions. Enough to make the non-gold exporters even more jittery is the reluctance by the authorities to prevent further appreciation of the rand. While the appreciation of the rand will cool off our inflationary pressure, there is a real danger that the present phenomenon will lull us into a false sense of security, and make us lose sight of the importance of non-gold exports.

The government would do well to at least shield the non-gold exporting sector by not allowing an unlimited appreciation of the rand against the dollar which is the main currency in which our exports are priced.

Factors

We have to bear in mind that the gold price is due to factors totally out of our control. As a result we cannot be certain that this price improvement will be sustained for ever and a day. Accordingly the government should plan for the inevitable day when the gold price will again decline. Allowing a further erosion of our non-gold export base in the interim due to a too strong rand would be short-sighted in the long run.

Balance

There is no dispute that the high gold price is good news for the South African economy. However, a judicious balance has to be maintained between the concomitant appreciation of the rand, and the interest of our non-gold exporters.

This appreciation is most helpful to those so burdened. Also, in terms of our foreign debt, the rand appreciation has the effect of reducing this burden for those with actual rand liabilities. And a healthy current account surplus of course enables the authorities to look more inward, in terms of pressing domestic economic priorities.
Investment demand running at high level

Gold’s prospects in the hands of speculators

By Neil Behrmann

LONDON — Prospects for gold are unpredictable because the metal is in the hands of speculators.

A report by Christian, Podleska and Van Mussenbroek for Goldman Sachs, the New York investment house and leading precious metals traders, estimates that investment demand is running at levels last seen in the late Seventies and early Eighties.

Last year investors added 23.1 million ounces to their gold holdings, says Goldman Sachs. This was double the level of 1983 and the highest level since investors bought nearly 28 million ounces in 1979.

Besides investor demand for coins and bars, speculators are playing a significant role.

Gold futures and options volumes have soared during the past few months. To a large extent the speculation has been spurred by unusual activity in the volatile silver market.

Since gold bottomed out at $281 in February 1985, the price has surged 62 percent in dollar terms, but has fallen by 15 percent in yen.

Despite considerable scepticism amongst the bullion dealing community, the price began its upward move in the past two years when Japan bought 5.4 million ounces for Hirohito coins and another 7 to 10 million ounces for other investment products.

"Demand for these products had little to do with patriotism and the Emperor, and a lot to do with the fact that the strong yen reduced gold prices to pre-1979 bargain levels in Japan," says the report.

Meanwhile investment holdings in the United States may have risen about 8 million ounces last year, while gold inventories held in Europe jumped seven million ounces.

With supplies soaring, investors must absorb 21 million ounces worth $9.5 billion this year, says Goldman Sachs. So far, the upsurge in silver and continual uncertainty about the dollar have attracted hoards of investors and speculators into the metal. The bullion dealing community, bearish in 1985, has become bullish.

"Today there are many, many more individual and institutional investors with greatly increased sums of investment funds interested in placing part of their assets in gold," says the report. The Japanese also intend minting more Hirohito coins this year.

But the question in the end goes back to price. When gold rises, investors and speculators rush into the market. When it begins to slide, their sales add to supplies that are already high. Recent volatility between $450 and $476 proves the point.

Last year prices were easier to predict. This year gold could easily swing in a range of $420 to $520, depending on the dollar, trade protectionism and above all greed and fear.

Most dealers expect the US dollar to continue to collapse even though major currencies have almost doubled against the US unit in only two years.

They remain bearish despite Federal Reserve Board chairman Paul Volcker’s decision to begin raising interest rates to protect the dollar. Foreign exchange dealers are betting that the Fed will not have the guts to risk a recession by raising interest rates substantially.

All signs point to a final sell off. But analysts contend that after its swift tumble the dollar will begin to recover.

They say that the fundamentals are beginning to favour the cheap US currency.
Gold rockets to a four-year high in London

By AUDREY D'ANGELO
Financial Editor

THE gold price rocketed again yesterday to close in London at $464.85 an ounce — the highest for four years — on concern about a rising US inflation rate and international trade difficulties.

And euphoria returned to the JSE as the value of gold shares rose by up to $30 on the day.

In spite of this, the commercial rand ended the day below $0.50. But the financial rand strengthened to $0.32 on strong demand as international investors again rushed into precious metals — the traditional refuge in times of economic uncertainty — and speculative demand pushed up the prices of gold, silver and platinum.

International news agencies report that the gold price rose to $487 an ounce in Zurich before beginning to fall back on profit-taking and the slight strengthening of the dollar on central bank intervention.

Reuters reports that gold and silver were bought at a fevered pace on international markets yesterday.

Analysts said the rising prices were fuelled by some investors moving their funds out of booming stock markets into precious metals.

Since the total annual production of gold and silver represents only a tiny fraction of the value of the world’s stock markets, it takes only a small shift by investors to send precious metal prices rocketing, they say.

Co-ordinate marketing

Silver was also boosted this week by news that Peru, the second largest producer, was halting all exports and wanted to co-ordinate marketing with the largest producer, Mexico.

The two control about 50% of world production.

"It looks as if they might be trying to do for silver what Opec did for oil," said Freddy Gubler, gold specialist at Citicorp (Switzerland).

The price of silver is down some 90% from the record highs of 1980, a much steeper fall than other precious metals.

With silver’s recent gains, the price of an ounce is now about one-fifth the price of an ounce of gold, up from a ratio of one-seventh at the start of the year, but still below the one-sixth to one-fifth ratio analysts say is normal.

US government figures released yesterday showed the annual inflation rate so far this year at 6.2%, far exceeding the Reagan administration’s forecast of 3% this year after just 1.1% last year.
Gold price soars to four-year high

By JOHAN SWANEPOEL

Business Editor

REACTING to a significantly weaker dollar, the gold price broke through $460 today to its highest level in four years. On the back of the sharply higher gold price the rand broke through $0.51, its highest level in more than a year.

Gold gained nearly $10 overnight to open at $462.50 in London and almost immediately rose to $463.25, dropping to $463.50 in a volatile market in early trading. By early afternoon it rose again to $464.25.

The rand opened 50 points up at $9.5010 and then rose to $9.5060. Importers took advantage of this to buy dollars, forcing the rand down to $8.4975 in late morning.

But by early afternoon it rose to $9.51.

Against the weaker dollar other foreign currencies firmed and the rand eased to 0.9956 German marks from 0.9915 marks, to 69.72 yen from 70.08 yen and to R2.30 to £1 from R2.29.

The rally staged by gold was sparked by a strong rise in the silver market. Gold was helped by the sharp fall in the dollar.

US analysts said the market was discouraged by the Gross National Product report, despite strong overall growth.

Most of the gain came from an increase in inventories, a bad sign as it indicates demand by consumers is falling sharply.

The pound also climbed against the weak dollar, despite intervention by the Bank of England.

Dealers said the dollar would have dropped even more if the Swiss, Japanese and West German central banks had not intervened to steady the market. The central banks were buying dollars while selling yen.

The intervention by the central banks is part of a February agreement and since reaffirmed by the seven major industrial nations to try and stabilize their currencies near present levels.

But continuing global trade tensions, with no end in sight to the US-Japanese trade dispute and threats of restrictive trading legislation in the US have depressed the dollar, dealers said.
Gold price rallies at $451

Financial Staff

GOLD which opened sharply higher yesterday after the Easter holiday, began to fall back later in the day, with a last-minute rally to $450/451 at the close in London. Dealers said there was major support just below current levels. The day saw hectic trading and four-year highs in London and Zurich which threatened to breach the $460 barrier amid trade tensions, concern over the continuing weakness of the dollar, and renewed fears about US inflation.

Dealers said the price rise was helped by some panic "short-covering" as traders, worried that the price might go higher, bought supplies to meet earlier commitments they had made to sell the metal. Silver, meanwhile, rose above $8 an ounce for the first time since August, 1984.

Gold shares prices closed slightly firmer in quiet and cautious trading, having shed some of their earlier gains as the gold price dropped from its overnight highs, dealers said.
Gold leaps to new heights

By TOM HOOD
Business Editor
GOLD traded at a four-year high of $455 an ounce in London and $459 in Zurich today after leaping overnight by $11 in New York.

And the rand received an immediate boost when foreign exchange markets reopened, starting at 50 US cents in Johannesburg and quickly rising to 59.30. It closed at 49.63 before the Easter holiday.

The financial rand improved to 32.50 cents from a pre-Easter $1.76.

Gold shares opened higher on the Johannesburg Stock Exchange, rallying from last Thursday's close.

The flight into gold follows further weakening of the American dollar, fears of rising inflation in the United States and developments in the trade war with Japan.

Prices on the American gold futures market jumped by as much as $11.50 to $483 and $517 last night.

The dollar slipped again today to 142.07 yen on the Tokyo Foreign Exchange, but recovered to 142.10 after support from Japan's central bank. This was down from yesterday's close of 142.36 yen.

TARIFF INCREASES

The American government imposed tariff increases of 100 percent on about R606 million of Japanese computer and electronic imports at the weekend — a move which investors believe will boost inflationary pressures.

The sanctions are the first full-scale retaliation against Japan since the end of World War 2.

Gold has gained $52 since the beginning of January. In rand terms, however, the price has climbed little more than five percent to R506 an ounce from R570 on January 2, when the international price stood at $403. This is because of the strengthening of the rand.
Gold and the Rand hit high levels

Business Editor

GOLD traded consistently above $450 today as buyers scrambled for the metal following its strengthening over the weekend. On the back of this strong gold price the rand moved above $0.50.

From a New York closing of $444.10 on Thursday, gold opened $1.25 up in London at $455.35 and went as high as $459.25, easing again to $454.25 in early afternoon as gold soared to four-year highs in Europe.

Dealers believe the gold price is set to reach further highs in the short-term, giving as a reason for today's strengthening the failure of gold to weaken over the long weekend and particularly yesterday against expectations in the United States.

They say the strong demand prompted dealers and investors to buy instead of sell. From a technical point the firm rise of bullion through the $440 level was seen as important and sentiment became more bullish when the price broke through $450.

The rand rose 92 points to open at $0.5012 and rose to $0.5030 before easing to $0.5010 in early afternoon. It firmed to 0.5057 German marks from 0.5004 marks.
Lower gold price a 'good way to attack apartheid'

LONDON — A British newspaper has called on the West to bring down the price of gold as a way of attacking apartheid.

"The irrational, mesmerising hold of the metal and the panic over the illusory shortage an embargo would cause undermine the effect of the sanctions already in place, precisely the opposite of what was intended," says The Guardian in an editorial.

"But there would be no difficulty at all with replacing gold in all its applications except the industrial (for which an ample sufficiency could be found elsewhere).

"Alternatively, and much more conveniently, if the West was genuine in its professed hostility to apartheid, it could painlessly force the price down by intelligent use of its huge reserves, a lever which could be dropped the moment an acceptable regime took over.

"In the campaign to end apartheid, gold is the only thing that glitters."

HARMFUL TO ECONOMY

The paper notes that gold, which recently nudged $450 an ounce, underpins roughly half the South African economy.

"In the not so distant past the price came close to falling below the $300 mark, which is said to be the point at which the South African economy would really be hurt.

"We are therefore obliged to assume, with the present price a comfortable 50 percent above the danger level, that Pretoria is quietly laughing all the way to the nearest newly disinvested branch of Barclays National Bank."

The Star Bureau
Gold price:
Revival hopes strengthen

Financial Editor

GOLD closed higher again in London last night — at $444.75 an ounce — fuelling a feeling of confidence that South Africa's long recession is over and the boom under way.

And the all-gold index on the Johannesburg Stock Exchange reached a new high of 2,265, before easing to 2,263 towards the close.

Economists said signs that the United States economy was faltering would continue to boost gold on international markets, sending the price higher as investors dumped the weakening dollar, and strengthening the upturn in South Africa.

Businessmen said the rising gold price had supplied the missing factor needed to trigger off a revival of confidence in the economy.

The director of Cape Town Chamber of Commerce, Mr Alan Lighton, said the economy had already started reviving and the higher gold price had given an added boost.

"It was the fillip we needed to get things going," he said.

The Old Mutual's chief economist, Mr Rob Lee, said he expected the gold price to go on rising, bringing more foreign investment into South Africa.

"I think there is justification for rising confidence. We are earning more foreign currency and all the other benefits of a higher gold price, including a stronger rand, are coming through." He looked briefly yesterday as though the gold price would drop back as it eased on profit taking, but it revived to close $3 higher on the day in London and the rand closed firm above $0.50.

The gold, rand — Page 5
GOLD AND THE ECONOMY

To the rescue again?

As the bullion price touches US$450 an ounce and the rand US$50c, the standard euphoria has set in yet again. But what does this really mean?

Without doubt a higher gold price is welcome. If the rand holds at US$50c every US$50/oz increase in bullion price adds R2,1 billion to the value of current annual gold output. If SA's dollar revenues improve, our ability to repay foreign debt is enhanced. Other things being equal, the balance of payments (BoP) should also improve in rand terms.

The strength of the rand has virtually doubled the dollar value of gold and forex reserves from the 1986 low — performance that would look even better if the steep decline in the Reserve Bank's own dollar liabilities (US$1.3 billion at the time of the standstill) is taken into account. Real net reserves are the highest for several years.

But our good fortune is largely a reflection of the dollar's bad fortune. The rand has firmed 40% against the dollar from its low, and 30% against a trade-weighted basket of currencies. But with the dollar constituting the bulk of the basket, performance against other major currencies has been less impressive. As the graph indicates, the rand has shown no appreciation against (for example) the Swiss franc since last late year.

Equally, while currency uncertainties and fears of a possible pick-up in world inflation rates later this year have pushed up the bullion price in non-dollar terms, its gain has been far less marked (again, see graph).

True, the dollar price is what matters to the gold mines. But even then, what is good news for the gold mines may not be good news for everybody else.

Other exporters suffer from a strong dollar, and domestic suppliers complain that imports are becoming more competitive — which may help check inflation but dampens any revival in demand for local manufactures.

Moreover, with gold mining's high rate of marginal tax, the bulk of any increased revenue goes straight to the taxman; when the rest is finally passed on in dividends, some is drained off by financial institutions and retentions at the mining houses.

So the ultimate increase in personal incomes is both muted and delayed.

The upshot is that semi-official estimates of a R5 billion BoP current account surplus and 3% growth rate this year have not yet been adjusted upwards. They were, after all, based on an average gold price of US$425; and the average this year (already four months gone) is only about US$410. It will take another couple of months of bullion around US$450 before more optimism can be justified.

The Bank, incidentally, denies having fixed targets for the rand, claiming the basic policy of managed floating has been unchanged since 1979.

Governor Gerhard de Kock points out that attempts to set rates a long way from market perceptions are usually unsustainable — as the Group of Five has found: "What we can say is that if only gold rises and nothing else changes, we would be reluctant to see the rand go up too much. But if the dollar goes down too, the rand must go up, or we will depreciate against the D-mark and Swiss franc — and that would not be desirable."

There are as yet no signs that the dollar has bottomed against the yen. However — echoing their local counterparts — Japanese exporters are starting to complain that the yen is pricing them out of some export markets. There is even evidence of selling below cost to maintain market share.

At some stage automatic mechanisms will cure the massive Japanese BoP surplus. Already there are signs that in volume terms exports are not behaving as well as in yen terms.

As markets always exaggerate, when the turning point is reached the dollar could manage a sharp partial recovery. Until that happens, to assume that any particular set of exchange rates — however favourable — will be lasting, is dangerous.

In virtually every respect the economy is healthier than it has been for years.

The price has been high: a decline in overall living standards which has fallen hardest on those least able to afford it. But it is important to note that it has been achieved not with foreign banks leaning over themselves to extend new credits, but with the added constraint of having to become a net exporter of capital. Not for us the Latin American solution.

Current economic forecasts for 1987 may well turn out too conservative. But, like a massive oil tanker, an economy does not pick up speed immediately the wind turns favourable. It is safer to say that, if present conditions continue, the duration (and acceleration) of the upturn could be extended at least well into 1988.

Late last year, business confidence remained low when there were many signs of a pick-up in real economic activity. Conversely, confidence is now growing fast; but further quickening of the tempo of real activity is harder to generate.
Gold up — and it looks like a boom

By AUDREY D'ANGELO
Financial Editor

GOLD jumped yesterday, the rand leapt to over US$0.50c, and shares on the Johannesburg Stock Exchange (JSE) surged to new highs as South Africa moved further into the first phase of a potential economic boom.

The yellow metal, mainstay of the economy, was fixed at $422.60 an ounce in London yesterday afternoon after breaking through the $400 barrier in the morning, compared with $393.00 on Monday afternoon.

Prospects looked good for a sustained rise as investors, dumped the US dollar, and the threat of a higher world inflation rate made gold look more attractive as a safe haven for their money.

Disappointing US trade figures issued yesterday afternoon also forced the dollar lower, reinforcing gold's upward trend.

Some gold share prices on the JSE moved slightly lower on profit taking, but the adjustment should be viewed in the light of a virtual doubling of prices in recent weeks.

The all-gold index eased to 2239 from the record close of 2240 on Monday, after rising to 2247 at the opening.

Investment analysts regarded the slip as a temporary setback which will soon return to a recovery path.

University of Cape Town economics professor Brian Kantor said he had no doubt that the boom was coming and it was vitally important that it should not be mismanaged.

It would be disastrous, he maintained, for the authorities to keep down the value of the rand to help exports.

Saying that a higher rand would help solve the problem of SA's damagingly high inflation rate, and make it easier to repay dollar-denominated foreign debt, he worried that an artificial depression of the rand would create excessive growth of the money supply and a repetition of SA's earlier problems of inflation.

"The fundamentals are helping us. The weaker Wall Street looks, the better for gold. "But we must watch that the authorities do not let the boom get out of hand," Prof Kantor cautioned.

See Page 6
Gold goes up and up

Financial Editor

GOLD rose again on international markets yesterday — closing in London at $498.25 an ounce, as investors sought a safer haven for their money than the weakening US dollar.

The Johannesburg Stock Exchange continued to rise.

But some investment analysts warn that the share market is over-valued and investors may burn their fingers before long.

Bullion boosts gold shares — Page 4.
Gold price poses dilemma for bank

Dispatch Correspondent

Johannesburg — The continued firming of the gold price yesterday on international markets — it closed at $436.50 in London compared with Friday's $432.00—50 — has presented the Reserve Bank with a dilemma.

If in response the bank allows the rand to rise, it would reduce inflation, but possibly extinguish South Africa's economic recovery. However, if through intervention in the market, it keeps the value of the currency low this would promote an export led growth.

South Africa's present economic recovery is in a critical phase and it must be prevented from petering out as it did towards the middle of last year, economists argue.

But yesterday's 0.6% rise in the rand — if closed at $0.4989.75 compared with Friday's $0.4938-45 — indicates that the bank has taken the view that the weakness in the dollar against the Japanese yen could be endemic and a higher gold price inevitable.

But, while gold mines remain unseathed if the rand price of gold rises, which is has in recent weeks, other exporters are hard hit.

Yesterday's rise in the rand caused near panic among some non-gold exporters who contacted the bank to complain about the one per cent being shaved off their earnings.

In the past, South African exporters have had a reputation for being argumentative suppliers. But, faced with sanctions, it is crucial that they break out of this mould.

Also, some are planning investment in new plant and equipment, but would back off if faced with a rand at $0.55.

Also, if the rand was allowed to rise rapidly in response to the higher gold price, which could result in a drop in the rand price of gold, gold mining profits would be cut, and also gold mining taxes which, in turn, could cause problems for the budget.
Gold up 10 dollars; shares hit new peak as JSE booms

By TOM HOOD
Business Editor

GOLD spurted more than 80c overnight and traded today at $432.50 an ounce in London, its highest price since October.

This followed the latest slide by the American dollar and added more fuel to the booming Johannesburg Stock Exchange, where prices rose to new peaks and added millions of rands to share values.

The rand strengthened today to 49.50 US cents from just above 49 yesterday.

The financial rand did even better — jumping to 34.18 US cents from 32.50 yesterday — a rise that could curb the boom in gold-mining shares.

Bullion dealers in Zurich forecast gold could reach $440 to $450 in the next few weeks if the ailing dollar is not rescued.

Besides gold, platinum and silver prices have made rapid gains as speculators switched from dollars to precious metals.

BATTERED DOLLAR

Gold's upsurge followed the collapse of negotiations by seven major industrial countries to halt the decline of the battered American dollar.

Speculators and big investors today continued to sell off dollars on world currency markets, driving it even lower.

The latest quote for the dollar was a 40-year low of 142.35 yen in London today. The currency also lost ground against the West German mark, falling to about 1,8140 marks from 1,8550 yesterday. The dollar ended the week by plunging 2.90 yen.

The dollar's sharp slide took share prices down with it on Wall Street last night and in Tokyo this morning.

Speculators have been selling the dollar in the belief that a lower U.S. currency is inevitable because of the huge United States trade deficit and because President Reagan's administration is glad to see it fall.

Gold shares led the field on the JSE yesterday, where shares worth more than R82 million changed hands.

Prices soared today in hectic trading, supported by higher bullion prices. Steepest rise was 15 by Western Deep, whose shares hit a record R215.

HEAVY BUYING

Heavy overseas buying was reported, especially from Britain and the United States.

But industrial shares were also in demand and the industrial shares index raced ahead another four points to a new peak of 1,767 yesterday — closing at a record high for the sixth day in succession.

The biggest percentage gains were made by industrial shares, including Tejl, Juicy Lucy, Montays, Irvin and Johnson and Simmers.

Shares to hit new highs included Anglovaal, JCI, Western Deep, Rand Mines, Nedbank, Hill Samuel, Trust Bank, Barlows, Safire, SA Breweries, Blue Circle, Goldstein, Group 5, LTA, Chubb, Curries, Bergers, Garlick, Millys and Brokers.

In contrast, share prices followed the dollar and plunged in stock markets in London, New York and Tokyo.
Finance Staff

Profits of Anglo American Corporation's Transvaal gold mines will be squeezed unless the gold price continues to rise.

This is the view of Mr E P Gush, chairman of Vaal Reefs, Southvaal, Western Deep Levels and Elandsrand, and Mr T L Pretorius, chairman of Afrikander Lease and Salands, in their annual review for 1986.

They said that under mounting internal and external political and economic pressure the rand had lost ground for much of the year against the dollar which had fallen against most of the world's major currencies.

This had resulted in an average gold price received of R27,933a kilogram for 1986, an improvement of 22.5 percent on 1985 results.

"As measured by the production price index, cost escalation increased by 19.9 percent in 1986."

"This has put a tremendous cost strain on the mines and unless the gold price continues to rise there will be an inevitable squeeze on profits," they say.

"Over the past few years the Government has attempted to manage the economy with short-term expedients which assisted in buoying the economy but to the detriment of long-term stability and growth and at the expense of the already serious inflation problem."
The week on the JSE

Finrand displays renewed strength

By John Spira

After a soft start to the week, gold shares perked up on Thursday and yesterday as the bullion price held near the $410 mark. Industrials were by and large unchanged with a slightly firmer bias.

The financial rand showed renewed strength yesterday to close at the US$2.8c level. Dealers were encouraged by the fact that gold share prices were steady in spite of the rebound in the value of the finrand.

Also viewed in a positive light was gold’s resilience in the face of a dollar which touched DM1.67, only to react downward on rumours that the Federal Reserve had intervened by selling dollars in order to check its rise.

Randfontein, Vaal Reefs and Elsburg were marginally better, while Harties and Doorns eased back a touch.

The largest gold-related move was in mining exploration company PGA and the options, both of which moved up steeply yesterday, with the latter gaining 30 percent and the former 25 percent. Diagonal Street’s other mining exploration counters moved up in sympathy: Frederik adding 25c to 1425c and Randex 20c to 25c.

The Krugerrand was surprisingly soft throughout the week, dipping to R1010 yesterday morning. However, it recovered to close at R1030 buyers later in the day.

De Beers, after responding favourably to its results, came off yesterday. Anglo American suffered to reflect the easier tone in De Beers.

Northam attracted much attention ahead of its rights issue and closed at R50 buyers after losing some 800c earlier in the week.

Feature among industrials was a massive bookover of 18.2 million shares in TPN. Also of note was the steep decline in Columbia — a fall interpreted as being a reaction to the share’s headlong advance earlier in the month.

Elsewhere, large percentage gains were seen in IGI Life, Schus, IICO, McPhail, Mermine, Putco, D&H, Technic, Retco and OIL. Biggest losses were recorded by Adonis, Dundee, Turf, Saficon, Elgro and Picapli.

Mediclin hit a new low.

New highs included Frebank, Investors Club; Propgroup, Undev, Groprop, Amic (on its much improved results), F-S Industries, Waico, Goldstein, Chemserv, Da Gama, Berzack, National Böltz, Metal Box, SAAN and Midas.
Speculators test resolve of industrial nations to support dollar

SA gold shares offer best value on world markets

By Neil Behrmann

LONDON — The Bank of Japan and the US Federal Reserve Bank fought off currency speculators by intervening heavily to support the dollar this week. After falling to a post war low of 148.40 yen the US currency rallied a point and rose above its lows against European currencies yesterday.

The rebound of the dollar knocked $3 off the price of gold and the metal is trading around $408.

The run against the dollar began in New York trading hours on Monday, traders say, when US Treasury Secretary James Baker said that the US Government did not have a target for the dollar.

The remark encouraged currency traders to test the resolve of leading industrial nations which agreed at a recent Paris meeting to support the dollar.

At a post budget Press conference last week, UK Chancellor of the Exchequer Nigel Lawson refused to comment on widespread speculation that there was a secret document which showed how central banks would support the dollar.

Gold's spluttering efforts confirm market uncertainty. "The gold market desperately needs more investment interest to absorb growing supplies," says a Frankfurt bullion trader.

But so far investors are ignoring the metal and are placing their money in stocks and other financial assets.

Most bullion dealers in Switzerland and London contend that gold is underpinned because central banks, notably Taiwan, bought the metal when the price recently fell below $400 an ounce.

By the same token they detect heavy selling from producers whenever gold rises above $410.

Shearson Lehman Brothers says that if international investment communities switch only one or two percent of their share portfolios into gold, prices would jump.

Gold locked in

But so far international stockmarkets are experiencing all the fun and gold is locked in a trading band of around $300 to $420 an ounce.

Some bullion dealers reckon that it is only a matter of time before gold revives.


Precious metals subsequently collapsed, Mr Smith recalls.

When stockmarkets become vulnerable later this year, gold will regain its popularity, he says.

The fading of equities has washed off on gold shares, notably North American. Shares have been bid sky high. Shares such as Echo Bay Mines Ltd, a leading Canadian gold mine, rose 142 percent in the past 12 months.

American Barrick Resources Corp soared fourfold. Echo Bay's price earnings ratio on latest results is 57 and American Barrick 32.

Price earnings ratios of another leading Canadian gold mine, Battle Mountain Gold Co, is 44 while Homestake Mining Corp, a leading US gold mine is trading on a PE of 62. Dividend yields of most North American stocks are under one percent.

Australian shares are also tasty but are better value than North American counterparts. Market leaders Central Norseman Gold Corporation, Kidston Gold Mines Ltd and North Kalgoorlie Mines Ltd are on price earnings ratios of 15 to 17.

Dividend yields range from three percent to five percent.

Concerned about the high prices of gold stocks in North America and Australia, fund managers in the US, UK, Germany and Switzerland are beginning to buy South African gold shares again. So much so that the Financial Times South African gold share index has doubled to 370 points from its low point last July.

Despite the surge, leading South African gold shares quoted on international markets are offering far better values than North American and Antipodean counters, says David Ridley of Williams de Brie Hill Chaplin.

PE ratios

Their price earnings ratios on latest results are between 9 to 12 and dividend yields, after South African withholding tax of 15 percent, are 7.8 percent for mines such as Vaal Reefs; 6.9 percent for Drifontein Consolidated and 9.3 percent for Free State Consolidated Gold.

South African gold stock could soar if the political situation improves, says Julian Bar- ing of James Capel.

Other analysts such as Albert Loveless of Smith New Court contend that South African gold shares — which attract high yields because of the political risk — are also looking pricey because of coming black wage negotiations and considerable cost increases this year.

"Perhaps gold stocks are telling us that the bullion price will rise," says Mr Loveless. If it fails to do so, he says, there could be some930singers.
Dramatic surge in gold, forex reserves

Magnus Heystek, Finance Editor

The sharp rise in foreign exchange and other reserves in recent months will place South Africa in an excellent position when it meets its foreign creditor banks for a further round of talks in London next month, says Dr Gerhard de Kock, Governor of the SA Reserve Bank.

He was commenting on the state of the country's gold and foreign exchange reserves which increased from R760 million to R6.2 billion at the end of last month after rising by more than R1 billion in January.

"I foresee no undue problems about repaying a further capital amount to foreign creditors as we have been stockpiling dollars and other foreign currencies in recent months." Dr de Kock did not rule out possible speculative selling of the rand in anticipation of the debt-recheduling talks, but says such actions will be misplaced.

"If the rand was reflecting the true state of gold and foreign exchange reserves, it should be much higher. Unfortunately exporters will be hurt if the rand rises too much and too far. On the other hand, a strong and stable rand will reduce the inflationary pressures emanating from abroad," he added.

He also revealed that a number of gold swops, undertaken in the last two years to augment dollar reserves during the turbulent period when the rand was under incredible pressure, have been undone in recent months. "It is always good for a developing country such as South Africa to have adequate gold reserves."

Asked about the recent sharp rise in the financial rand, which had an adverse effect on share prices, he said that there was still some uncertainty about the underlying reasons for the increase.

"It is rumoured that some Swiss investors have been buying the financial rand for investment in local government and semi-government stock which offer returns unmatched elsewhere in the world."

"A common mistake often made is to link the rise in the financial rand with a drop in shares on the local stock market. The two might occur at the same time, but it is incorrect to casually link the two. It's like when the southeaster blows in the Cape and it rains in Transvaal," he said.
Optimistic view for gold in 1987

LONDON — The 1987 gold market will be more indecisive than last year.

But the gold price should average $425, metal brokers Shearson Lehman Brothers say in their annual review of the gold industry.

The review was conducted by the metals research unit of Shearson Lehman and the mining team of I. Messel. It predicts a deterioration in the fundamental supply/demand balance with an increase in mine production for the seventh consecutive year and a fall in consumption, reflecting a reduction in Japanese offtake.

But the strength of the dollar, the rate of inflation, the level of unease in world politics and the attractiveness of alternative investments are factors which can easily outweigh the bearish fundamentals, it says.

Predicting further dollar weakness, the review says if the dollar fell to DM1.50 or 125 yen, the outlook for gold should be constructive, suggesting a testing of the $450- and possibly $500-level during the year.

However, the most bullish argument is based on hopes of a flow of funds from alternative investments.

The review says: ‘‘Should the US stock markets start to top out, then we would expect to see large scale diversification of assets as investment managers attempt to preserve the value of their funds.

‘‘Gold would be the beneficiary of at least a portion of these funds. To put the relative sizes of the two markets into perspective, a shift of only 0.45% of the capitalization of the world stock markets (basis mid-year 1986) would have been enough to soak up the entire investment purchases of gold by the private sector between 1975 and 1985.’’

Although investment managers are content to stay with Wall Street and other stock markets, the higher these markets went, the greater the desire to diversify into gold.

Citing the limited potential of further cuts in US interest rates and high inflation in the industrialised world as reasons, the review predicts an end to the rally in bond prices.

As world bond markets are bigger than stock markets, the review says it would take a shift of only 0.3% of global fixed interest funds into gold to soak up the entire 1979/80 surplus, estimated at 1,800 tons.

Sounding a negative note, the review says there is no doubt that any rise in 1987 gold prices will have to be demand-pull rather than cost-push-generated. Investment buying, or lack of it, will determine price levels rather than the shortage of supplies.

‘‘On balance, it is more likely to be the ‘uncertainty factor’ rather than the ‘inflationary factor’ which will determine gold prices in 1987,’’ it says.

While gold recently slipped through the $400 level, there was no reason why bursts of dollar strength should not see prices dip towards the $350-$375 band.

‘‘However as the year unfolds we expect the market to spend most of its time between $400 and $450.’’

‘‘It would need substantial investment buying or a sharply weaker dollar for prices, even temporarily, to approach or exceed $500 and, on balance, we would discount the likelihood of any sustained period at these higher levels.

‘‘We do, though, look to some switching of funds from other sectors and predict an average price for the year of $425/oz.’’ It adds.

The review predicts a surplus of 249 tons for the year. Supply should rise to 1,678 tons (1,697 tons last year) while demand will drop to 1,427 tons (1,563 tons last year).

Official coins will show the largest drop in demand — down to 259 tons from 356 tons last year.

Main reason for this is the decision by the Japanese authorities to postpone the second minting of Hirohito coins.

The review predicts that net official purchases will fall in 1987, but remain positive with South Africans rebuilding their stocks as the rand strengthens and Latin American producers building reserves for strategic reasons when possible.

Mike Robertson
Gazing into gold crystal ball

London Bureau

LONDON - The gold market in 1987 will be more undecided than last year but the price of the metal should average &dollar;425 a ounce, say metal brokers Shearson Lehman Brothers in their annual review of the gold industry.

The review predicts a deterioration in the fundamental supply-demand balance as mine production increases for the seventh year in a row and consumption falls reflecting a reduction in Japanese offtake.

But, the strength of the dollar, the rate of inflation, the level of interest rates and the attractiveness of alternative investments are all factors which could outweigh the bearish fundamentals, says the review.

Predicting further dollar weakness, the review says that if the dollar falls to DM1.60 or Yen 138 the outlook for gold must be constructive, suggesting a retest of &dollar;450 and possibly &dollar;500 dollars sometime in the year.

However the most bullish argument is based on hopes of a flow of funds from alternative investments.

"Should the US stock markets start to top out then we would expect to see large scale diversification of assets as investment managers attempt to preserve the value of their funds.

"Gold would be the beneficiary of at least a portion of these funds. To put the relative sizes of the two markets into perspective, a shift of only 0.45% of the capitalisation of the world stock markets (basis mid-year 1985) would have been enough to soak up the entire investment purchases of gold by the private sector between 1975 and 1985," the review says.

While at present investment managers were content to stay with Wall Street and other stock markets, the higher these markets went the greater the desire would become to diversify into gold.

Citing the limited potential of further cuts in US interest rates as well as no real prospects of drops in inflation levels in the industrialised world as reasons, the review predicts the rally in bond prices coming to an end.

As world bond markets are even bigger than the stock markets, the review points out that it would take a shift of only 0.3% of global fixed interest funds into gold to soak up the entire 1975-85 surplus in gold, estimated at 1,800 tonnes.

Sounding a negative note, the review says there is no doubt that any rise in gold prices in 1987 will have to be "demand-pull" rather than "cost push" generated. Investment buying or lack of it will determine price levels rather than the shortage of supplies.

"On balance then it is more likely to be the 'uncertainty factor' rather than the 'inflationary factor' which will determine gold prices in 1987," says the review.

The review predicts that net official purchases will fall in 1987 but remain positive with South Africans rebuilding their stocks as the Rand strengthens and Latin American LDC producers building their reserves for strategic reasons when possible.

"[They all] realise that should their debt repayment situation turn sour then gold will still be accepted in payment for necessary imports," the review concludes.
Golds recover, bullion firms

Johannesburg — Gold shares closed firmer with prices recovering across the board on a stronger bullion price and despite a higher financial rand, dealers said.

Southworth gained R6.50 at R184 and Hardies R1.25 at R22.75 while mining financials had Anglos up R1.25 at R68.50. Platinums and other minings were generally steady but diamond share De Beers fell 30 c at R39.70.

Industrials closed mixed to firmer with the index resuming its upward trend, rising to a new high of 1,588 after slipping slightly to 1,557 on Thursday.

Most leaders were higher with Sappi and Amic up 50 c each at R24 and R53 respectively but Blue Circle lost 30 c at R8.20.

The JSE all gold index climbed to 1,852 from Thursday's 1,800 close and the overall index to 2,032 from 2,027.

In London, equities stood close to record levels in late trading which extended the opening gains but business was fairly quiet as the account drew to a close, dealers said.

Prices were marked higher initially after Thursday's sharp sell-off, mainly on hopes of an early cut in domestic interest rates. Yesterday afternoon's slightly higher opening on Wall Street also fuelled the firmer trend.

The higher bullion price prompted some sharp gains among gold producers with Randfontein up a net $4.50 to $36 and Vaal Reefs $3.50 to the good at $83.75. — Sapa-RNS
Bearish sentiment now evident in gold sector

A BEARISH sentiment, apparently born on the beaches over the Christmas break, now prevails over the gold sector.

The reasons for this change in allegiance revolve around the current strength of the market and a continuing weakening in the rand gold price.

While the Johannesburg Stock Exchange (JSE) All-Gold Index has fallen below the magical 2 000 points level, it still remains high in relation to its position a year ago.

The big increase took place in the third quarter last year, when a significant rise in the dollar price of gold sent gold producer share prices rocketing.

Even though the All-Gold Index has fallen back since its record high in January this year, the continued strength of the market is based on historical rather than current data.

Last year saw the All-Gold Index rise by over 60% and the Standard Bank Gold Fund, which includes dividend earnings, rose by 68%.

With inflation running so high, it is not altogether surprising that investors decided to jump on the bandwagon.

But recent buyers may have joined the market too late.

JSE analysts are already beginning to adopt a bearish tone — contrary to the vociferous bullish sentiments voiced last year.

With a possibility of some form of economic revival in the offing, broker recommendations to buy selected industrial stock have reinforced the current slide from golds and pushed the industrial index to a new high. Institutional buyers have already moved large sums.

The rand price of gold is, of course, the final arbiter in terms of gold producer’s earnings, and the switchback ride of 1985 and 1986 appears to have settled back into a gradual slide since last August.

This more or less coincides with the rise in the gold price above $425 — at which stage the rand exchange rate began to appreciate and became the major factor controlling the rand gold price.

In fact, the current rand gold price is R830/ounce — far below R928 which was the average for the last six months of 1986.

Should this trend persist, it goes without saying that gold producers’ earnings in this first quarter of 1987 continuing to bite, working costs must be on the rise and therefore bottom line profits will be hit. 

Bottom line profits will be hit.

One leading analyst predicts average dividend yields for the next 12 months will be a mere 4.4% — and this calculation has been performed assuming an average rand gold price of R880/ounce.

Yields as low as this have not been seen since 1974, although similar levels were approached in 1982.

Observations such as these reinforce a bearish sentiment.

With overseas investors still net sellers of gold shares — when the financial rand makes a safe opportunity — a further pessimistic note is sounded.

All in all, it seems an inopportune moment to buy into the sector.

Just as the tide turns, so does sentiment, but exactly when this will take place is anyone’s guess.
can gems and precious metals.

On February 10 JCSA executive director Tim Davidson presents the council's case for new measures to promote the fledgling industry to the review committee on State assistance for mineral beneficiation (Business January 23). This follows intensive discussions with several State departments over the past year.

At the heart of the case is a call for government to scrap immediately the 35% ad valorem duty on locally-manufactured jewellery, which, with 12% GST, puts an effective 51% duty on local products. Manufacturers claim these measures alone have practically strangled the industry at birth.

The council is also calling for the scrapping of the gold ratio, which demands that a minimum of 20% value be added to exportable gold jewellery. Italian manufacturers, for example, who produce some 200 t of gold jewellery a year, have to add only 7% value.

Government will also be asked to provide financial aid to the local industry. This will enable it to compete with countries like Israel, where the State provides export credits as well as subsidised working capital.

Robert Schwartz, MD of Schwartz Jewellers, SA's only international jewellery group, says SA has lost billions in jewellery exports over the past 18 years by failing to expand local manufacture.

Since the imposition of the ad valorem duty in 1966 the local industry has shrunk, in real terms, to just 5% of its size 18 years ago.

And, adds Schwartz, many entrepreneurs have left the country and valuable employment opportunities have been lost.

While SA diamond cutters and polishers now employ some 2 000 workers, the Israeli industry employs some 18 000. India officially employs about 500 000 and Belgium's diamond cutting industry provides work for 10 000.

Israel, India, the US and Belgium export cut and polished diamonds worth some $3 billion a year. South African sales are worth a mere $100m.

While SA is the world's major gold producer it used less than 1 t of its own gold for jewellery manufacture last year. In the same year it imported about 10 t of gold jewellery in its expensive beneficiated form — a ridiculous anomaly.

The worldwide industry used about 1 400 t of gold in jewellery manufacture and international jewellery turnover is estimated at $200 billion a year.

As Davidson says, the South African industry is the world's "laughing stock" while the country contributes the lion's share of Western gold production, controls 80% of the international diamond trade through De Beers' Central Selling Organisation and produces 70% of the world's platinum. Hopefully, this could change.

Davidson tells the FM that initial response from Minister Danie Steyn's new Department of Economics and Technology is "unbelievably positive." Department of Mineral and Energy Affairs (DMEA) director-general Louw Alberts, who says beneficiation can increase the value of gold by 1 000%, is also very supportive, he adds.

Sweetening the pill a little more, the Chamber of Mines has given the JCSA a sizeable grant to promote the gold jewellery industry. This is the first substantial support from the mining industry — and it could open the door to more help for the Cinderella industry.

But probably the greatest hope for a new order lies in Davidson's contention that the fiscus would cover its receipts from the current unpopular taxes several times over if the industry really took off.

JEWELLERY INDUSTRY

Hassles at home

The Jewellery Council of SA (JCSA) is at last making headway in its battle to promote SA's Cinderella jewellery industry — and to grab a bigger share of the multi-billion international jewellery market.

Local manufacturers have gripsed for years that countries like Israel, India, Belgium and Italy earn billions of dollars annually by benefitting and re-exporting South Afri-
GOLD SHARES

How to pick them

Taking the decision to invest in gold shares has rarely been so tricky. Despite all the recent excitement over gold, the important rand gold price has dropped some R150/oz below last year's peak above R1 000/oz. Yet the shares remain firm.

It is not surprising that private investors are turning to gold shares, in many cases for the first time. Interest rates on savings have dropped to around 8% while inflation hovers close to 20%. For some six months now, gold shares have been on a blistering run. In December, the JSE Actuaries All Gold index climbed firmly through the 2 000 mark to reach 2 154, showing a 70% rise since late July; and now stands at 2 115. Many gold shares have soared by 100% or more, yielding big profits for those who bought early.

After that run, analysts emphasise that it could be risky to buy now. The recent strength of the rand is the real joker in the pack. Analysts believe the ceiling on its rise is between US$30c and US$32c. At US$32c even a gold price of $450/oz translates into only R865/oz.

That means the dollar gold price will have to really perform, possibly moving towards $500/oz to get the rand price back to last year's highs. With the dollar gold price back up above $420/oz this week, and well-publicised theories that the dollar will keep sliding and thereby boost bullion further (see page XX), some believe $500/oz is feasible and will continue to find the shares attractive. The problem is in choosing them.

Analysts believe anyone getting into the market now should go for the low cost, quality shares such as Driefontein, Kloof, Wingelsbach and Western Deep Levels, and largely avoid the highly geared marginals. The marginals have had a tremendous run and their performance will be hit hard by a declining rand gold price. An example here is Durban Roodepoort Deep. The share price is up some 145% since January last year, but the December quarterly report shows the mine is still losing money after capital expenditure.

Analysts also advise a spread of shares. Bear in mind the risk factors — that, for example, the one quality share you decide to mortgage the house to invest in will be the next to be hit by serious labour problems. These, however, are the shares which, with the exception of Harties and Zandpan, are financially out of the reach of the man in the street who generally goes for the cheaper, more highly geared, marginal mines.

Each gold mine is unique. At least six key factors determine how its earnings and dividends react to a move in the dollar price of gold. These are the rand/dollar exchange rate; the mine's gold production, determined by the recovery grade and the tonnage milled; the expected life of the mine; its unit working costs; its capital expenditure plans; and the number of shares in issue.

The collective effect of these is known as the gearing of each share to movements in the gold price; and mines can be grouped in categories in respect of their gearing.

Ferguson Bros, Hall, Stewart, the Johannesburg stockbroking firm which supplied the statistics for the accompanying earnings table, groups them in four bands.

Category 1 mines are the safest investments, but they tend to have a low gearing, or sensitivity to the gold price. Their earnings may not rise as sharply as those of the Category 3 and 4 mines which have a high gearing to a rising gold price.

Simply stated, the difference between a Category 1 top quality share and Category 4 marginal share is that on an identical increase in the ruling gold price — say a rise by R100/oz up to R900/oz — the earnings of a Category 1 share may rise 30% over a year, while those of the Category 4 could double. The reason everybody does not buy only marginal shares is the risk factor of a drop in the gold price. "Using the same example, a drop in the gold price from R800/oz to R700/oz might reduce the earnings of the top quality mine by 10%, but put the marginal mine into the red."

As noted at the start, the investor in gold shares has to watch movements in the rand gold price rather than the dollar price, since that is what determines mine revenues. The mines sell their gold to the Reserve Bank which pays them in rand.

The Category 1 mines have generally high recovery grades above 7 g/t — the exception is Randfontein at 4 g/t — while the Category 4 mines are low grade at levels below 4 g/t. The gold mines are legally required to mine to the average grade of their ore reserves to extend their economic life as long as possible. On most mines, the grade drops as the rand gold price rises as some previously unpayable low grade ore is brought into the payable reserves.

Most marginal mines cannot reduce their recovery grades further, so a higher price gives them an immediate income boost. Grade on the top quality mines tends to drop as the gold price rises. Quality mines have reserves of high grade ore that enables them to lift recovery grade and to try to maintain revenues as the gold price falls. Marginals

versary commemorative coin, which did not meet expectations. Plans for a follow-up have been dropped.

There are also doubts that platinum will, on fundamentals, be able to repeat last year's excellent performance.

As always, the market is a tug o' war. For the moment, the gold bulls are in the ascendancy. The only question is not whether that will change, but when. And that can only be answered with a crystal ball, not by reasoned analysis.
generally cannot do this, and take an immediate drop in profits.

Grade must also be related to working costs. The deeper the mine, the higher the working costs, and therefore the better the grade must be. Two of the JSE's current hot gold shares, Beatrix and Joel, are comparatively low-grade mines at around 6 g/t, but their workings at depths between 1000 m and 1500 m are shallow compared with operations like Western Deep Level where the bulk of mining takes place below 2000 m but the grade is not much better at 7 g/t.

Working costs and capital expenditure, along with tax and lease payments, are deducted from the mine's revenue to arrive at distributable earnings which can be paid out as dividends.

Working costs are incurred on current operations producing gold, while capex is money being spent now on projects which will benefit future production. Both are deducted immediately from revenue for tax purposes. Working costs should be lower on shallow mines and on new mines; the older the mine, the further the working areas are from the shafts.

Some 45% of working costs are accounted for by black labour charges, which for the last 10 years have been running well ahead of inflation. The result is an increasing move towards mechanisation where possible to cut labour requirements. JCI's new Joel mine is designed for mechanised mining and will need 2000 workers to produce at a rate which normally requires at least 6000 workers.

Working costs are crucial on marginal mines because they are high. Grades can't be lifted, so inflation keeps these mines at risk unless the gold price compensates.

Short-life mines have less than five years of operations left before their estimated closure. However, it is surprising how long such a mine can continue mining remains and shaft pillars, and a rising gold price can add years to life expectancy. Bracken, for example, should have closed down eight years ago, according to Gencor, which manages the mine. It goes on.

Short-life expectancy restrains the share prices, putting some on high dividend yields because they are good dividend payers. Shares such as Leslie, Maricvale and Driefontein offer high dividend yields.

The number of shares issued can affect gearing markedly. In the classic case, Durban Roodepoort Deep, has only 2.3m shares issued. If it could achieve a R10m rise in distributable earnings this translates to nearly 500c a share; Driefontein, with 102m shares issued would have to earn R500m for a similar EPS rise.

To sum up: top quality shares like Driefontein, Kloof, Elandrand and Vaal Reek are sound, longer-term investments which will perform well on a rising gold price and provide protection to shareholders when that price falls. Marginals like Durban Deep, Leslie and Venterspost move better on a rising gold price, but offer no defence against a falling price.

Money could still be made by investors out of turnaround situations. Western Areas is one to watch, particularly if working cost benefits of mechanised mining methods being introduced are all that the managers, JCI claim. The share has speculative interest because of the potential new gold mine, South Deep, on its south-western boundary, in which Western Areas would have a large interest if JCI decides to go ahead with the new mine. A cheap way into Western Areas is through Elsburg, which holds 19.6m Western Areas shares and should be worth 65% of the Western Areas share price.

Another to watch is Rand Leases. The long dormant mine has been brought back to life by Steen and Frank Sevorn and their team, despite the claims of former managers Anglovian who insisted for years that the mine could not be profitably reopened. Also looking interesting are Southgo and Sub-Nigel, two "golden oldies" on the East Rand near Springs which have been reopened by independent mining entrepreneurs.

A buoyant gold price could trigger similar ventures.

Brendan Ryan

SEE HOW THEY RISE

Comparing the JSE gold performers

Earnings a share (annual for year to September at Gold Price of

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<tr>
<th>Mine</th>
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<td>West Rand Cons</td>
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* Source: Fergusson Bros. Hall, Stewart & Co Inc.
Rand, gold mark time

Business Editor

BOTH the rand and gold today traded in a narrow range against a still weak dollar which saw the rand lose ground and gold firming to above its opening level.

The rand opened unchanged at $0.4015 and in early morning rose to $0.4017. In late morning it eased to $0.4019, but firmed to $0.4025 in early afternoon. It firmed to 8862 German marks from 8744 German marks and to 73.41 yen from 73.39 yen, but was unchanged at R3.16 against £1.

Gold dropped nearly $3 overnight to open at $401.35. It reached $403 at noon and eased to $402.50 in early afternoon.
Investors are shifting focus to Europe and the Asia-Pacific region, reflecting a broader sentiment of economic recovery. Europe has been showing signs of recovery, with improved manufacturing and services sectors. The Asian economies, particularly China, have also been performing well, with robust export growth and strong consumer spending.

The stock market has been marked by a lack of volatility, with many investors taking a long-term view. This has led to a rise in demand for bonds, as investors seek to hedge against inflation.

The dollar has been weak, driven by the US Federal Reserve's quantitative easing policy. The dollar's weakness has been beneficial for exporters, particularly in the oil-producing countries.

There is a strong case for balance in investment portfolios, with a mix of stocks, bonds, and commodities. The key is to be well diversified and to have a long-term perspective.
NORMAL market fluctuation today saw the rand move in a narrow range above 9,48 and gold above 400 against a still weakish dollar.

The rand opened 30 points down at 9,4825 and slowly drifted down to 9,4820 in early afternoon. It firmed to 9,3734 German marks from 9,3585 German marks and to R3,15 to £1 from R3,16.

Gold opened $1,95 up at $402,35. In late morning it rose to $403,55 and then eased to $402 in early afternoon.
Two Key Recession

Presidential

Inflation expectations are now rising, but if the economy softens and interest rates fall, inflation expectations could fall too. This would be good for gold, since gold is viewed as a store of value in times of economic uncertainty. However, if the economy continues to grow, interest rates could rise, which would be bad for gold as it is seen as a risk asset. The key is to watch the economy and interest rates closely. If interest rates fall and the economy softens, gold could rally. If interest rates rise and the economy grows, gold could struggle.

Gold and Dollar

Investors are shifting to luxury goods and real estate, as these are seen as a hedge against inflation. Gold, too, is seen as a hedge against inflation, but it is also a safe haven asset during times of economic uncertainty. As such, gold prices are likely to be volatile, with significant gains or losses depending on economic conditions.
Gold down, rand steady

Business Editor

A DOLLAR comeback last night did not initially affect gold which dropped fairly sharply in early afternoon today while the rand held steady.

The rand opened 10 points up at 60,4570 and in early trading rose to 60,4893 but eased to 60,4587 in early afternoon. It firmed to 0,8823 German marks from 0,8673. German marks, to 74,80 yen from 74,82 yen and to R3,13 to £1 from R3,16.

Gold gained $2 overnight to open at $411,50 and in late morning rose to $411,90 from where it declined to $403,50 in early afternoon.
Gold surges $6, while $1 dollar falls to new lows

GOLD surged more than $6 at one stage to above $416 on the British and European markets yesterday while the dollar touched new lows against the mark, below DM1,80.

As well, the commercial rand broke through the US$0.80 level for the first time in more than 18 months — before easing slightly late in the day.

Depressed by a stronger financial rand, gold shares struggled to make new headway on the JSE, but industrials were strong, pushing the industrial index to another new high.

The surface buying rate for the rand was quoted at 56,14c by the Standard Bank group in the morning for buying and selling limits of R10,000.

Barclays' equivalent rate was spot on 50c about the same time of day, but, as with Standard's rate, eased to around 49.9c at the close.

The air buying, telegraphic trading and sell prices were in both cases in the 48.50c to 49.85c range, and also settled a fraction later on.

Dealers said although the rand was apparently confounding expectations with its new strength against the dollar, and the speed with which it had risen against the US currency, the rise was substantially due to the steeper slide in the dollar rate.

They also said the rand had barely moved at all against a basket of other world currencies. — Sapa.
Pressure on rand, gold

Business Editor

STEPS by the United States Federal Reserve and the Bank of Japan to bolster the dollar put downward pressure on the rand and gold overnight.

The rand dropped 32 points to open at $0.4883 and rose to $0.4995 before easing to $0.4985 in early afternoon. It eased to 0.8691 of a German mark from 0.8741, to 74 yen from 74.08 and to R3.15 to £1 from R3.14.

After going above $417 in London yesterday, gold closed at $408.60. It opened slightly up at $406.65 and then dropped to 406.69, but firmed again to $411 in early afternoon.
Gold and rand up, shares booming 

By TOM HOOD
Business Editor

SHARE markets and the gold price are surging ahead again, fuelled by the American dollar falling to a 10-year low.

The rand improved to 49,16 US cents today in Johannesburg, the highest rate against the dollar since April last year and up from 48,40 cents yesterday.

This is also a recovery of 29 percent from the rand’s low of 38,19 cents in mid-August.

The currency is being bolstered by a gold price of around R560 an ounce, say foreign exchange dealers.

The rand also strengthened slightly against sterling (R3,14 to the pound) and the Deutsche mark (R6,83 marks to the rand).

The dollar slipped below the benchmark level of 1,80 German marks to 1,78 marks today on the Tokyo foreign exchange market.

Gold rose almost $4 to $419,65 (R465,50) an ounce in London today.

Industrial share prices hit new peaks in Johannesburg, London and on Wall Street yesterday, adding millions to the value of shares.

ACTIVE SHARES

The JSE industrial index reached a record 1,508 points today after rising eight to 1,499 last night — a jump of 50 so far this month.

Shares to rise included furniture group Afoa, Rembrandt group companies, Barlows, PS Industries, Anchusa, Messina, Kaapwyn, SA Breweries, Doby, Globe Engineering, Curries and Pep Stores.

A stronger financial rand, however, kept the lid on the price of gold shares, making them less attractive to foreigners. Golds covered slightly after easing yesterday.

Today the financial rand was quoted at 23,38 US cents, up from 23,50 cents yesterday and a recovery of 30 percent from its low of 18,50 cents last August.

● Tax cuts forecast — Page 23.
the only mine in the group to get grade up during the quarter. It improved to 3.4 g/t (3,311 g/t) but throughput dropped to 677,000 t milled (715,000 t).

Blyvooruitzicht, which had spent R9,6m on capital expenditure in the six months to December, estimates it will spend another R117m in the rest of its financial year to June.

At Golden Dumps there is still no news on when the long-anticipated merger between Springs Dagga and Consolidated Modderfontein will happen. There has been widespread speculation in the market on the reasons for the delay in the merger, which was expected to have been completed last September.

However, a Golden Dumps spokesman insists there is nothing sinister in this. He attributes the delay to need for more detailed geological information before a deal can be struck which is fair to both Springs Dagga and Cons Modder shareholders. He could not say how long this would take. Commissioning of Springs Dagga’s gold plant is taking place this month.

Cons Modder’s recovery grade recovered 5% to 4.21 g/t from the depths of 4.01 g/t plumbed in the previous quarter, after falling from 5.3 g/t in the June quarter. The Golden Dumps spokesman says the grade is being curbed because of the high rand gold price.

Development results show that the average value shown on the Black Reef at the North-East Prospect shaft is continuing to drop but is picking up at the No.1 circular shaft.

In the Anglo American group, a feature of the results from Freegold was the promising initial development results from Erfeel main shaft, where 7.4 g/t were advanced on the main reef and 242 m were sampled. These averaged 16.41 g/t of gold and 0.43 g/t of uranium over a channel width of 60.1 cm, giving 986 cm.g/t gold and 25.82 cm.kg/t uranium.

Freegold’s gold production dipped to 25,819 kg (26.49 kg) because of the shorter working quarter, lower recovery grade which was owing to more tonnage being drawn from surface dumps, and continuing labour problems. The last of these included a one-day stayaway on October 1 by last year and employee conflicts at President Steyn in December.

Labour problems also played a part in the 8.6% drop in gold production at Vaal Reefs, where output fell by 1,794 kg to 18,955 kg. Management says a planned drop in grade and the shorter working quarter also impaired gold production. Grade was down 3.7% at 6.7 g/t (7.04 g/t) while tonnage through dipped 5% to 2,795 m.

At Western Deep Levels grade recovered slightly to 6.5 g/t (6.27 g/t). It has been affected by increased treatment of low-grade dump material through the uranium plant which was converted into a gold plant, and the lock-up of gold in the No.1 treatment plant. At 37,200 kg, gold production for the year is marginally down on 1985’s 37,467 kg and well below the target of 41,200 kg set for 1986.

In Gencor group St Helena’s gold production dropped to 2,079 kg (2,12 kkg) because of the work stayaway on October 1, a partial stayaway on October 9 and the loss of seven shifts because of fires at the Nos 2 and 8 shafts on October 6 and 18 respectively.

Fire aftermath

The October 1 stayaway was organised by NUM following the deaths of 177 mineworkers in the fire at Kinross on September 16. Kinross’ tonnage throughput fell to 443,500 t milled (355,000 t) last quarter in the aftermath of the fire.

Chemws uranium plant boosted production to 102.2 t of uranium for the quarter (63.9 t) following ‘revised sales projections’, and declared a final dividend of R10m. That’s good news for Stillfontein, which holds 80% of Chemws and received R12.8m in dividends from Chemwes in the year to end-December out of total taxed income of R40.5m.

Brendan Ryan

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**GOLD QUARTERLY**

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<td>Cost %*</td>
<td>Recovery g/t</td>
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<td>k/kg</td>
<td>Recovery g/t</td>
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<td>Gold &amp; other R'000</td>
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**ANGLO AMERICAN**

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**GFSFA**

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**JCI**

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**INDEPENDENT**

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* Figures in parentheses refer to previous quarter.
* Calculated at R1=50.46 when dollar figure not given by mine.
Price of gold seems set to see-saw in '87

NEW YORK — Last week's sudden drop in the gold price is only the beginning of a bumpy road for gold prices this year, many analysts say.

Some speculators were hurt last Tuesday when gold contracts on the New York Commodity Exchange fell $15 an ounce, the sharpest one-day drop in nearly two years.

That wiped out almost all of gold's gains since the beginning of the year. On Friday, February gold contracts at the Comex, after falling briefly to nearly $400, closed at $405.30 an ounce, down $3.60 for the day.

Frederick Demler, metals economist for Drexel Burnham Lambert, says the recent price choppiness "underscores the increased market volatility" likely to occur in 1987.

Increased uncertainty

Jeffrey Christian, MD of a New York-based commodity-consulting company, says: "Volatility in gold tends to pick up in the late stages of an economic expansion, as economic uncertainty increases."

But along with the wide price swings, many analysts also expect gold prices to climb gradually as the year progresses. A continuing depreciation in the dollar, increasing money supply, firmer oil prices and no mild acceleration in inflation will probably trigger the gains, they say.

Craig Sloane, an analyst at Smith Barney, Harris Upham & Co, New York, says "an upward explosion in gold prices can't be ruled out, particularly if US money-supply growth continues at its blistering pace."

Sloane, who recently urged investors to buy gold, says gold could reach $500 by the end of the year.

It is also possible that gold could benefit from increased speculative interest if a significant stock market correction follows on the heels of Friday's viciously volatile trading.

But if the rally that has ruled all but two stock market sessions this month gets back on track, equities will probably continue to siphon investors from gold, analysts say.

"Why buy gold when you can throw a dart at the New York Stock Exchange table and make a bundle?" asks Jeffrey Nichols, president of American Precious Metals Advisors.

Drift lower

Robin Adams, president of Resource Strategies, says: "If gold fell to $350 an ounce and the Dow rose to 2,000, I would be tempted to switch."

If bullion-buying continues to decline, gold prices will probably drift lower in the weeks ahead.

David Sobotta of Shearson Lehman Brothers says gold could fall soon to as low as $375. There is no physical demand now, he says.

Some analysts do not expect that to change soon. The gold market has been unable to sustain any type of rally, says William O'Neill, research director of Elders Futures.

Nevertheless, a growing number of analysts say the fundamentals are in place for gold to appreciate, particularly in the second half of 1987.

More attractive

For example, many foreign-exchange traders expect the dollar to continue weakening, making gold a more attractive investment.

And despite a record drop in money supply during the week ending January 12, the bulging trade deficit will keep pressure on the Federal Reserve Board to expand money supply, several analysts say.

Moreover, a mild acceleration in inflation rates during the second half of the year should translate into further gains.

Firmer oil prices should also help fuel future gold gains. — AF-DJ.
JOHANNESBURG — Gold share prices were narrowly mixed at midday in the absence of a lead from the bullion price which hovered around $406, dealers said.

The rest of the market also lacked clear direction. Among other mining and financials diamond share De Beers, Lydenburg Platinum and Gencor slipped 25c a piece to R40.75, R62.75 and R44.75 respectively.

The Krugerrand fell R10 to R1,165, they added.
Higher gold price lifts Anglo profits

The high average rand price for gold of R29.635 a kilogram helped Anglo American Corporation’s Transvaal mining operations to lift after-tax profits for the December quarter by 5.3% to R415.4m.

However, the fewer working days in the quarter combined with labour troubles meant a 3.9% drop in the amount of ore milled to 4.6m tons.

This, and the fact that lower grades were milled, meant that gold production fell by 5.1% to 31264kg (32 954kg).

As a consequence, profit before tax fell 7% to R658.9m. But the tax bill fell to R243.5m.

Vaal Reefs reported a lower pre-tax profit of R323.4m, but profit available for distribution rose by 24% to R121m.

Gold output declined by 1794kg as a result of a planned drop in grade and lower throughput due to the shorter working quarter. Production was also adversely affected by industrial action and faction fighting.

Working costs increased by 2% to R241.5m, and the cost per ton milled rose from R84.18 to R85.40.

Western Deep Levels profit available for distribution was only slightly up over the quarter at R47.1m (R46.9m).

Uranium profit rose from R337 000 to R10.6m. Tons milled were slightly down at 1 457 000 (1 461 000) but grade was up by 3.5% to 6.5 g/t resulting in an increase in gold output of 1.9% to 9 334 kg.

Elandsrand: Available profit dropped by R12.4m over the quarter to R30m largely as a result of a R7.3m provision for non-mining taxation and a R4.2m increase in appropriation for capital expenditure. The company is now subject to taxation on all its non-mining income and, accordingly, the taxation provision for the year has been adjusted in this quarter. Capital expenditure was slightly higher at R22.5m (R18.6m).

Gold grade remained unchanged, and tons milled and gold produced were marginally lower this quarter.

Total working costs at R35.9m were 4% lower over the period and this was reflected in lower unit costs.

Ergo: Total material treated rose by 4.2% to 5.6m tons, gold production rose by 7.9% to 2 775kg, uranium production at 56 560kg was 8.3% higher and acid production was up by 8.9% to 133 031 kg. Operating profit increased by 18.8% to R36.7m. After an increased provision for taxation, however, and increased appropriation for capital expenditure, available profit was virtually unchanged at R12.8m.

Ergo Division: Slimes treatment rate was normal and higher than the previous quarter reflecting higher plant availabilities. Gold production increased by 240kg to 1 827kg. Uranium and acid production were higher but revenue from uranium and acid was lower due to normal phasing of sales.

Simmergo Division: Gold production declined by 75 000 to 448 000 in spite of increased throughput of sand and ore as a result of a lower grade of sand treated to 0.5 g/t (1.06 g/t). The reduction in sand grade reflected normal variation within the dumps being reclaimed.

SA Lands: Profit before tax at R2.8m was 4% below the previous quarter but provision for taxation was reduced to R1.4m (R2.5m) and resulted in an increase in after-tax profit to R2.15m (R1.19m).

There was a net recoupment of capital expenditure of R238 000 from the sale of property and the flotation project. Available profit rose by 38.8% to R2.4m.

Free State Gold Mines: Tonnage milled at Free State Consolidated Gold Mines (Freegold) for the quarter ended December 31, 1986 increased by 1.3% to 5 778 000 tons (5 701 000). This was as a result of an increase in surface dump-tonnage treated in order to take advantage of the favourable gold price. Accordingly, gold price was decreased by 3.9% to 4.47 g/t (4.65 g/t).

Gold production fell by 2.5% to 25 610kg (26 450kg) reflecting the drop in grade as well as a shorter working quarter and a rise in industrial or inter-employee action.

Profit before taxation fell by 12.5% to R228.8m (375.8m), profit after taxation by 23.1% to R213.8m (R278.1m) and available profit by 21% to R95.3m (R120.8m).—Financial Staff and Sapa.
Gold rises, as $ falls sharply in Europe

GOLD prices rose yesterday as the dollar—which had strengthened earlier in the week—fell sharply in hectic European trading.

Gold rose in London to a late bid price of S409.50 an ounce, compared with S406.50 late on Wednesday, after closing in Zurich at a bid S410.

Dealers in London reported a mostly routine session, with gold opening higher at S410.70/411.20.

Most movements were foreign exchange orientated, amid two-way professional and client business.

News that the West German Bundesbank had cut its discount rate prompted an early afternoon burst of activity, with gold slipping slightly.

But the cut failed to boost the dollar because it was accompanied by restrictive monetary measures and gold steadied again.

Dealers in Frankfurt, West Germany, said the dollar also came under pressure in afternoon trading after a statement by Alan Greenspan, former chairman of the US Council of Economic Advisers, that fears of a freefall dollar decline were "credible".

In London, the dollar lost against the British pound. It cost 1.5340 to buy one pound, more expensive than the 1.5190 it cost late on Wednesday.

Other late dollar rates in Europe, compared with late on Wednesday:

- 1.8140 West German marks, down from 1.8495.
- 1.52025 Swiss francs, down from 1.54825.
- 6,0325 French francs, down from 6,1075.
- 2,0460 Dutch guilders, down from 2,0825.
- 1,232.00 Italian lire, down from 1,212.25.
- 1,33685 Canadian dollars, down from 1,3363.
JSE takeover fever fuels bull market

TAKEOVER and acquisition fever is gripping Diagonal Street.

This intensification of activity, with the new year only in its infancy, has brought to the fore an essential ingredient of a raging bull market.

A flurry of announcements by companies that they are on the acquisition trail, or embroiled in delicate negotiations, has added froth to an already buoyant market.

Shares currently associated with pending deals, which could materially affect the share price, include Crefin, Brokers Investment, Romanda, Rale, Buffcor, Pactape and Quality Tyres.

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Takeover fever fuels JSE

Today the JSE was not the body responsible for policing insider trading.

He stressed the need to change the law to make it more effective to establish whether insider trading had taken place.

“We have plenty of evidence. But to get it to the stage where it leads to a conviction is the bugbear."

"The issue has been plaguing us for some time now, but has become more relevant in today’s highly active market."

Britain has moved to rush through Parliament stiff jail sentences of up to seven years — more than three times the previous maximum penalty for those convicted of insider trading.

The wave of acquisition mania on the JSE was sparked off last September by Liberty Life’s R400m takeover of Prudential. Ahead of the announcement, Prudential’s share price rocketed.

It was followed by a spurt in Wooltru’s share price well before management divulged that merger negotiations with the Pep group were under way. The outcome is expected later this month.

However, some of the most dramatic price rises have often occurred among the lesser-priced stocks ahead of the deals. These stocks are the centre of takeover speculation because most of the companies on the JSE are controlled by six major players.

A recent example was the soaring price of H J Cables before the formal announcement of a deal with Ronnie Price’s Eureka.
Gold breaches $420 barrier

LONDON. — Gold slipped from earlier fresh three month highs in late trading, with Comex easing from its highs, although prices ended at a steady $421.00/$422.10.

Dealers said the higher trend yesterday, with gold opening at $422.30/$422.80 an ounce against $415.75/$416.25 on Friday, reflected dollar weakness.

But conditions were not particularly active, and most activity appeared to be generated by professional operators. In spite of the move above the $419/$420 resistance level, there was little follow-through impetus.

Gold rose sharply in pre-European trading in Australia yesterday morning, but many operators here were reluctant either to pay higher levels, or sell into the rise, they added.

Thus yesterday's trading pattern was one of consolidation, with prices holding within a fairly narrow range.

Gold was fixed yesterday afternoon at $422.25, around the midpoint of the day's $2.50 range.

Platinum also gained yesterday from gold's steadiness, being fixed at $550.00 an ounce yesterday afternoon, the highest levels since early November last year, they said.

In Zurich, gold closed near the day's highs after holding firm all day in response to the dollar's fall, dealers said.

It finished at $422.50/$423, its highest level since last October, compared with Friday's $415.60/$416.10 close.

The day's afternoon peak was $423.70.

Other metals followed gold but platinum and palladium also benefitted from good industrial demand.

Platinum rose $17 to close at $549/$553 an ounce, while palladium ended at $129.60/129.80, compared with its previous $127.75/$124.75.

Silver added $0.8 to $5.67/69. — Reuter
Market indices hit new highs

Gold price near $420 in Europe

From LIZ ROUSE

JOHANNESBURG. — The soaring gold price set off another mining buying spree on the JSE yesterday and even London turned a buyer.

Major market indices hit new highs. The market closed in a buoyant mood as the gold price neared $420 in after-hour dealing in Europe.

Analysts said the metal, having broken through two barriers in a short time, should now stage a fast advance, if the charts are to be trusted.

Professional buying

The man in the street climbed into lower-priced gold shares, but the strength of gold leaders such as Vaal Reefs, Southvaal and Randfontein reflected professional buying.

Analysts are now looking for an All Gold Index of 2 200. The index formed 54 points to a new high of 2 154 yesterday with 12 gold shares at new peaks.

The mining house index rose 13 points to a new high of 1 412, with eight shares at new peaks. The mining house index gained 49 points to 2 619, nearing its previous peak of 2 940. The diamond index bounced up 207 points, back at its Monday peak of 7 253.

Selected industrial shares were at peaks and the index gained three points at a new high of 1 457. There was enough takeover talk in the market to keep the sector buoyant.

Speculative element

Brokers noted a strong speculative element in the Development Capital Market where 13 new highs were recorded. Once again, as in the 1969/1970 boom, the JSE was attracting people who had never seen a share certificate, said a broker.

Since December 1, 1986 the rand has appreciated by 6.6% against the dollar. But it has, with the exception of the Japanese yen, made little headway against other major currencies.

In the period December 1, 1986 to Jan 14, 1987 the rand could buy:

- An extra $0.1;
- An additional half a German pfennig;
- 1.1 more Swiss centimes;
- Less than a British penny;
- Eight more French centimes.

Against the Japanese yen the rand has appreciated by 6.2%. At the beginning of December R1 bought 79.39 yen but last night R1 could buy 74.74 yen. The reason is that the Bank of Japan has been depreciating its currency to level-peg with the dollar so as not to disadvantage its export trade.
Dealers see gold higher still
SA will still top gold list in 1989

NEW YORK — World gold production rose 5% in 1988 to 1 581,5 tons.
It will increase to an estimated 1 652,4 tons in 1989, the Washington-based Gold
Institute says.
SA was the world’s leading producer, with 650 tons mined last year — 41,1% of
the world total — and will still be Number 1 in 1989 with 725 tons.
The country will be down to 39,6% of
the world total in 1989, the institute adds.
The Soviet Union, in second place with
272,2 tons mined last year, will still be
number two with 273,7 tons in 1989.
But its share in world output will shrink from 17,3% to 14,9%.
The US, which produced 109,6 tons last
year, will outpace Canada to take third
place with 176,5 tons in 1989, the institute predicts.
Production will also increase sharply
in China — from 68,8 tons to 93,3 tons —
and in Brazil from 61 tons to 80 tons
between 1988 and 1989. — Sapa, AP.
Investment currencies showing huge gains

Gold price rise not ‘impressive’

By Neil Behrman

LONDON — Gold continues to strengthen in the face of the worst dollar crisis since 1978 when massive intervention by the Federal Reserve Board halted the currency’s decline.

But precious metal dealers say relative to the dismal performance of the dollar, gold’s performance has been unexciting.

Gold reached $417.25 in late New York trading yesterday, compared to $410.50 late on Tuesday. It opened at $417.47 in Hong Kong today.

The dollar has fallen to an all time low of 153 against the yen.

Its rate against the Swiss franc is around 1.53 against 1.43 in 1978, while its rate against the Deutschmark is 2.630 in New York yesterday compared with the record low of 1.70 in early 1979.

Gold has risen in tandem with foreign currencies since the beginning of the year.

An international investor who switched out of dollars when it hit its all time peak into other currencies would have made 93 percent in Swiss francs, 60 percent in Deutschmarks, 75 percent in yen and 50 percent in sterling.

But gold has appreciated by 49 percent, so the price has performed poorly in terms of the major investment currencies.

Some Swiss bullion traders believe speculative and investment demand will spur gold prices.

Dealers said gold had risen sharply early in the day amid strong buying both in Hong Kong and Zurich.

It settled back slightly with the entry of the London market but regained momentum when the New York market opened.

Traders said gold broke through a number of resistance points during its climb and that each had further reinforced the rally.

London dealers were more cautious, especially at prices of around $418.

They said that physical demand was slack and supplies were plentiful.

Foreign exchange markets were so bearish about the dollar that traders suspected there were huge bear positions about.

Central banks withdrew from the market, but unexpected intervention could catch the foreign exchange markets by surprise and the dollar could rally sharply.

But after a technical recovery, the dollar could resume its decline, said traders.

Some predict the currency could fall a further 10 percent because the Reagan Administration does not want higher interest rates to hurt the economy.

In those circumstances the dollar price of gold could soar above $550 an ounce.

In response to an article in the New York Times which stated that the Administration wanted the currency to fall further, the White House spokesman, Mr. Larry Speakes said: “The dollar is in an orderly decline.”

The market interpreted this silly remark as being bearish for the dollar.

Meanwhile European ministers are worried the decline of the dollar will hurt their exports. French economics minister, Mr. Edouard Balladur said the fall was “harmful to the world economy.”

This view, he said, was shared “by all European countries, as well as Japan.”
Mining's retreat in steady market

THE VITAL VIEW

For other prices, see back page

National Western Province, Eastern Province, Boc (71c + 9c tax)
Gold shares drop as bullion sinks

JOHANNESBURG — Gold shares closed mostly lower, pulling the all-gold and overall indices down from the records set yesterday as the bullion price slumped to 408.75/409.25 US dollars an ounce, dealers said.

The all-gold fell to 2.100 from 2.117, and the overall index to 2.121 from 2.133.

In heavyweights, Kloof was 25c down at R39.50 and Harmony was R2 lower at R53. Harties was marked down 65c at R25.25.

Beatrix, which announced yesterday that almost half of its black workforce had resigned, plummeted R1.15 to R17.75.

De Beers was down 65c at R30.10.

In London, share prices retreated from yesterday afternoon's record levels, with the FTSE 100 at 5.30 pm SAST standing 12.8 higher at 1788.4 after the record high of 1774.4 at 4.27 pm SAST.

Dealers said tight profit taking and the lower opening on Wall Street on Monday started the fall back.

Equities gained strongly during the session on the continuing record breaking run on Wall Street and had been led higher by the gains in oil shares and crude prices.

Although Wall Street later turned narrowly mixed dealers said shares were beginning to look soft as buyers consolidated gains rather than liquidate existing positions.

Overspill demand from the bull market on Wall Street had found its way into blue chip issues, with ICI 20p up at £1.185 after £1.100. — Saps-RNS
Gold sets JSE booming

From Page 1

Governor, Dr Gerhard de Kock, has said that a dollar rise in the gold price raises the value of SA's gold output by $20 million over a full year.

The rise in gold and platinum prices is taking place against a background of turmoil in world currency markets, which makes the precious metals more attractive investments.

The dollar has weakened steadily in spite of support from the West German Bundesbank earlier this week.

The French franc has also been in difficulties due to labour troubles and a flight of investment money from France into the strong West German mark.

Our correspondent reports that share prices powered their way to fresh peaks on the JSE yesterday.

Records tumbled with the JSE overall index leaping 46 points to a new high of 2,133, reflecting the 49-point surge in the all gold index to a record 2,118 — surpassing the previous peak of 2,079 on September 22 last year — and the 12-point advance in the industrial index to an all-time high of 1,448.

Other mining, mining financials and mining house stocks covered new ground with De Beers at R40.25, and Anglo at R75.50, scaling previous heights.

Dealers said buying was mostly by private clients rather than the big institutions.

Mr William Bowler, head of research at stockbrokers Ferguson Bros, said: "There is a lot of strong buying pressure and, as long as the dollar gold price continues to firm, the market will go higher.

"What worries me is that if the dollar gold price falters, there could be a greater percentage adjustment of gold shares.

The market, therefore, requires a little caution, closing in Johannesburg at 9,783.14.

Mr Richard Jesse, of Martin & Co, said the booming stockmarket was largely a question of there being no other good alternative avenues of investment.

He said: "At this time last year, investors could get 20% by putting their money on call as opposed to only 8% today, well below the inflation rate. There is an oversupply of property so that there is no incentive in putting money into that.

"International currencies are looking hairy and unstable. This is essentially good for gold and its surge above $400 helps to boost confidence."

Mr Jesse expects the market to go higher.

By AUDREY D'ANGELO
Financial Editor

FORTUNES were made on the Johannesburg Stock Exchange yesterday as gold and mining finance shares soared to record levels. The news of a gold price surge in London.

The market value of shares on the JSE rose by almost R16 billion on expectations that gold would continue to go up as the US dollar weakened further.

The All Gold Index, which closed just below its all-time high last week, broke new records above 2,100 during the day.

The gold price closed in London at $411.25 an ounce compared with $404.50 on Friday, after climbing even higher at one stage.

The rand strengthened with the gold $500 by year-end.

From MAX

JOHANNESBURG — President Kenneth Kamuzu Banda of Malawi died yesterday after a brief illness. He was 72.

The document was sealed in a metal box and handed to the cabinet minis tery.

It contained a monetary, a draft constitution, and a draft of the new constitution.

The government declared a day of mourning and ordered all flags to fly at half-mast.
Gold could hit $500 by end of year — Kantor

By AUDREY D'ANGELO
Financial Editor

Gold could easily reach $500 an ounce by the end of this year as rising inflation in Western industrialized countries makes it an attractive hedge, University of Cape Town economics professor Brian Kantor predicts.

Commenting on the surge in the gold price yesterday, which sent the prices of gold shares rocketing on the Johannesburg Stock Exchange (JSE), Kantor said it was not yet high enough to pull SA out of trouble.

"It is not very long since the gold price was $430 an ounce. But it is not beyond the bounds of possibility that the gold price will reach $500 by the end of this year. I tend to be quite bullish about this."

One of the reasons for this, he said, was that the US economy was not well managed.

The US economy would recover, but the dollar would weaken and this would put pressure on other Western industrialized countries to inflate their economies. "This makes gold look more attractive."

"Luck and good management"

He said a high gold price alone would not be enough to solve SA’s economic troubles.

"We need luck and good management. But a high gold price is a helpful factor."

Discussing the rise in gold shares yesterday, Kantor said the JSE was extraordinarily sensitive and rose in anticipation. Further gains would be necessary to keep the momentum going.

His views on the outlook for gold contrast with those in the Standard Bank economic review.

This suggests that the gold market "holds few promises" of a major price rise.

The bank says optimists who expect the surge in economic growth in the second half of last year to extend into 1987, and accelerate, are likely to be disappointed.

It thinks the world economy is likely to languish and, for this reason rather than sanctions, non-gold exports are likely to be less than in the second half of 1986.

Consumers in SA have little disposable income so that the potential for an improvement in private spending is "very limited, unless taxes are cut."

This means, the bank says, "the optimism that may have been created ... by the growth surge in the third quarter of 1986 is not likely to be fulfilled."
Gold, platinum soar

JOHANNESBURG

Gold and platinum broke through current barriers at the weekend against a background of turmoil in European currencies and bearish sentiment on the dollar.

Precious metals prices soared as European Community finance ministers scurried to set up a meeting to realign currencies within the European Monetary System (EMS), in disarray as the West German mark climbed and the French franc sank last week.

The gold price went through the $405 mark in New York on Friday and in Hong Kong on Saturday.

On the Commodity Exchange in New York, gold closed at $406, up from $402.20 late Thursday. It opened at $405.79 in Hong Kong.

Platinum futures surged on the New York Mercantile Exchange on Friday as speculators interpreted the metal's ability to break the $500 level as a buy signal.

Platinum began its assault on $500 an ounce on Thursday when the January contract closed at $494.90, up $12.50. — DDC
Gold shares continue to race ahead

GOLD SHARES continued to race ahead on Diagonal Street yesterday to bring the JSE all gold index within a whisker of its all time peak.

The index rose 53 points to close at 2,086, 13 points below the record 2,079 set on September 22 last year. With the industrial index easing three points to 1,431, the JSE overall index closed at 2,066, a rise of 30 points on the day and 29 points short of the record 2,094.

Buying yesterday was mainly by the small investor with no overseas or local institutional interest. The man in the street was encouraged by the rise in the gold price to above $400 on world bullion markets.

But analysts and dealers say mining share prices are overvalued and caution that a correction in share prices should be expected.

They note the rand gold price has languished at around R860 and the gold price will have to move upwards sharply or the commercial rand fall to justify current share prices.

Brokers' and analysts are warning small investors that gold share prices are running ahead of the gold price.

Prices should have consolidated yesterday after Monday's sharp gains, but large public buying yesterday kept the gold board on the boil.

Rodney Yaldwyn, mining analyst at Simpson Frater, says gold shares are at historically high levels in relation to the dollar price of gold. Golds last reached these levels when gold was well above $400 an ounce.

He says investor expectations are too high and that buying so far has been confined to local investors.

The financial rand has remained weak and a change in the FR might trigger off a downward reaction in gold shares.
Gold, platinum break barriers

Own Correspondent

JOHANNESBURG. — Gold and platinum broke through current barriers over the weekend against a background of turmoil in European currencies and bearish sentiment on the dollar.

Precious metals prices soared as European Community finance ministers scurried to set up a meeting to realign currencies within the European Monetary System (EMS), in disarray as the West German mark climbed and the French franc sank last week.

The gold price went through the $405 mark, the resistance point on charts, in New York on Friday and in Hong Kong on Saturday.

On the Commodity Exchange in New York, gold closed at $406, up from $402.30 late Thursday. It opened at $405.79 in Hong Kong.

Signal to buy

Platinum futures surged on the New York Mercantile Exchange on Friday as speculators interpreted the metal's ability to breach the $300 level as a buy signal.

Platinum began its assault on $300 an ounce on Thursday when the January contract closed at $494.90, up $12.50.

Steve Chornowitz, director of commodity research in New York at Smith Barney, Harris Upham & Co, said the $300 level was considered significant because it represented the highest price of the past eight weeks.

The January contract closed at $320.90 on Friday, a gain of $36.

Chornowitz said that although political instability provided underlying support, the rally was triggered mainly by speculators who follow technical trading factors. Gold was also boosted by technical factors as buying emerged when the price showed strength at $400, he said.

The surge in the gold price justified the JSE's gold fever, which pushed the All Gold Index to a near record level of 2,073 on Thursday in hectic dealing.

The index closed at 2,063 on Friday, having jumped 8.4% on the week.

However, a successful realignment of European currencies and Japanese determination to lower the yen could affect the strong precious metals' up-trend.

The EMS, a mechanism for stabilizing European exchange rates, has been forcing Bonn to intervene heavily to narrow the gap between the rising West German mark and the falling French franc.

Dealers said West Germany's Bundesbank bought more than one billion French francs on Friday to keep the currency from falling through the floor within the EMS.

The central bank also bought an estimated $40m to $50m in an unsuccessful attempt to prevent the US currency from falling in Europe.

Devaluation of franc

The turmoil in European currency markets fuelled speculation that France may be forced to accept devaluation of the franc, the Danish central bank said.

The European situation had little bearing on the dollar (which was slightly higher against key currencies on Friday), except when it also became the subject of intervention by overseas banks to dampen the West German mark.

In Tokyo, where trading ends before Europe's business day begins, the Japanese central bank spent more than $2 billion to push the dollar up against the Japanese yen. A strong yen makes Japan's exports more expensive.

In New York, the dollar closed at 150.53 yen, up from 157.54 on Thursday.
London gold surges to $411.25 close

LONDON.—Gold closed at $411.00/50, up from Friday’s closing $404.00/50 and an opening $409.10/60 but slightly below the day’s high of $411.75/$412.25, the highest since late October.

Dealers said the market attracted steady professional buying and drew much of its strength from the rise in platinum. Weekend unrest in S.A., a weaker dollar and surging energy futures were cited as positive factors.

Resistance was seen at the highs but dealers said if prices are maintained above $405 they should enter a higher trading range and attract investors.

“The market has absorbed some good selling from Switzerland, a fair amount of profit-taking and has still kept moving up. We could see speculators come back into gold at this rate,” a dealer said.

Platinum, extending its rally on Friday, was quoted late yesterday afternoon at $537/$539 after a morning fix of $536.75 and afternoon fixing of $538.50, its highest levels since November 12.
COLD

Nov & Dec 1987

Jan - Dec 1988
Gold price sinks to critical level

By Teigue Payne
The gold price in Hong Kong dropped by another $11.75 to $458.82 an ounce on Saturday raising fears of renewed weakness in the price of bullion when other international markets reopen today.

This puts the metal in a crucial area according to chartists and several fixes below $455 an ounce would indicate a possible prolonged bear phase for gold with serious implications for the South African economy.

Gold reached a four-year high of $499 an ounce during the morning fix on December 14 last year but failed to penetrate the $500 an ounce barrier and has been in a steady decline ever since. This downward move has been exacerbated by fundamentals like a decline in the US inflation rate and the sharp drop in the international price of oil.

However, some chartists remain optimistic about the gold price and are forecasting a turning point for both the metal as well as gold shares.

With future trends in the gold price and in shares now almost impossible to predict on fundamentals, charts are being more earnestly consulted. They seem to indicate that gold shares may turn upwards soon.

Uncannily right
While few analysts place their entire faith in the vagaries of the charts, some would say they have no validity. Most would admit that readers of them can be uncannily right, and that they should at least be consulted along with fundamentals.

And since most institutional analysts and other big buyers study charts, they attain some momentum of their own anyway.

Some analysts are saying, the charts are now portraying the end of the second leg of a classical three-leg gold bull market.

Classical Dow Theory has it that each leg is characterised by five basic movements — three bull phases and two bear phases.

The rising bottoms trace a long term up trend line which defines the long term bull market, which is considered to be intact while the bull market persists. If it is breached, a bear market would begin.

Chartists say the bull market in gold began in mid-1982 (see point A on the graph), and saw the five movements of the first leg, which ended at point B in late 1985. The second leg then began, and a powerful leg it was, with the index rising to a heady 2429 before the October big crash.

Two and a half weeks after the crash, as the graph shows, the gold index plummeted to 1448. After a sharp but short recovery, it has now dropped to 1371, which is nearing the area of about 1250 - the basal line.

That level, say the chartists, will provide major support, and the base for the turn upwards in the third leg of the bull market.

As that level is only about 100 index points lower than at present — equivalent to a few bad trading days — and as it is rarely possible to buy at the absolute bottom, a decision to buy should be near.

Some support for the upturn theory is, they say, that on the charts there are major support levels for gold at $463, then at $455. However, if the gold price falls below that level, as one chartist put it, it would be “very bad for the country”.

Classical theory
Because interpretation of charts differ, and classical theory does not always adhere to jagged bent lines, analysts admit that the graph of the All Gold index could breach the basal line, signaling a bear market.

However, reverting to more fundamental factors, they say that at those levels of the index and below, gold shares will be showing dividend yields at least equal to their historic average of about six percent. This indicates that a longer term investment would be likely to safe, with capital preserved.
What a Year That Was on the Market
Some myths about gold

THE gold price continues to be a major talking point in world finance. Every Tom, Dick and Harry has had his tongue tied over the recent surge in the price of gold. This has been caused by a number of factors, including the uncertain economic climate and the political situation in many countries. The price of gold has been on the rise since the late 1960s, and it continues to be a major factor in the global economy.

SCRAP
Elsewhere, says Mr Nicholas, mine production has continued to expand. But it has been countered not only by the erosion of SA output but by sharply lower sales by the centrally planned economies (CPE) and by less scrap coming to the market. Low Soviet activity in the gold market was reported by dealers and the Chinese were absent from it for much of 1987. As a result, says Mr Nicholas, sales from CPE countries could be 5-million ounces, or 150 tons, lower than in 1986. Scrap returns were down by between 60 and 70 tons as slightly higher oil prices in 1987 meant that the Middle East and other oil-producing countries, which were huge disposers of jewellery in 1986, no longer needed to make such fire-sales and were again net buyers of gold.

BIG BUYERS
Mr Nicholas maintains that investors were big buyers of gold for much of 1987. Consequently, he expects the gold price to rise in the next 12 months, regardless of the economic and investment climate. "Gold thrives on fear, anxiety and uncertainty, all of which will persist for some time," he adds. Furthermore, central banks' decision to pump more liquidity into the financial markets must eventually be bullish for gold.

Studies says precious metals have remained too dependent on shifts in the value of the dollar. Many investors have been disappointed by bullion's sluggish response to the weak dollar. A 5% decline in the dollar added only 4% to the gold price.

INDIA
It is therefore surprising that in India, buyers of gold were willing to pay more than $500 an ounce when the rest of the world was paying $470.

One of the reasons for India's unprecedented gold boom is the sagging stock market. Indian investment companies are reported to have bought seven tons of gold on the domestic market in November.

In addition agitation by the Gurkha National Liberation Front in Darjeeling has led to a virtual closure of the border with Nepal, almost halting unauthorized gold imports.

Gold fabrication requirements exceed 145 tons a year in India. It produces perhaps two tons from its own mines and gets 40 tons from scrap. Only five tons a year is imported officially. The remaining requirement is met through smuggled gold, whose major source is the Persian Gulf nations.

In 1986 the local gold price premium reached only $120 an ounce. The economic climate has been worsened by serious drought. Local lobbying of the Indian government is increasing for the elimination of the country's own gold mining potential and the relaxation of the rules regarding the importation of gold.
Pressure likely on gold shares

GOLD shares are unlikely to go into orbit this year, says George Joubert of Davis Borkum Hare.

International conditions are not comparable with those in July 1985 when the gold price started moving up from a low base as the dollar steadily lost value.

Movements in the gold price were likely to be restrained and even if it were to break above $300, which was possible, gold-mining profits would remain under pressure because of constantly rising working costs.

Quite apart from probable escalations in the wages bill, all other input costs, such as electricity and steel were increasing in step with the inflation rate.

Joubert says that means the squeeze will be on dividends. And, in many instances, returns on share prices are already too low, bearing in mind the limitations on earnings growth.

He says the market is not yet out of the woods and another setback should not be discounted.

NORMAN Lomental's shares this view that the JSE indices could drop further before a new base is formed, but after the consolidation he expects a new strong upward movement to develop.

He says not only are institutions sitting on the sidelines, many private investors are itching to get back into the market, some looking at the blue chips, but others are closely watching the DCM market where prices are down to realistic levels, taking into account earnings and yields.

He should know the DCM market as he was responsible for the listing of several companies. He admits there is some chaff on the DCM board but there are also many potential winners. He advises would-be investors to go back to prospectuses and study them closely.

Some companies in his "stable" are reaching the stage when they will apply for main-board status. But he is keeping mum.

THE recent show of strength in the financial rand is baffling many brokers.

While their trade and training is based on the principle that prices go up when there are more buyers than sellers, the questions they are being asked are: who are the buyers of the rand and what are they investing in?

One investment avenue has been in the gilt market but, unless the rand pool is short of the second-tier currency, overseas demand for RSA and Escom bonds alone should not be strong enough to move the rate to R3.95. One broker said he had used Burands for European clients attracted by the high returns but he did not think that his deal of many millions of rand would have provided the upward thrust.

A possibility is that overseas brokers are going bull on FTAs arbitraging gold and diamond shares, not for the shares themselves, but to create frinrands to profit on the margins.
Shares down after gold price sags $6
By DEREK TOMNAY
Financial Editor

GOLD-share prices dropped on the Johannesburg Stock Exchange today when the gold price failed to rebound after dropping $6 to $469.75 an ounce in New York last night.

At mid-morning gold was $471.10.

In the first hour's trading on the JSE today the "all gold" share price index fell 44 points, or three percent, to 1424.

This pulled down the "all market" index by 31 points, or 1.8 percent, to 1671.

Shortly before noon Modder was 575c (−75), Harties 2265c (−110c), Vaal Reefs 28600c (−800c), Lorraine 1350c (−75c) and Kloof 3325c (−150c).

Mining financials were also lower. Anglo American dropped 125c to 4700c and Gold Fields of South Africa 75c to 5250c.

Platinums were weak in sympathy. Leplat was 25c lower at 250c.

© See page 17.
Prospects bleak for share market upturn

By Teigue Payne

The outlook was bleak yesterday for an immediate upturn in the Johannesburg Stock Exchange, with continued weakness in the gold price, a firm financial rand and a strong dollar.

Gold was R452.75 at the afternoon fix in London, almost two dollars lower than the morning fix, and R5.25 lower than its close on Friday. It has now dropped 7.5 percent this year, while the dollar has gained slightly less — 6.6 percent.

The JSE's overall index closed 13 points lower, and the all-gold index was also 13 points lower.

Contrary to past patterns, the rand has recently been rising in the face of the weakness of gold.

It has appreciated 9.4 percent since the beginning of the year, exacerbating the sell-off of shares on the JSE.

Foreign investors can sell their South African shares advantageously when the financial rand is high and, since they generally hold market leaders, the decline in those shares has a particularly potent effect on the market overall.

Since the beginning of January, the overall index has declined 14 percent, and the all gold index has dropped 26 percent.

The dollar rose to its highest level since mid-November yesterday in expectation that the Japanese would be big buyers at this week's $27 billion US quarterly sale of government bonds.

"For the next couple of weeks or so, there's no reason to sell the dollar," said a London currency dealer yesterday.

Investors have also been reassured by statements by US officials speaking at the World Economic Forum in Davos, Switzerland, over the weekend. They said the dollar was where it ought to be to cut the US trade deficit without a recession.

However, historically there has always been bullish comment before the auction, and the dollar may react downwards slightly after it.

Rising inflation in the US would be bullish for gold. Yet despite the dollar's steep fall over the past few years, inflation is still only about 4.5 percent currently, although it has risen from a low base of two percent. In any case, there seems little fear of inflation in the US or Europe.

With the antithetical relationship between gold and the dollar, if the dollar continues strong, as seems likely, gold is unlikely to rise.

If gold does continue to decline, it will smash support levels which have been ascribed to it by analysts and chartists, and may enter a long-term bear trend.

Meanwhile, the commercial rand, which generally declines when the gold price is weak, and thereby provides the gold mining industry with a cushion of support, is relatively steady. It has declined only three percent since the beginning of the year.

However, in the face of weakening prospects for the gold industry, and for the nascent revival in the South African economy, it is likely to drop further.
Gold closes easier in aimless trading

JOHANNESBURG — Gold share prices prices closed slightly easier after an aimless and uncertain day’s trading, as the gold price remained near its weekend lows and the financial rand returned to it highs after easing earlier, dealers said.

Heavyweight Southvaal ended R3.50 lower at R114.50 and Beatrix 75c down at R13, while mining financials closed mixed, Gold Fields gaining 50c at R51 and Gencor easing 25c at R41.75. Platinums were also mixed while in diamonds, De Beers lost 50c at R51.

The rest of the market generally followed the easier trend. Industrial leader Barlowa closed 25c lower at R20.

Shortly before the close the JSE all-gold index stood at 1200 against Friday’s 1300 finish, the industrial index at 1442 against 1457 and the overall index at 1556 versus 1568.

In London, news that the Bank of England had raised one of its money market dealing rates by around 1/4 point to 9 per cent sent shares reeling from their highs after midday, dealers said.

By mid-afternoon the FTSE 100 was down 0.9 to 1,789.9, wiping out the earlier gains which took the index to a high of 1,807.3, minutes before the Bank of England announcement.

Wall Street trading got off to a firm start yesterday afternoon, helping keep UK shares steady at first. But dealers said the New York market disappointed some expectations of a powerful surge on the back of the stronger dollar and soon gave some of the ground made in the early part of the session there.

The Bank of England’s rate hike is a clear signal that it wants base rates to rise to 9 per cent from 8½. Britain’s banks are expected to raise their rates quickly.

Some rise in base rates was talked about in the market following the Bank of England Governor Mr Robin Leigh-Pemberton’s remarks last week. Mr Leigh-Pemberton said that interest rates may have to rise to contain UK inflationary pressures.

But yesterday’s reaction was fairly violent as most analysts believed next month’s UK Budget announcement would point the way to higher interest rates. “I don’t think anyone was even remotely prepared for what happened today,” one trader said. — Sapa

Gold prices

LONDON — Late gold prices (in US dollars per troy ounce) yesterday were:

- London 455.00 bid; Paris 455.72 fixed; Frankfurt 456.67 fixed; Zurich 451.50 bid and Hong Kong 458.65 bid — Sapa

Evertite move

JOHANNESBURG — Evertite’s fibre-cement division is to transfer production from its Garankuwa plant to Kliprivier near Johannesburg.

This had become necessary for the division to remain competitive in the Transvaal, said senior general manager Mark Cullinan.

The closure of the Garankuwa plant was linked to a rationalisation programme which had been under way for some months. This included the sale of the concrete division and the merging of PVC pipe manufacturing interests in a new joint venture with ABEC. — Sapa

INDICES

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Gold price plunges to 8-month low

By TOM HOOD
Business Editor

GOLD dropped to an eight-month low of $438.15 an ounce in London today after losing more than R10 yesterday.

Bullion, which traded around $455 before the morning fix in London yesterday, dipped to $439.75 in New York last night but recovered earlier today to R441 in Hong Kong.

However, the rally was short-lived and the slide continued as the American dollar gained strength on Far East foreign exchange markets.

If the latest slide continues, it could pose a threat to the future of several South African marginal gold mines whose working costs exceed the price they are likely to receive for their sales.

The rand price of gold has dropped by R60 since the beginning of the year to about R830 at the current exchange rate, at a time of soaring production costs.

DOWNTURN

A wave of selling from Zurich by disillusioned investors yesterday sparked a new downturn.

Prices of gold shares fell again today on the Johannesburg Stock Exchange. By midmorning, the JSE gold shares index had dropped another 22 points to 1237 and the overall market index 19 points to 1518.

It fell 53 points yesterday.

Eleven gold shares dropped to new lows yesterday, including the giant Vaal Reef, Randfontein and Freegold mines.

World financial markets were also hit by a mysterious telex message about a non-existent nuclear accident in the Soviet Union.

The rumour touched off speculation that Moscow might sell off more of its vast goldings to buy uncontaminated grains.

The rumours, which swept London markets, were later denied by the Soviet Union.

However, a Reuters report from New York today said sales of gold by the Soviet Union and other big producers in a market devoid of buyers was depressing prices.

Estimates of how much gold was sold were not available but precious metals dealers in New York said South Africa, Australia and Eastern Bloc countries also sold bullion.

An estimated R520 million was wiped off shares in London yesterday as a result.

Analysts have put gold's crucial support level at $440. If that price fails to hold, they believe the price could tumble to $410 - a level that could make several South African marginal gold mines unprofitable and pose a threat of closure.

JEWELLERY

Increased gold sales by American gold mines are also undermining the price, reports The Argus Correspondent from London.

The underlying physical demand for gold in jewellery, industry and coin has stagnated in the 1980s and a consistent gap is opening up between new supplies coming on to the market and regular demand.

Depending on price levels, investors must absorb between 230 and 560 tons this year and between 370 and 720 tons by the year 1990, he reports.

"In conditions of high interest rates and possible recession, it is hardly surprising that investors are turning away from gold."

- See pages 18 and 19.
Panic as gold slumps

By AUDREY D'ANGELO
Financial Editor

The gold price plummeted to its lowest level since early July yesterday, with panic selling in Zurich and London. It fell to $441 an ounce in Zurich but recovered slightly to $443.25 in late trading in London. However in New York it slumped further to $439.75.

Huge sums were again wiped off the value of gold share portfolios, and the Johannesburg Stock Exchange (JSE) All Gold Index slipped further to 1399 from 1391 on Tuesday. Some gold sharps lost as much as R11.50 on the day.

Confusion was added to world markets during the day by rumours — subsequently denied — of a nuclear accident in Soviet Russia, which temporarily strengthened the dollar.

Receding fears of high inflation in the US, coupled with higher world production of gold have made the yellow metal a less desirable investment. Yesterday's steep fall is believed to have been started by heavy trade selling in Switzerland.

• Reuters reports that in New York gold futures were quiet at midsession after free falling to eight-month lows on reports of producer sales in a market empty of buyers.
Price plummets below $450

SA gold mines under scrutiny

By LAWRENCE TOTHILL
Investment Editor

WITH the gold price falling below $450 an ounce yesterday, and the rand fairly steady at $0.50, the future of several gold mines comes under scrutiny because they could be vulnerable.

It is all very well looking at the dollar price of gold, but at the end of the day it is the rand price which counts, because the mines' costs are rands and not dollars, but to make life difficult the mines usually express their costs in terms of rands per kg.

When the gold price is around $350 and the rand around $0.50, then the mines receive a bit more than R32 000 per kg. At $450 an ounce, however, and the same exchange rate, the mines receive less than R29 000 per kg. There are several mines battling to contain rising costs, and unless they are able to do so or find some alternative they face serious problems.

With revenue of only R29 000 per kg of gold produced ERPM, Western Areas, Marievale, Rand Leases, Modderbeek, Durban Deep, West Rand Cons and Grootvlei all look a bit vulnerable.

It must be understood, of course, that some of the above are special situations and won't just close for the above reason. ERPM with its new developments is a case in point, while Marievale is already due to cease being a mining company and become an exploration company holding mineral rights. Some of the others might also be able to mine richer ore and thus offset the lower revenue.

Apart from the above eight, if the gold price drops any lower the mines such as Lorraine, Leslie, Doornfontein and Veniers become vulnerable and even St Helena and Stillfontein are suspect.

That doesn't mean that everyone is going to rush out and sell the above shares, because recoveries do (and will) take place, although shareholders might find dividends badly slashed back.

One comforting thought — even if it is cold comfort — is that the largest loser will be the government since the tax on the gold mines brings in vast amounts of money, and some of this will fall away.

My own feeling is that the Reserve Bank will allow the rand to fall against the dollar to keep the gold revenue at an acceptable level. I cannot believe that the steadiness in the rand/dollar exchange rate during the past couple of weeks has been a coincidence. I incline to the view that the Reserve Bank is already fairly active in the foreign market trying to keep the exchange rate at $0.50.

It has already been announced that the forex markets are going to be closed from February 26 to the end of the month to switch over to quoting the rand/dollar rate in a different style.

At the moment South Africa quotes its exchange rate "upside down" when compared with other countries. After the switch over we won't quote R1.00 to $0.50, but the rate will be quoted as R2.00 to $1.00. And what better rate to try and use for the switch-over, which is going to be difficult anyway, than a nice straightforward one without half a dozen decimal points.

End of the month is still a way off and the Reserve Bank might well decide to let the rand drop back before then.
Gold price tumbles in panic selloff

LIZ ROUSE and MIKE ROBERTSON in London

THE BOTTOM fell out of the gold market yesterday with the metal falling almost $12 to $443.50 in London after rumours of a Soviet nuclear accident sparked investor panic.

As New York opened it emerged the rumours originated from a dry-run of test telexes from the International Atomic Energy Agency. There was no question of a real accident.

This did not stop the slide in New York where the metal fell to a low of $440.40, breaking several resistance levels on the way.

In London, dealers reported that there was also strong producer selling.

The JSE all-gold index shed 52 points to a new low of 1267, but the fall did not fully reflect Johannesburg's pessimistic view of gold's prospects in the short term.

Analysts said there was no investor demand for gold and physical supply/demand factors were dominant in setting a price. These factors suggested a price of $425/$430, which would put pressure on the rand.

Some analysts said the market was taking the view that the commercial rand, depressed by the current rand gold price of about $407 (the lowest since November last year) could weaken to $40, given no central bank support.

Leading London analysts James Capel and Shearson Lehman now believe gold is approaching its most critical support levels in both dollar and Swiss gold price falls to $443.50

Franc terms at $440 and SF600. Any penetration below those levels could see the bullion price spiralling downwards.

Chartists, worried that gold had fallen below its 200-day moving average, joined in the selling.

Ron Weinberg of brokers James Capel described the situation yesterday as "panic, panic, panic".

He said that for chartists the $440 level was also roughly half gold's all-time high. "A $1 a week rise from the February 1985 low and a $1 a week fall from back in 1980 also brings you to $440. It's a critical level and a lot depends on the mining companies themselves, who are often their own worst enemies."

In recent months the spate of gold loans — estimated at 150 tons before the news that Newmont Mining was doing a 22-ton deal — had put the market in a state of oversupply. In addition to this the SA Reserve Bank had sold 400 000 ounces onto the market in December," he said.

"In the last three months, the equivalent of five or six months' supply has come onto the market." At the same time, apart from a few lone voices, most people were predicting a disinflationary period for the world economy, which further diminished investor support for gold.
Dramatic
recovery
for gold

Own Correspondent

JOHANNESBURG. — A partial recovery in the gold price caused a dramatic reversal of gold share prices in nervous trading on Diagonal Street yesterday.

After declining to a ten-month low of $433.50, the bullion price staged a turnaround to go back above the critical level of $440 an ounce as professional bargain-hunters and end users came back to the market.

The metal closed in London at $448.75, more than $8 above its opening of $435.50.

The see-saw performance of the gold price accentuated the jittery sentiment on the Johannesburg Stock Exchange which saw prices fall further in the first session of trade before climbing sharply as the metal price strengthened.

At the close, the gold shares had almost wiped out all of Wednesday's sharp losses.

© Upturn rests on higher gold — Page 8
Gold slump a threat to SA

IF GOLD prices continue to drop they could menace SA's current economic upturn, threatening the balance of payments surplus just as Pretoria needs money to keep up its debt repayments.

The JSE index of gold mine shares dropped again yesterday to 1,237 points after spot bullion prices in New York shed $15.20 an ounce to close at $483.70 on Wednesday — the lowest price since June.

"It is too early to judge if this is a trend or just a temporary slip in the market," said William Bowler, head of research at stockbrokers Ferguson Brothers.

If the weak prices for the metal continue to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 18% of the country's total fixed investment.

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Bowler said.

The price of other metals, such as platinum, is related to gold on international markets and can fall with it. SA accounts for 85% of world platinum output.

Erosion of income from its gold exports — 42% of SA's total income — could jeopardize the national current account balance of payments surplus, the analysts said.

Many foreign banks are reluctant to lend to SA and the country is battling to repay its existing debts under a three-year rescheduling agreement thrashed out in March. So Pretoria cannot afford a drop in its current account surplus.

The first casualty of the lower gold price is likely to be the rand, economists said.

To maintain income from gold in rand terms and protect mining houses' profits against a background of rising costs, the Reserve Bank may have to allow the rand to slip against the dollar, even though this could aggravate inflation, they added.

Several economists put foreign debt repayments at about R30bn, leaving a safe margin — so long as gold prices hold up.

The government is unlikely to allow a sharp drop in profitability of the mining houses which could damage SA's tentative economic recovery. — Sapa Reuter

© Comment — Page 6
Plunge in the Gold Price

Swiss Selling Blamed for

The warning sign for gold has not been lifted, and investors have decided to sell. The dollar is high, and the expectation of further weakening of the Swiss franc is strong. Analysts are expecting a further decline in the value of gold. The gold market is high, and the action is expected to continue. If there is no further decline, the dollar is expected to continue to rise. The gold market is high, and the action is expected to continue. If there is no further decline, the dollar is expected to continue to rise.
Slide seen as threat to debt repayment

If gold continues to drop it could damage South Africa's current economic upturn and threaten the balance of payments surplus just when the Government needs money to keep up debt repayments.

The JSE all-gold index dropped 30 points yesterday morning to 1327 points from 1357 after spot gold in New York on Wednesday shed $15.20 to close at $438.70 — the lowest price since June.

"It is too early to judge if this is a trend or just a temporary blip in the market," Mr William Bowler, head of research at stockbrokers Ferguson Brothers, said.

"But every South African is hoping it is just a blip," he said.

If the weak price continues to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 15 percent of total fixed investment.

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Mr Bowler said.

The price of platinum is related to gold on international markets and can fall with it. South Africa accounts for 85 percent of world platinum output.

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South Africa saw an annual consumer price inflation rate of 14.7 percent in December. President PW Botha yesterday met 100 business and trade union leaders from the private sector to discuss the problem.

"Inflation is not enemy number one," economist Carmen Maynard of Johannesburg Stockbrokers Martin and Co said. He felt that economic growth and the balance of payments were higher priorities.

Martin and Co forecast a R3 billion balance of payments surplus on the assumption that gold remained at $450 and the rand at about $0.47.

Several economists have put foreign debt repayments at R2 billion, leaving a safe margin — so long as gold holds up.

The Government is unlikely to allow a sharp drop in profitability of the mining houses for this could damage the tentative economic recovery, — Sapa Reuter.
Market jittery as gold price see-saws

The gold price staged a recovery on the Hong Kong market today following strong see-saw movements internationally yesterday that had a dramatic effect on Johannesburg Stock Exchange gold shares trading.

In Hong Kong today, gold rose $5.59 to $448.42, after closing yesterday at $442.83.

After the recent price plunge, which took the price to a 10-month low on the back of fears that the US economy was heading for recession, there was a sudden reversal and the price rose from $432 to $449 and JSE sentiment reacted accordingly.

Early in the day gold shares fell, then moved up sharply.

At the close of business, shares had recouped most of the losses resulting from Wednesday's gloom.

In London, the price closed yesterday at $445.25 — down $2.15 on Wednesday's close. The price in New York rose from $439.75 on Wednesday to close yesterday at $445.20.

THE JITTERS

There is little doubt, however, that the gold fluctuation will keep the stock exchange uncertain and jittery.

Adding jitters to the feeling among several leading economists that the current upswing is still very precariously based, was the news yesterday that South Africa's trade surplus for 1987 shrank by R1,323 million to R13,961 million — mainly because imports for 1987 surged by R1,884 million to R32,736 million, while exports rose by only R555 million to R42,717 million.

A sharp increase in imports in December saw the trade surplus dropping from R579 million in December 1986 to R41 million.

South Africa has been forced to maintain a surplus on the balance of payments by the imposition of capital sanctions by overseas banks and financial institutions.

The balance of payments is forecast to show a surplus for the third consecutive year, but a sustained drop in the gold price will considerably reduce it.
Bullion recovers

JOHANNESBURG — A partial recovery in the gold price caused a dramatic reversal of gold share prices in nervous trading on Diagonal Street yesterday.

After declining to a ten month low of $435.50, the bullion price staged a turnaround to go back above the critical level of $440 an ounce.

The metal closed in London at $442.75, more than $6 above its opening of $437.60.

The see-saw performance of the gold price accentuated the jittery sentiment on the Johannesburg Stock Exchange which saw prices fall further in the first session of trade before climbing sharply as the metal price strengthened.

At the close, the gold shares had almost wiped out all of Wednesday’s sharp losses.
JOHANNESBURG — If gold prices continue to drop they could menace South Africa's current economic upturn, threatening the balance of payments surplus just as Pretoria needs money to keep up its debt repayments.

"It is too early to judge if this is a trend or just a temporary blip in the market," said Mr William Bowler, head of research at stockbrokers Ferguson Brothers, said.

If the weak prices for the metal continue to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 15 per cent of the country's total fixed investment.

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Mr Bowler said.

The price of other metals such as platinum, is related to gold on international markets and can fall with it. South Africa accounts for 85 per cent of world platinum output.

Erosion of income from its gold exports, 42 per cent of South Africa's total income, could jeopardise the national current account balance of payments surplus, the analysts said.

Many foreign banks are reluctant to lend to South Africa and the country is battling to repay its existing debts under a three-year re-scheduling agreement thrashed out in March.

So Pretoria cannot afford a drop in its current account surplus.

The first casualty of the lower gold price is likely to be the rand, economists said.

To maintain income from gold in rand terms and protect mining houses' profits against a background of rising costs, the Reserve Bank may have to allow the rand to slip against the dollar, even though this could aggravate inflation, they added.

South Africa saw an annual consumer price inflation rate of 14.7 per cent in December and President P. W. Botha met 100 business and trade union leaders from the private sector to discuss the problem.

"Inflation is not our number one," economist Carmen Maynard, of Johannesburg stockbrokers Martin and Co said, adding that economic growth and the balance of payments were higher priorities.

Martin and Co forecast a 12 billion balance of payments surplus on the assumption that gold, of which South Africa sells just under 20 million ounces a year, remains at $400 an ounce and the rand is worth 47 US cents.

Several economists put foreign debt repayments at around R2 billion, leaving a safe margin so long as gold prices hold up.

The government is unlikely to allow a sharp drop in profitability of the mining houses which could damage South Africa's tentative economic recovery. — Sapa
Kruggerands are worth consideration

Kruggerands, the only form in which South Africans are legally entitled to hold gold bullion, should be part of every serious investor's investment portfolio. Gold is probably the investment medium with the longest "track record" dating back to ancient times when people hoarded gold for use in uncertain times.

Despite efforts by governments, especially the US government, to demonetise gold, it still forms a very important part of the reserves of most central banks. But what percentage of an investment portfolio should Kruggerands have?

A rule of thumb would be between 10 and 20 percent, but this can vary, depending on circumstances like the trend of the gold price, the premium of Kruggerands on the dollar gold price of gold and the rand exchange rate.

Despite its fall in recent months to a level just above R1 000 per coin, Kruggerands have performed far better in the last four years than most people realised. Since January 1993 the value of Kruggerands has increased by 32 percent, which amounts to a compounded rate of increase of 17.5 percent.

Taken over a three-year period, the compounded rise in Kruggerands amounts to 15 percent, which roughly matches the average inflation rate in the same period.

The price is determined by a number of factors. New Kruggerands sold by the SA Mint at a premium of 12 percent on the average of the two London gold prices are sold at a price prior to the coins being sold. At present the number of new Kruggerands sold to the public is limited to 5 000 per week.

The secondary market for Kruggerands is much bigger and virtually impossible to determine as coins are freely traded by banks, members of the JSE, the public and other institutions acting as brokers.

Kruggerands, being legal tender, can be sold as a last resort to the Reserve Bank. A further appeal is that they are easily tradeable.

A rise in the gold price does not always necessarily correspond with a rise in the price of Kruggerands. Just as a drop in the gold price doesn't mean lower Kruggerand prices. The key to this apparent contradiction is the rand exchange rate to the US dollar.

As can be seen from the graph, the rand price of Kruggerands nearly doubled in the period 1983 to 1987, while the gold price, despite volatile cyclical movements, did not change much. The period at approximately the same level. The answer lies in the sharp depreciation of the rand exchange rate which saw the rand price of gold, and hence Kruggerands, rising sharply in the abovementioned period.

But while the rand price of gold rose from R600 in early 1980 to a peak of R1 000, the price of Kruggerands reached a peak of R1 250. This was due to the increase in the premium to about 20 percent, compared with the present premium of around 11 percent.

The premium of Kruggerands over the rand price of gold is also seen in some circles as an inverted measure of confidence in this country's future. The premium reached a peak in the stormy years of 1986 and 1988 and has been declining ever since, in line with the apparent decline in social unrest.

It might be a good time to start accumulating Kruggerands, not because a sharp increase in the gold price is predicted, but because the rand exchange rate is under some pressure. With the gold price acting precariously and South Africa having to repay $8 billion in international debt this year, a drop in the rand exchange rate against the dollar to around 65c is a definite possibility.

With the JSE still looking very fragile, I would expect some money to pour into Kruggerands, which will increase the premium and hence the price, even more.
Volatile markets could upset gold

By Sven Lüüsche and Reuters

The price of gold is at its lowest in nearly ten months and bullion analysts say it may have further to fall because investors are worrying less about inflation but more volatility in the stock markets.

Gold closed in London at $442 yesterday after touching a 9-1/2-month-low last week just above $498. It made a four-year high of just over $500 in December.

Yesterday's afternoon fixing was almost $4 up on Tuesday's close and the metal traded even higher on other markets - it closed in Frankfurt at $444.50 and the late bid at Republic National Bank of New York was $444.50. Bullion opened in Hong Kong at $443.45 this morning.

But a substantial improvement in gold shares prices on the JSE yesterday was once again prevented by a firmer financial rand, which rose from 34,13 US cents to a close of 34.75.

The strong performance of the finrand has been playing havoc with shares on the mining board, as it has caused increased selling of stock by overseas investors.

The higher finrand is in sharp contrast to the decline of the commercial rand, which hit a year's low of 49.15 US cents at the close yesterday.

It had been trading steadily above the crucial 50¢ mark for most of the last few months, but a steadier dollar and evident lack of support by the Reserve Bank have put pressure on the currency recently. The performance of the rand against third currencies has been similarly disappointing.

Analysts said yesterday that the gold price, down around $40 an ounce or about eight percent since the start of 1986, has also been pressured by gold loans which allow mines to sell bullion borrowed from banks against their future output.

One London broker, Kleinwort Grievson, said the market may be witnessing the end of a three-year upward trend.

Unless there was a rapid recovery, the market faced a long period of weakness, and the outlook was for further falls, with $380 to $400 an ounce a medium-term target, it said in its latest monthly report.

Analyst Neil Buxton of brokers Shearson Lehman Bros said the price of gold could dip to $425.

Last week the market had been particularly pressured by reports that Newmont Mining Corporation of the US might raise a million ounce (30 tonne) gold loan. No details of the deal have been confirmed.

London broker ED&F Man, in a monthly review, said these loans could seriously distort the market if they become widespread. “This method of borrowing tomorrow’s output to sell today has, in other markets, ended in calamitous results.”
Gold key factor in upturn prospects, says Volkskas

By Stan Kennedy

The strength of the economic upturn and how long it lasts depend on many factors, not the least of which is a high gold price, says Volkskas in its February Economic Spotlight.

A high gold price would ensure that South Africa obtained the vital foreign exchange required to redeem foreign debt and leave sufficient scope on the balance of payments (BoP) to pay for increased imports. This would be inevitable if real gross domestic spending increased strongly.

"It is evident," says Volkskas, "that South Africa cannot afford too strong an increase in domestic spending components of the economy.

"Given international developments and the repayment of foreign debt, too strong a recovery in domestic demand could cause serious problems with the balance of payments.

"Should this happen, interest rates would have to increase fairly strongly and the exchange rate value of the rand would have to drop. It could even be necessary to consider other measures to curb demand."

Private consumption expenditure is and always will be the largest single demand component in the economy. Without an improvement in this component, there can hardly be any increase in stocks and fixed investment or, for that matter, in the general economic growth rate.

As things are, Volkskas sees no cause for any drastic steps to control the "very delicate improvement" in domestic demand. It says the balance of payments can accommodate nothing more than a moderate upturn in domestic spending without causing serious damage.

The stronger demand so far is largely concentrated in private and government consumption spending. Volkskas says, however, that the larger part of this spending is, in both cases, financed by borrowed funds, which has economic implications for the present and future.

"Individuals, for example, will not be able to increase their spending indefinitely by incurring debt or reducing their savings unless there is an increase in their personal disposable income."

"The authorities, in turn, absorb too large a portion of net savings, leading to a higher trend in capital market interest rates. If investments by the private sector also start to increase at this stage, interest rates could increase further."

Volkskas says that last December, the money supply (M3) increased at a faster rate than the Reserve Bank would have liked. Should this tendency be accelerated, official intervention to curb growth in money supply — an increase in the bank rate, for example — could be expected.

Volkskas ends on a pessimistic note:

"Prospects for the economies of South Africa's major trading partners seem less favourable than recently expected. As a result, the deterioration already visible in the country's exports will continue, and even drop further."
Restrictions stifling jewellery manufacturers

Restrictions causing use of gold to decline locally

EXCESSIVE restrictions on the manufacture of jewellery in SA had resulted in use of gold by the local industry declining from two tons a year four years ago, to only one ton at present, the Jewellery Council of SA (JCSA) said at the weekend.

It said disincentives to the local entrepreneur were so great that SA was now a net importer of gold jewellery and the removal of the twin burdens of tax and overregulation, which were stifling the industry, would be top of its priority list for 1988.

MICK COLLINS

JCSA executive director Tim Davidson said: "Since 1980, when excise duties were imposed on luxury goods, this industry has continually lost its thrust."

"The council expects that SA, producer of 56% of the world's total gold production and 30% of the world's production of gem diamonds, would be one of the highest users of gold and diamond jewellery."

"This is not the case and it is estimated that only one ton of our gold is used in the production of jewellery compared to Japan's 30 tons - the latter being a non-mining market."

Relaxation of taxation, he said, would restimulate jewellery production and usage and would also help develop many job opportunities which the council believed was an important factor in the exercise of reducing inflation.

"The council believes the country has an abundance of unskilled labour which it could effectively engage and train once the industry starts moving."
Amgold to cut final dividend

ANGLO American Gold Investment Company (Amgold) has cut its final dividend by 19.4% after a drop in income from its major gold mine investments.

The company is to pay a final dividend of 72c a share (900c previous year) for the year to end-February, making a total of 1 425c against the previous year’s distribution of 1 900c.

This follows an 8.4% drop in earnings to 1 555c (1 697c) — which was expected — after last year’s dull performance of the rand price of gold, labour unrest and rising mining costs.

However, the increase in dividend cover to 1.09 times from 1.06 times last year and 1.03 times in 1983, seems to suggest that Amgold directors are taking a gloomy view of short-term prospects says Edey, Rogers & Co partner John Rogers.

Some market commentators had been looking for a total dividend of at least 1 500c, and described the move away from the traditionally modest cover as somewhat alarming.

Amgold derives its income from a portfolio of quoted gold shares. Total investment income fell 7.1% to R355.8m (R393.2m) reflecting disappointing dividends from these investments, notably

Elandsfontein and Southvaal.

The market crash had a major impact on the value of Amgold’s investments, which — based on market value and directors valuations — fell 35% to R5 068.7m.

This is further reflected in the net asset value, which has fallen to R234.75 a share (R361.28). Amgold closed at R244 yesterday after firming R2, giving a premium of 3.9% on net worth.

Amgold yields 5.8% on dividend, 6.4% on earnings and is on a PE ratio of 15.7 times.

Technologist scoops prize

A WINNER! Lydia Perle, 28, a medical technologist in Alberton, yesterday won the R1 200 prize in the Blue Chip Challenge.

"At first I thought I'd missed the index by a rand, but when I added my totals up again I realised I was a winner. I couldn't believe it," she said.

The money will come in handy — Lydia and her husband, Roger, are building a house.

"Roger is on a two-month army call-up. What a marvellous surprise this is going to be for him," said Perle.
Putting a future value on gold

KENNETH GOODING looks behind the recent slide in world bullion prices


do not hallucinate.

GOLD: World supply and demand

![Graph showing world gold supply and demand]

we can anticipate between now and the year 2000 can hardly be described as taking us into unchartered waters," says Dr. David Rees, international financial services manager of Goldcorp Australia.

A supply, including scrap and the net industrial demand, came to about 58 million ounces (about 1,260 tonnes) in the record year of 1986. Total demand for gold bullion, virtually the unrefined output of the US and Canada that year. There was also the record that gold prices remained relatively high last year in spite of the impact of the oil glut and a fall in demand. It stayed firm because output also fell sharply.

As far as many investors were concerned, gold was a somewhat tarnished reputation. For traditional gold bugs, last October's declining markets, the depressed US dollar and the threat of inflation, not to mention the fact that gold prices had not reflected the price of gold has been rising recently in dollar terms.

Those who think gold is rotating up in the long term but is a precious metal point out that, as in 1979 when $420 an ounce, registered a gain in dollar terms of 25% over the course of the year. And that followed a 32% gain in 1978.

In fact, there were several reasons why gold failed to take off vertically after Black Monday.

There was certainly a certain amount of selling of high-priced gold by people who had previously invested in the metal because they believed the stock markets were too high. They cashed it in, often to cover other promising commitments caused by the crash. But the most substantial element in the reaction was the pressure of sellers themselves. When the initial rush died down, at $490 an ounce on October 19, "producers everywhere, including South Africa and the Soviet Union, tried to capitalise on the high price and sold," says Jeffrey Nicholls, president of the New York-based American Metals Advisors consultancy group.

Robert Guy, a director of merchant banker N M Rothschild and Sons, agrees. "The new major gold mining companies have become a major influence on the movement of the gold price. The rise in the gold price above $490 was an opportunity too good to miss."

In Guy's words, producers rushed to lock in profitability by cutting back on future production as possible at the high price.

Mining companies use gold loans for one of two reasons: they either lock in profits or sell off the price of $490 and the debt is redeployed to new projects in due course.

"They borrow gold bullion at interest rates in the 1.5% to 2% range and the debt is redeployed in ounces of gold rather than dollars. Even the modest interest can be paid in gold."

Such a system is particularly attractive to the Australian. This is because, first, the tax-exempt status of the gold mining industry in Australia makes it an attractive form of investment for investors; second, because the industry includes many very small companies, which would have difficulty in providing security for more orthodox borrowing.

Peter Fells, an executive director of Consolidated Goldfields, said recently that gold loans had accounted for about half of all reported financing by Australian gold mining companies in the three years to mid-1987.

Much of the money has been used to finance further mine development.

Newmont is a special case. Last year it bought out an aggressive corporate raider, 78% of the mining company, thereby lifting its debt to more than US$2 billion. The gold loan will be used to reduce the interest on a great deal of that debt.

During the past 20 years, jewellery has been the cornerstone of the gold market. In that time about 59% of the gold coming to the market has gone into jewellery. And nearly 8,500 tons, or about 39% of all gold supplies (excluding central bank sales), has been absorbed by a broad sweep of countries from Morocco to Egypt, Turkey, Saudi Arabia and the Gulf, the Indian subcontinent and South-East Asia.

Greek in his book, "The Prospect for Gold: The View to the Year 2000," says "This off-take includes 118-carat gold jewellery exported from Italy, 22-carat locally fabricated jewellery, coins made in local factories, life bars and a wonderful range of small bars. They are sold on very low mark-ups over the gold price of the day, and represent the basic form of saving for millions of people in countries where banking systems, savings schemes and stock markets are not available—or to be trusted."

But can gold hold its value if an economic crash is at hand? Will it be bought in such large quantities when the economy is under pressure?"}

FINANCIAL TIMES
SA and Australian gold mining shares
Middle East sellers drive gold price down

By Teigue Payne

The gold price made a sharp recovery in the Far East this morning, opening in Hong Kong at $433.15, after closing the day's trading in New York at $426.15 and touching a low of $423 in the morning in London.

The metal showed resilience at the crucial technical mark of $422, but most analysts were still bearish on the short-term outlook for the metal.

Reuter reports that yesterday's decline in the gold price was attributed by London dealers to heavy selling from the Middle East.

Some bullion holders feared that the metal would fall further while analysts said they saw signs of panic selling by mining companies.

"The market is now heading for $400," a trader with one of London's leading bullion firms said.

The dollar meanwhile held steady, just below DM1.60 and just above 128 yen. Share prices were mixed in the various world stock markets, showing no clear trend and emphasizing renewed uncertainty about world economic growth.

Graham Birch, a gold analyst at London brokers Kleinwort Grieveson, said he expected the price would keep sliding until, at between $380 and $400, jewellers started buying again.

For now, many dealers believe governments have controlled inflation, which cuts demand for gold.

A leading South African economist commented that there was now increasing evidence that the US economy will slow down this year.

However, inflation has been controlled and will decline slightly this year because of the economic slowdown from 4 to 3.5 percent last year to 3.5 percent.

The economist said he expected the dollar to weaken to below DM1.60, because US inflation, even at its current modest rate, was higher than its main competitor nations and because its current account deficit was still massive.

However, he did not believe that the dollar's decline would be dramatic.

He said gold's slide would stop when evidence appeared that inflation was rising in the United States. He expected US inflation to begin increasing in 1989.

While the gold price usually rises on a weak dollar and vice-versa, this has not been the case recently. According to the economist, gold loans by financial institutions to future gold producers have been an important factor in driving bullion's price down recently.

He said the only bright aspect for gold was that its demand fundamentals had not deteriorated in the last few months.

For the moment, however, supply fundamentals had deteriorated, and probably the best that could be hoped for was that the bullion price would react slightly upwards with a weakening dollar.
Asia is key to
gold's recovery

By Neil Behrmann

LONDON — An overbought gold market is expected to rally in coming weeks, especially if poor US trade figures place pressure on the dollar.

Yet even though gold has fallen by 13 percent since the end of last year and is at its lowest levels in a year, Swiss and London bullion dealers say that the metal remains in a bear trend.

The most pessimistic contend that if the price breaches $420, it could easily fall to $380 an ounce.

Gold closed around $425 on Monday but staged a slight recovery yesterday to $429.30.

Immediate reasons for gold's decline in the past fortnight were a sharp increase in Soviet and Middle Eastern sales. South Africa was also an active seller, say Swiss sources.

Australian and North American mines which had borrowed gold for resale, also depressed the market.

But as has been mentioned repeatedly during the past six months gold has a basic weakness. Its annual production is rising too rapidly and exceeds fabrication demand by a wide margin. When the price fails to perform and slips, investors are increasingly reluctant to absorb the surplus.

Especially since Alan Greenspan, chairman of the Federal Reserve Board made it clear that he would not be influenced by the Administration in an election year and that he intended keeping inflation down.

Hoarders

Disenchanted Middle Eastern investors, for example, have been offloading the metal.

At last, however, lower gold prices are beginning to attract hoarders from the Far East. Sources say that demand in Asia is surging again — an excellent long term sign for gold.

"Once again the Far East is likely to come to gold's rescue," says Rhona O'Connell in Shearson Lehman Brother's latest annual gold review.

"Indeed, the centre of the market's gravity is moving inexorably eastwards with gold interest surging in India and Taiwan," she says.

"Gold is flowing fast and furious into Japan, not least because tax changes there in April will abolish tax-free, savings allowances."

In the first three months this year, Ms O'Connell says, the Japanese are likely to import about 150 tons, well above the same period in 1987.

An upturn in Far Eastern demand can mean that the bottom is nigh, but in the past, these purchases did not necessarily prevent any further decline in the price. The market is far too international.

Japanese

Gold in yen terms has fallen from 200,000 to the ounce in 1980 to 55,000, says David Fuller in his newsletter Fuller-Money. He contends that the price will fall to around 50,000 yen which is about $380 to $460 an ounce.

Then it is probable that the Japanese will raise orders considerably, he says.

Meanwhile Ms O'Connell finds that the stockmarket crash has had a negative impact on gold. Prior to the crash, majority opinion believed that there would be a rush into gold. Instead investors preferred cash.

Gold mining companies which found it difficult to raise funds via the equity market were also forced to borrow gold. They then sold the bullion to improve their financial position.

The warning sign for gold came when it failed to move in the face of a rapid decline in the value of the dollar just ahead of Christmas. Gold stuck at $485, while the dollar tumbled to new post-Second World War lows against the yen and other leading currencies.

Since then the dollar has rallied and gold has fallen by 13 percent. It has also slid in Swiss francs, sterling, yen, deutschmarks and other leading investment currencies. Producing nations such as South Africa, North America and Australia are also suffering, because their currencies are much steadier and the mines are no longer protected by devaluation.

When major nations experience disinflationary conditions, gold faces problematic times. It yields no interest and if there is no capital appreciation, investors become less enthusiastic to withdraw from the market and eventually increase supplies by selling. The year of the Dragon, has hardly been auspicious for gold.
Gold’s ups and downs

A higher gold price, then, isn’t the answer to the collapsing currency. Indeed, one irony about a soaring gold price is how it can lead to a lower rand. The trouble stems from the way gold mines are paid.

As Free Market Foundation administrative director Eustace Davie explains, the mines don’t get paid in dollars for gold. Because of exchange control, the Reserve Bank gets the dollars and the mines get rands.

When gold shot up in 1979-1980, government had to provide the mines with an abundance of rands, which it could get by taxing, borrowing or printing them. Unfortunately, Davie says, it chose the last option.

The narrow money supply aggregate M0 doubled between mid-1979 and mid-1981, guaranteeing high, double-digit price inflation in the ensuing years. That inflation then destroyed the external value of the rand. “Exchange controls change what should be a bonanza into a disaster,” Davie says.

That brings us to the second point: gold has been a mixed blessing for economic growth. Yes, Johannesburg and SA were built on it and we’re better off with gold than without it. It will remain important. Mike Brown, economic consultant to stockbroker Davis Borkum Hare, projects that R26bn will be spent on new gold mining projects by the turn of the century.

But gold doesn’t guarantee growth. As Econometrix chief economist Azar Jammine notes, SA has enjoyed higher growth in times of a lower gold price. From 1961-1967, gold averaged $35/oz and growth was 5.9% a year. From 1972-1979, gold averaged $200 and annual growth was 3.7%. And from 1980-1986, the figures were $417 and 1%.

Concludes Jammine: “The way to get growth is through enterprise, productivity and hard work, rather than a windfall profit from an increase in the gold price. We’ve got to use our human resources.”

There are many reasons why gold doesn’t guarantee growth, but a couple stand out. Firstly, government often interprets a higher gold price as a signal to step up spending. Much of the windfall, therefore, is lost to government largesse. Secondly, because gold has so enriched SA, Pretoria has been able to afford to keep whites happy and most of the rest of the population in economic chains.

“We still have Third World controls on our economy,” says Wits business economist Richard Grant. “It seems we’re a gold-de-
GOLD

It doesn’t always glitter

Here we go again. It looked like the gold price might stay firm following the uncertainties of the stock market crash and we began to smile at our fortune. But suddenly it has softened. After touching US$500/oz in December, it has fallen by some $60.

The loss of wealth will be felt immediately by the gold mining industry and eventually by the rest of us. Among the effects of a low gold price are:

☐ Slower economic growth. Gold mining accounts for about 11% of GDP — some 19% if you include its indirect contribution. The economy may not slow down immediately and economists are hesitant to change their 1988 forecasts every time gold moves. Nevertheless, if the price stays low for long, we can expect lower forecasts for 1989;

☐ Lower wage increases in the industry. Gold mining employs 562,000 people. With costs rising faster than the inflation rate, wages are bound to be an area that mines will try to cut back on. That could re-ignite labour trouble;

☐ Reduced mine profits. Higher costs combined with a lower dollar gold price are squeezing mining profits. JSE gold shares are expected to weaken (see box);

☐ Budget trouble. Government will see lower tax revenue from mines. Though not as important now as in the early Eighties, an expected drop of several hundred million rands in taxes from gold will squeeze the Budget. Says Sanlam economist Johan Louw: “Lower tax income from gold mining will leave less room for tax concessions in the forthcoming Budget.” All the more reason to start in government spending;

☐ Lower export earnings and a falling rand. Gold makes up about 49% of total exports. Gold averaged $447 last year; every $10 variation affects annual export revenue by $200m. Shrinking exports mean a tighter current account surplus and weaker rand. Since January, the rand has fallen from US$2.20 to about US$1.97.

Clearly, a lower gold price is nothing to applaud. But for too long we’ve seen gold as both the sole source of salvation (when it’s high and rising) and the root of all evil (when it’s not). It’s time to take a broader look.

Amid all the talk of gold, two points need to be made: gold is not the over-riding influence on the rand and a rising gold price has not always guaranteed economic health.

Firstly, the rand fall has been the quickest and most visible reaction to the fall in gold. That tempts us to blame the rand’s plight on gold — and simply pray for the gold price to rebound.

But it’s not that simple. To begin with, the recent falls in gold and the rand can both be explained by the strengthening dollar, without even mentioning gold.

The gold price can have an effect on the rand: witness the currency’s strength in 1980 during the gold boom. But that doesn’t keep the rand up forever.

JCI economist Ronnie Bethlehem has drawn a useful graph comparing the rand-dollar exchange rate with what we’d expect it to be based on purchasing power parity, determined by comparing the inflation rates of the US and SA since 1972.

He finds that despite swings in the gold price, capital flight, unrest, sanctions, foreign debt and all the rest, the commercial rand is about where we’d expect it to be, because of SA’s high inflation (see graph).

With inflation staying high, there’s only one way for the rand to go down. Simply, if SA consistently has 15% inflation and the US 5%, the rand will depreciate by about 10% a year. Short-term good news — a rise in gold, a surge in exports — might keep it strong for a while. But it won’t stop the long-run fall.

How far will it fall? With SA’s inflation likely to pick up late this year, Bethlehem predicts a US$1.90c rand on average this year, dropping to about US$2.10c, US$2.90c, US$3.30c and US$3.90c over the next four years.

And that’s just an average scenario. Unusual social, political and economic trauma could keep it below the purchasing-power-parity line: “If the current account remains under pressure, inflation soars, the gold price is weak and the Conservative Party gains on the National Party, you don’t need to be a genius to know where the rand is going.”

But, he stresses, “the underlying problem is inflation.”

The rand will stabilise only if Pretoria stops debase it. That means firmly controlling the money supply — a task made much easier if government would cut back spending and take pressure off the Reserve Bank to monetise the debt.

With high SA inflation . . .

Free Market’s Davey . . .
gold goes into rands

. . . the rand keeps falling

with Purchasing power

rate of R/S based on
inflation differential

inflation rate of R/S

of R/S (based on
inflation differential)

Purchasing power parity

of R/S (based on
inflation differential)
AS THE GOLDEN GLOW DIES DOWN

When the year started, there was good reason to argue that the atmosphere around Diagonal Street was simply too bearish. The gold price was still close to US$300/oz, the economy looked poised for more rigorous growth than many were prepared to concede and the sanctions threat appeared to have receded.

The weeks since mid-January have pored some icy showers on confidence. Outstanding disappointment has been the gold price. In less than two months, gold plummeted by virtually $80/oz from the end-December high of just above $423.75c on February 29 even caused some analysts to fear that the long-term bull trend had been broken.

And while privatization — with the potential to soak up liquidity on the JSE — has logged much of the attention, other elements of P.W. Botha's economic package could restrain growth this year and next. A stockbroker's economist calculates that surbs on public-sector salary increases, will subtract about R1.5bn from personal incomes this year. In addition, recent trade figures have been disappointing. They could turn out to be a temporary hiccup. If not, then these and the lower gold price will almost certainly mean the overdraft rate will continue heading towards 16%-18% by year-end.

"The economic scene has taken a significant turn for the worse," says the broker's economist. "We expect to see the economy growing more slowly than was forecast early this year, yet with interest rates rising as much as we originally expected. And rising rates have traditionally been associated with a falling or at least not a rising equity market."

Gold shares are currently thought to have the duller prospects. After recovering late last year, gold counters have been clobbered in 1988 (see graph). They have featured almost daily in the new lows and, by this week, the All Gold index was at 1265. This was some 48% down on the October 19 high of 2429 although 4.4% up on the February 29 low of 1212.

This week's rebound in the gold price to around $438/oz was encouraging but does little for the fundamental outlook. With the rand price merely stagnating, cost pressures and productivity weakness continue and strikes remain a concern.

But the falls should be assumed that the All Gold index is rising now, for it implies similar worries about the industrial sector. In the past, the Industrial index has tended to follow the All Gold index after a lag. One reason for this is that the gold price influences the overall health of the economy and ultimately corporate profits. Martin & Co. of Hambur says the firm has taken account of changed economic prospects by revising its forecast downwards for average industrial earnings growth over the next 12 months from 27% to around 23%.

But these are average figures which will be exceeded by many companies. Even the effects of rising rates should be seen with circumspection. For more than two years before the Crash, scores of companies used rising profits and equity issues to repay or avoid borrowings. By late last year, most had trimmed debt: equity ratios to conservative levels, while some of the rest had lifted interest cover to historically high levels (FM December 18). The worst impact of too-rapid increases in rates may lie in constraints on consumer spending which could hurt profits.

Another concern is the liquidity levels currently held — and targeted — by the institutions. Liquidity has obviously climbed steadily in the past four months. But, given that institutional liquidity was virtually rock bottom before the Crash, these levels are unlikely yet to have risen high enough, particularly in view of privatization expectations.

Lower profit forecasts, rising rates and higher liquidity requirements are unlikely to help sentiment. But they do not necessarily imply markedly lower share prices — certainly not across the board. Sanlam investment GM Ron Masson notes that rising industrial profits should help to support prices. Higher earnings and dividends will mean higher share prices even if prices simply remain roughly static.

"The risk is more in the time investors may have to wait for higher prices than in falling prices," Masson says. "I think the market will stay dull and listless for quite some time. But I don't foresee any big shakeout unless it originates overseas."

A number of analysts feel that the demand for so many shares that comprise the bulk of the Industrial index may not have further to fall. Controversial among these is Rembrandt, on which there are contrasting views. Some worry about the share's dividend yield of 1.7% — razor-thin in today's market — while others favour the counter for its rand hedge qualities and consistent growth record.

As much as 10% of the Industrial index is represented in Sasol and the group is most unlikely to do more than maintain its dividend this year. But here, too, the worst could already be reflected in the 7.1% dividend yield and 610c share price, down by 52% from the high of 1.34c on August 17.

Most other major stocks in the index are still achieving robust growth, yet almost all have been knocked down to low p/e and attractive dividend yields which undoubtedly indicate good value. Barlow Rand, for example, stands on a P/E of 7.1 times, Federale Vols on 6.3 times, and AECI on 7.6 times. It is not only the large groups that now show attractive ratings on historical performance — analysts are at present sitting through dozes.

Many are taking the view that while solid companies are showing p/e of between four and six times and are thought to be set for more growth this year and next, such counters have got to be considered very good value. Attracting particular attention at present are those companies that would benefit from a weaker rand. Among these are Supa, on a P/E of 6.6 and yielding 6.2%; Sasolwax, yielding 9.5%; Highveld, yielding 5.5%, and CMI yielding 10.3%. There are also the non-gold-based mining shares and mining financials, notably De Beers.

Other industrials have been cited for their low p/es, such as Market. National Trading, Rex Equipment, Fruehauf and Unitrade. All of these need to be carefully assessed, as do the dozens of new listings that were barely analyzed before the Crash and then got savagely marked down simply for being unknown quantities.

Recent events may mean gloomier sentiment and a more protracted bear market. But there is good reason for seeking rays of light — even if by taking a contrary view. Simpson McKee's Charles Booth says his own mood brightened when he realized that attitudes had become so bleak the market could only go up.
GOLD

Fall off in exploration has cost country dearly

By Tom Roed

Gold production has plunged by 40 percent from 1000 tons to 605 tons in the last 18 years — a drop equal to wiping out two of the country’s greatest goldfields: the West Wits Line and the Free State mines.

And this, say two researchers, means a loss of $26 billion in earnings which, had it been avoided, would have meant an economy “immeasurably stronger” and the country “a better and happier place in which to live.”

Mr. David Gleason, a leading gold analyst, and Mr. Chris von Christier, managing director of Southern Prospecting, say in a controversial report in Leadership magazine that the mining industry would have served the country better had it maintained its share of world production.

The industry could have maintained this share had it sustained the exploration drive at high levels in the 50 years since the mid-60s, they claim.

They argue that holders of mineral rights must be compelled to explore and define them. “They must not be allowed to sit on them indefinitely, as so often happened in the past.”

Often ownership of mineral rights to private land were acquired in the distant past by a mining company and since there was no financial burden in holding the rights ad infinitum, there was no urgency to prospect or evaluate these holdings.

With reserves being depleted faster than they are being replaced, the industry is in “the painful process of going out of business.”

The average grade of ore has also fallen from 12.28 grams a ton in 1970 to 5.28 grams in 1987 — a 60 percent decline.

On the basis of the current average grade, the industry needs to discover and prove a total of about 100 million tons of reserves each year.

But the major factor inhibiting exploration is financial. South African investors are grossly underinvested in exploration, say the researchers.

Only $30 million was raised last year from the investing public on the Johannesburg Stock Exchange for exploration compared with the equivalent of R1 billion in Australia.

“Quite simply far more money needs to be channelled into exploration by the mining houses, institutions and investors,” says the researchers.

South African exploration in the past had the highest success expenditure ratio compared with competitor countries.

But the Government must now seriously consider stimulating exploration in a way similar to the Canadian tax system. In Australia, moreover, there is no tax on gold mining.

Without changes to the mining taxation system, such as making available tax shields for the non-contiguous mining areas, it may well prove too onerous and risky to open new mines.

Mining executives must also be certain that Government understands the problems and that the industry’s labour force, and particularly its leaders, understand the critical nature of the issue.

Investors could minimise the high risk of exploration through spreading risk geographically and ever prospects with different maturities, by investing in areas of potential, backing sound management and seeking out mining house involvement, say the researchers.

They conclude: “Never mind the Margo Commission. We are faced with a near-calamitous situation. Only courageous action will rescue us.”

“Only through such accommodation will the South African mining industry arrest the decline in production over the long term and all the economic consequences for the country that go with it.”

“It is essential that South Africa’s mineral rights be turned to account.”

Unlike Australia, where about 90 percent of gold is obtained by open-cut methods, South African miners have to dig deep for their gold, often to depths of 3,000 metres or more.
Investors' role crucial as gold output rises — Gush

Johannesburg — Physical demand for gold remained strong into 1969, according to Vaal Reefs chairman Mr Peter Gush in his review with the company's annual report.

He adds, however, that "with newly-mined gold forecast to continue increasing in coming years, the role of the investor remains crucial to the absorption of surplus bullion in the market."

The gold price for 1968 would be influenced heavily by the state of the developed countries and the views of their investors.

"The decline of the dollar towards the end of last year offset the advantage of the bullion price increase to non-US dollar investors, and the price of gold in Deutschmarks, yen and Swiss francs was lower at the end than at the beginning of the year."

He says the erosion of the non-US dollar price had discouraged investor interest. Also, the "increasing resort to gold loans to finance the development of new gold reserves has placed a further burden on the market.

"However, while the activation of gold stocks to finance future output increases the volume of bullion on the market today, these transactions have a positive effect on the market in the future by withholding gold from the market while the loans are repaid."

Discussing manpower on the mines, Mr Gush says government procrastination in implementing the amendment of the Mines and Works Act to remove the "scheduled persons" provision is "of great concern and is preventing the essential advancement of black workers into higher skills grades."

He says the relevant provisions in the latest draft regulations are unacceptable to the industry "but it now appears that government intends to make certain modifications."

"We hope this will lead to an early and acceptable amendment to this outdated law."

Says
CONFIRMATION of the possible current-account deficit was seen in the Reserve Bank statement of its gold and foreign reserves for March.

The Bank's foreign currency holdings declined to R893m from R1,1bn in February notwithstanding the sale or disposal of gold bullion which dropped to 5,803,932 ounces from 6,078,096 ounces in February.

Gold bullion stocks were last this low in December last year when they fell to 5,830,350 ounces.

Gold assets, valued at a considerably higher average gold price of R867,95 for the month, compared with R816,98 in February, rose to R5,06bn from R4,96bn in February.

This brings the total gold and foreign assets to a not much changed R6,09bn compared with R6,17bn in February. Reserve Bank governor Geraard de Kock says this indicates the capital account "is behaving itself" since the change in total reserves has not been affected by indications that the current account is running a small surplus or deficit.

The increase in bank deposits to R706,5bn from R607,9bn in February reflects the rising demand for bank credit. Although bank credit figures for February are not yet available, by January they had increased 7,5% since October 1997 when credit demand gained momentum.

The March Reserve Bank quarterly bulletin says demand for bank credit accelerated abruptly in the fourth quarter last year, bringing the seasonally adjusted and annualised figure for that period to 36,2% compared with the previous quarter at 13,1%.

Higher bank deposits could also be attributed to intermediation, lending coming back onto bank balance sheets. Notes in circulation at R6,98bn for March is close to its record high of R6,5bn in the middle of December.

De Kock says this is another signal that economic activity is booming and explains why the money market has been tight with the Bank accommodating it through repurchase transactions.

Gold and forex reserves

- Total
- Gold
- Rand gold price

Source: SA Reserve Bank

Graphic: J ohn McCaffrey
Gold reserves up
R124 million

PRETORIA — South Africa’s gold reserves increased by R124 million during March to total R5,69 billion on March 31, according to the Reserve Bank’s monthly statement of assets and liabilities released here.

Total gold and foreign assets amounted to R6,1 billion (R6,2 billion at the end of February).

Gold reserves were valued at R867,95 a fine ounce, compared with a valuation price of R816,98 for February.

Notes in circulation amounted increased to R6,39 billion from R5,87 billion.

Government deposits totalled R1 659 931 046 (R2 309 105 544), provincial administrations R704 102 274 (R365 403 233) and bankers R705 528 867 (R607 924 673).

The ratio of gold reserves to liabilities to the public less foreign assets was 64,90 per cent (66,4 per cent). — Sana.
Gold gets better role in the world economy

WASHINGTON — Finance leaders of the seven major industrial nations have endorsed a plan that would restore a small part of the prominence that gold once played in world monetary systems.

The plan, pushed by US Treasury Secretary, Mr James Baker III, would use gold as one of a “basket” of commodities to be watched by financial officials for indications of worldwide inflation.

Using the commodities as a guide would help them stabilise currency exchange rates, according to the plan.

The so-called Group of Seven, including the United States, Japan, West Germany, Britain, France, Canada and Italy, also agreed at their meeting to continue efforts aimed at preventing the dollar from declining any further.

The United States and its six allies decided in September 1985 to push the dollar lower to correct America’s huge trade deficit, but the countries have been trying since February 1987 to halt the currency’s decline.

The effort did not meet with much success last year, and the steadily deteriorating dollar was cited as one of the reasons the world’s financial markets were thrown into turmoil last October.

Mr Baker first unveiled his commodity price indicator at the last meeting of the seven countries’ finance leaders in September. Some nations expressed scepticism then, wondering whether the idea was a veiled effort to re-introduce a gold standard.

But Mr Baker picked up enough converts to get the proposal endorsed, although other finance ministers stressed that many details of the plan, including just what commodities to include, still remain to be worked out.

Mr Baker has insisted that his approach is not an effort to return to the gold-based monetary system that existed between the end of World War II and 1973. For most of that time, the price of gold was fixed at $35 an ounce and the currencies of other governments were set at fixed rates based on the dollar.

President Richard Nixon broke the link with gold in 1973 as the system crumbled under the weight of rising inflation and large trade imbalances.

The meeting also reaffirmed their determination to prevent a further decline in the dollar and work toward the elimination of global trade imbalances.

They said they welcomed the welcomed the stability in exchange rates since their last policy communiqué in December.

In a strongly-worded section on Third World debt, the seven rejected grandiose solutions to the crisis and said the current strategy of tackling each country’s problems separately was the only viable and realistic approach.

Banks had to lend more, and debtors had to push through more economic reforms, but any plan that transferred risks from the private sector to the taxpayer was unacceptable.

“Toward this end, they urged them to continue to take actions to reduce trade barriers and to allow their currencies to reflect fully the underlying strength of their economies,” the communiqué said.

Although it did not name any countries, officials said this was a reference to Taiwan, South Korea, Hong Kong and Singapore, nations criticised by US officials in the past for doing little to cut their huge trade surpluses.

The G-7 also stressed its strong opposition to protectionism and the importance of progress toward trade liberalisation.

— Sesa-Ras
De Kock urges gold, jewellery industry

Johannesburg — It would be reasonable to assume the price of gold would continue to show marked fluctuations in the short term around an upward trend, the Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

He urged that South Africa should move into manufacturing gold jewellery.

He was speaking at the official opening of Anglo's Eastern Gold Holdings project near Welkom.

He said the incline of the upturn would be largely determined by the success or failure of the main industrial countries in achieving and maintaining domestic and international monetary stability.

He added, however: "The truth is that nobody knows for certain how the gold price will behave in the months and years ahead."

Dr De Kock said official circles were in the process of recognising the changes in the mining industries since the early seventies.

He said that between 1970 and 1987, the dollar price of gold had increased by 16 per cent a year and the rand price by 23 per cent while the average cost per ton milled had risen by 16 per cent a year.

He pointed out, however, that the rise in the price of gold had been accompanied by a decline in gold production. This fell from just over 1000 tons in 1970 to 600 tons last year — a decrease of nearly 40 per cent.

The net result of the rise in price and the decline in output was that gold mining became more important to the South African economy than before.

As a result, the percentage contribution of gold to the gross domestic product increased from 5.5 per cent in 1970 to 9.1 in 1987.

During this period, Dr De Kock said, South Africa's share of world gold production declined considerably. It fell from 78 per cent of the non-communist production and an estimated 68 per cent of total world production to 50 per cent of non-communist production and 39 per cent of total production in 1988.

On the sales side, Dr De Kock said that Japanese demand for the metal was showing an upturn after declining last year. Imports in February alone hit 40 tons and some analysts expected the total for the year to pass 400 tons.

He pointed out that considerable value could be added to South Africa's gold production if part of the gold were converted into jewellery as well as alloys and sheets. There were grounds for arguing that South Africa could become a manufacturer of gold jewellery. — Sapa.

Taiwan to buy more bullion

Taipei — The Republic of China plans to buy the equivalent of one quarter of the world's annual gold production this year, mostly from the United States, to cut its trade surplus, gold dealers in Taipei said.

Economists said Taiwan was effectively trying to manipulate its trade figures with the United States to head off demands from Washington for currency appreciation.

Central Bank Governor Chang Chi-cheng told reporters the bank had bought 89 tonnes of gold in the first two months of this year, worth around one billion U.S. dollars at current prices.

"It will help reduce our trade surplus," he said.

Chang said the bank would buy more gold when the price reached a "proper level".

Gold purchases are being financed from Taiwan's foreign-exchange reserves of 75 billion U.S. dollars, the world's largest after those of Japan.

Falling reserves would also ease upward pressure on the Taiwan currency and encourage the exodus of speculative capital that has fuelled the growth of money supply and led to fears of inflation.

Economists said increasing gold imports was at best a temporary solution to balancing Taiwan's trade with the United States and would certainly not fool Washington. Sapa-Reuters.
Sell-off of golds feared if US sanctions prevail

US proposals for tough new anti-apartheid sanctions could force a heavy sell-off of gold shares by American investors and send prices tumbling, mining analysts say.

South African gold shares quoted in London are hovering around two-year lows. Further heavy falls are predicted if the US enacts legislation due to come before Congress next month proposing mandatory divestment by US corporations and individuals.

Brokerage firm Davis, Borkum, Hare estimated recently US investors held one-seventh of mining shares on the JSE, valued at last week's prices at about R14 billion. Most US holdings are in gold shares worth about R10 billion, according to Davis, Borkum, Hare.

The sanctions proposals have already cast a pall over the JSE, prompting local and foreign investors to steer clear of gold mining stocks.

This year South African gold stocks have drifted steadily downward. "The FT gold mines index, currently at 213,30, is at its largest discount to the gold price for many years," says London brokerage firm Warburg Securities.

The JSE's all-gold index has dropped more than 500 points from 1774 at the beginning of this year to around 1260.

"Undoubtedly, the Johannesburg market could absorb a sell-off, but it's going to be at a price," says Warren Meyers, chief gold analyst at Merrill Lynch Capital Markets in New York.

"The only thing that could cushion the shock would be the gold price going through the roof," he says.

US investors, anticipating tougher sanctions, have already started offloading local gold shares.

"We haven't seen everybody rushing for the exit, but there is a steady trickle of selling," Mr Meyers says.

"There is a certain feeling of inevitability that some form of restrictions will be imposed on American investors holding our gold shares," says JSE president Tony Norton.

"We are already seeing net sales by foreigners of about R30 million a week," he says.

Mr Norton believes, however, the effect of an American sell-off will be cushioned by the financial rand.

"This would cheapen share prices and and there will certainly be buyers in the Far East, Britain and Europe looking for bargains. That's what markets are all about," he says.

Stockbrokers agree that cheap South African shares could be snapped up if an American sell-off sends prices lower.

"European investors don't have the same sort of scruples that Americans have about South Africa. They would be looking for bargains," says Mr Meyers.

South Africans, their funds bottled up inside the country by tough exchange controls, take a rosier view of local gold shares and are likely to turn buyers if US holdings are unloaded at bargain prices. - Sepa-Reuters.
GOLD

Down, but not out

The gold price dipped between fourth-quarter 1987 and first-quarter 1988, in both dollars and rands. But while the outlook for the dollar price is not particularly bullish, the rand price seems destined to head higher, says Old Mutual's latest Economic Monitor.

Gold averaged US$454/oz in the first three months of this year, down from $473 in the previous three months, when it briefly topped $500.

The rand price fell to R936 from R945, a more modest decrease because of the currency's depreciation.

Old Mutual will not be surprised by "a moderately declining trend" in the dollar price for the rest of the decade, arguing that a stable or strong dollar is bearish for gold.

It believes the dollar is in bottom territory now, having fallen to post-war lows against both the D-mark and yen in December. It also expects subdued inflation in the US in the next few years, which would keep pressure off gold.

But for those who think in rands, the outlook is different.

Old Mutual expects the rand price of gold to rise as the rand continues to fall. It cites two pressures on the currency: the balance of payments, and the large inflation differential between SA and the US.

Demand for dollars to buy imports and pay off foreign debt puts short-run downward pressure on the rand. Meanwhile, the difference between US and South African inflation (now about 10 percentage points, with little hope of narrowing significantly) keeps pushing our currency down in the long run.

Here's what it could mean:
- If gold drifts to $400 but the rand falls to US$35c, the rand price rises to R1 143; and
- If gold is $400 but the rand drops to 30c, the price becomes R1 333 — up about 40% on where it stands today.

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Source: Old Mutual
Is Increasing in Far East
Investor Demand for Gold

BUSINESS
May 10, 1988
World markets sluggish as inflation fears mount

By Finance Staff

After rising almost constantly for two months stock markets worldwide have been on the slide over the last week in the wake of renewed fears of higher inflation rates.

Both Wall Street and the Tokyo stock market recovered some of their recent losses but the spectre of higher inflation and interest rates continue to dominate the markets.

The currency markets have also caught the inflation anxiety gripping the stock and bond markets, and the dollar was slightly weaker in early trading in Tokyo.

It was unchanged at 124.63 Japanese yen in morning trading Friday in Tokyo, slightly down on the New York closing level.

But gold, which is a favourite investor refuge when inflation seems to threaten the value of other assets, advanced to its best levels in a month in early New York trading, which is expected to give the JSE a much-needed injection of confidence.

In Tokyo, the Nikkei Stock Average gained 29.57 points to finish the morning session at 27,402.81. Yesterday it fell 394.34 points in its largest single-day fall this year.

The Dow Jones average of 30 industrials, which fell a total of 56.54 points on Tuesday and Wednesday, rose 7.63 points to close at 1,958.72 yesterday, but only after it had dropped by another 25 points at noon.

Brokers attributed the rebound to slightly lower yields in the bond market, which made bonds less alluring to investors.

London share prices also fell on Thursday for the second day running, with the FTSE 100 index closing 17 points lower at 1,760.6.

The sluggish mood on Wall Street was highlighted when Tuesday's release of the US trade deficit in March, at $37.56 billion, was far smaller than expected, suggesting an overheating economy.

Many dealers expected the US Federal Reserve to drive interest rates higher in an effort to rein in inflation. A move by the central bank toward higher interest rates would, however, tend to bolster the dollar.

The negative reaction in US financial markets to Tuesday's news of a substantial improvement in the US trade deficit in March has sent a worrying message to markets overseas.

This apparently contradictory behaviour highlights the extreme vulnerability of the mood in the US and provides evidence of a negative psychology which could prove destabilising and start to make policy decisions more difficult.

There is a propensity in financial markets to read higher inflation into every economic statistic and to paint only extreme pictures of prospects for the US economy.

In the wake of the uneasy financial markets James Baker, the US Treasury Secretary, will today seek to give added impetus to efforts by leading industrial nations to strengthen the international monetary system with proposals for tighter co-ordination of their economic policies.

In a speech in Paris to the Council on Foreign Relations of the OECD, Mr Baker is expected to call for closer cooperation in economic and exchange rate management in the Plaza and Louvre accords and at the Tokyo and Venice world economic summits.
Gold returns above $460

By Sven Lühn
The price of gold in Hong Kong this morning opened at $460.60, after it fell back yesterday afternoon in London by about $3 from its morning fixing of $460.25, which was the first time gold was fixed above $460 since last January. Earlier in New York the metal closed at $460.25.

In rand terms, gold hit a record high of R1 020 yesterday, driven largely by the weak rand exchange rate, which should boost profits at local gold mines.

Gold has over the last few weeks risen from a low of $440 to its present levels in the wake of anxiety that buoyant economies in most industrial countries will boost inflation rates worldwide.

"People start considering inflation as a factor when commodity prices rise," a Japanese gold dealer told Reuters. He said that in the gold market, "participants take those higher prices as buying signals".

The American economy has shown accumulating strength of late, accompanied by some stirrings of inflation. That has fueled expectations that the Federal Reserve will sooner or later feel compelled to tighten credit.

Financial markets around the world were unsettled by news that a key measure of commodity prices ended last week at its highest level in three years.
It is time gold made a break

TECHNICAL VIEW
By Dr Issy Bacher

Anyone concerned with the immediate prospects for the economy should be watching the present critical level of the gold price with bated breath.

Investors already committed to holding shares should soon be in a position to know whether the JSE is going to lift from support levels recently established or sink back into the grip of the bear.

Yet the course of the gold price is out of our hands and depends primarily on overseas market players who are betting whether gold can break through resistance established at $460 or not.

My reading of the gold cycle is that the first phase of a new bull market began when the gold price broke through a resistance line of $320 in July 1985. Up to this point, gold had been in a bear trend.

The first leg of the bull cycle took gold to the $500 level in December 1987. This phase had thus taken 2.5 years to develop.

The first leg down took the gold price to the strong support level which existed at the $425 mark.

Since then the price has risen and has now marginally broken through $460.

Why is that level important? The answer lies in the chart below.

When the gold price fell to $425 it penetrated through its 65-week moving average which technically constitutes the last line of defence of a bull market. But the market very often sets up traps and as can be seen from the chart the break was marginal.

The present rise to $460 has taken bullion marginally through its 65-week moving average and an upward thrust to $465 is needed to make a complete breakthrough.

If this happens then the technical evidence based on its 65-week moving average would be that the bull market is intact. The next conclusion if this happens is that gold has the potential to test resistance levels near $490.

The lower graph is the gold price with a shorter term 15-week moving average superimposed on it.

Note that at $460 the gold price is nudging through this line. Thus $465 would be a break both in terms of its 15-week and 65-week moving averages.

CONCLUSION: Can the gold price break through? My bet is that it will.
In investors buy up surplus gold.
What does the future hold for that ‘barbarous relic’?


Gold was famously described by the economist John Maynard Keynes as “a barbarous relic”. For him it was a commodity which had no place in an international economy organised on rational (ie Keynesian) lines. The extraction of gold required the use of labour and capital which could have been more usefully employed elsewhere. It could not be consumed. A country’s need to protect its gold reserves was a permanent constraint on policies of economic expansion. For Keynes, in short, gold was a pretty useless kind of thing.

South Africans (of the white variety, at least) do not see gold quite this way. For them gold has become akin to the last best hope of an economy which has been mismanaged by politicians and is now the victim of an endless and hypocritical campaign of international sanctions. A steep rise in the gold price does wonders for the morale. The bleakness of the future begins to recede. The professional praise-singers for gold waste no time in announcing that this is what they had been expecting all along, that even more splendid times are ahead for their metal.

Fantasy and ignorance

Plainly, we can do with a decent guide through the thickets of fantasy and ignorance. This is what Timothy Green attempts to provide in The Prospect for Gold: The View to the Year 2000.

Green, of course, is an old gold hand, as distinct from being a bug or a null; he has, in fact, beaten tenden
cies. His first book on gold appeared 20 years ago. He is a consultant to Consolidated Gold Fields in London. Green keeps up with trends in gold markets by travelling to large parts of the globe every year. Gold is his subject.

Green’s message is simple: gold is likely to be facing hard times ahead because of the continuing boom in production throughout the globe.

“Gold mining has become the last really profitable mining game in town. If investors are not inclined to favour gold, we could be heading for a bankruptcy in the 1980s, unless radical new initiatives can stimulate the regular ‘bread-and-butter’ demand for jewellery, industry and coin. A scenario of no increase in the gold price in real terms to the end of this century can be painted as easily as one projecting $1,000 or more.”

We are looking at a “renaisance in gold mining”. Between 1980 and 1987 mining output in non-communist countries rose by 50 percent, a trend which is expected to continue into the next decade.

Mining technology has so improved that recovery yields are far higher than before. Exploration expenditure has risen sharply.

United States production increased from 30 tons in 1880 to an estimated 160 tons in 1967. During the same period Canadian output more than doubled to reach 115 tons. Australia registered a more than sixfold increase, from 17 tons to 115 tons. Growing quantities of gold are being produced by Russia, China and Papua New Guinea.

The conspicuous exception to the trend has been the world’s largest gold producer, South Africa. Output in the 1960s has tended to decline, both absolutely and relatively. The Republic’s share of non-communist production was less than 50 percent in 1987, according to Green’s estimate, compared with about 70 percent in 1960.

But this is largely due to the high rand price of gold, which limits output by enforcing the mining of lower grade ore.

Green, however, anticipates a rise in output. He continues: “Despite inflation and much higher wages paid to the black work force, the industry is very profitable. These profits have encouraged major expansions.”

The truth is that technological change has made gold production a rewarding business indeed. It will remain so even if the price were to come down considerably. Green estimates that non-communist output will rise to a peak of 1,500 tons in 1980, compared with 959 tons in 1980, after which it will gradually subside to 1,200 tons in 2000.

The big question for Green is how is all this newly mined gold to be taken off the market? A common response of true believers in gold is that it is not a problem. The gold market is quite small relative to the huge amounts of money all over the world just looking for profitable outlets. As Green summarises the bullish scenario, “only a trickle of it has to be diverted into gold for the price to take a quantum leap”.

Now there is something in this but wishful thinking can transform even Gorbachev into an old-fashioned liberation. The arrival of what Green calls “the electronic marketplace” has in fact amounted to “a radical change in the gold business”. The emergence of a global market, largely due to a revolution in communications, has meant that dealing in gold is no longer just a physical business. Paper-gold instruments in the form of futures options can be bought by simply picking up the phone.

Gold has largely ceased to be a monetary asset. Central banks are no longer the major buyers of the metal. It has become primarily a commodity, to be traded in for profit. Gold is now liable to attract more of that “surplus” money supposedly slopping around in the world economy.

One snag, however, is that the gold price becomes more volatile. Profit-seeking investors can move into gold and out of it overnight if their expectations about the price change suddenly. And there is really no particular reason why gold should be high if investor sentiments about its future are bleak. Bullish scenarios sound fine, but may be no more than dreams.

Green believes that a high gold price can be sustained only if physical demand can grow at a respectable rate. But, as he points out, such demand for gold in industry, jewellery and coins has stagnated in the 1980s. In particular, Green argues that jewellery, which still accounts for more than 60 percent of Western mine production, should be marketed in new, more attractive forms. The emphasis should be more on high-carat, low mark-up jewellery, as against the present concentration in the West on the low-carat, high mark-up varieties.

Not too plausible

He may be right. The only problem is why jewellers, who after all are in the business for a profit, have not been selling these forms already. Is it due to competition, myopia, ignorance? This is not too plausible. The argument implies that better-informed outsiders, like Green, can enter the market and make a killing. What’s stopping them? Perhaps the unpalatable truth is that tastes in the West have simply turned against gold jewellery.

However, gloom about gold need not be the inevitable conclusion. As Green points out, gold has maintained its purchasing power over long periods. It can reasonably be expected to improve in line with inflation. Whether it will bring sustained super-profits is perhaps doubtful.

Timothy Green has written a book from the perspective of the highly informed journalist. It contains plenty of information not conveniently to be found elsewhere. It should be read by bugs, bulls, bears and others, not least, interested lay persons. But there is still scope for a book on the economics of gold, written by that much maligned figure, the economist.
Cost inflation, falling grades mean...

SA ‘needs rand gold price to continue rising’

GERALD PROSALENDIS

ENTRENCHED cost inflation in the gold-mining industry, coupled with falling ore grades had made it imperative that the rand gold price continue to rise, Nedbank chief economist Edward Osborn said.

Writing in Nedbank’s latest Guide to the Economy, Osborn said in the absence of a rising gold price abroad and because of the gold-mining industry’s dominant importance to the economy, SA was committed to a state of perpetual exchange-rate devaluation and domestic price inflation.

This could be relieved by one of three situations:

☐ A rise in the dollar price of gold, which is not in SA’s power to control;
☐ Abandoning exchange-rate protectionism of the gold-mining industry, which could have dire economic consequences;
☐ Technological advances in mining that would reduce the use of labour but have undesirable social repercussions.

Osborn said since the end of 1973, costs a ton of gold milled had increased by more than 10% a year, with two exceptions in the first quarter of 1990 and the fourth quarter of 1984.

“The cost inflation has been as high as 50%, but has fluctuated predominantly between 10% and 20% a year.”

The inflation rate for gold produced, however, had become even greater because of the steady secular decline in grade for the industry.

“Declining grade in the ageing gold-mining industry has been an important contributory factor to costs of production of the final produce, pure gold.”

In spite of the large expansion of the mining industry from some 18-million tons of ore milled a quarter in 1970 to nearly 28-million tons a quarter today, gold production had declined from 1 000 metric tons a year to 600 tons a year.

“This has come about because of a decline in the average grades in the industry from 13.3 grams a metric ton in 1970 to 5.2 grams a ton.”
Reserves rise by 5% in May

By Sven Lünsche

Total gold and foreign exchange assets increased by some R314 million, or more than five percent, to almost R6.2 billion in May, the first time since January that the reserves have shown an improvement.

The figures show that South Africa will be able to repay another R400 million within a month to reduce its foreign debt without depleting gold reserves. The repayment, which falls inside the debt standstill net, will be made next week.

The figures will be welcomed by the authorities as the current account surplus had recently declined to such levels that many economists feared the country would have problems in meeting its repayments.

Total reserves climbed from R5.578 billion to R6.192 billion in May, latest figures released by the Reserve Bank in Pretoria yesterday show. Gold holdings, which were valued at R916.71 per ounce, rose by some R26.7 million to R4.94 billion in value during May, although in physical terms the reserves declined by about 260,000 ounces to 5.39 million ounces.

Notes in circulation rose from R6.197 billion to R6.406 billion, while the ratio of reserves to liabilities to the public less foreign assets was 71.2 percent at end-May compared with 68.7 percent in April.
Demand for newly-mined metal says the price of gold is not dependent on gold mining.

Economist Henry Kenny

Guessing about gold

Volatile

Hindsight

The victim

The equation that determines the price of gold, in the view of some, is something like this:

\( \text{Price of Gold} = f(\text{Demand, Supply,-other factors}) \)

In this equation, demand and supply play a crucial role. However, the equation is not as simple as it might appear. Demand for gold is not just a function of the price of gold; it is also influenced by various factors such as investor sentiment, economic conditions, and the state of the global economy. Similarly, supply is not just a function of production; it is also affected by mining costs, government policies, and the extraction of gold from mines.

Despite the complexities involved, the equation helps us understand the relationship between the price of gold and its demand and supply. However, it is important to remember that the equation is just a model and does not capture all the nuances and factors that influence the price of gold.
World's bankers unable to agree about merits of gold

VIENNA — Bankers at a gold conference are unable to agree about the merits of the metal.

Robert Strebel, a member of the executive committee, Bank J Vontobel, says that over the past 70 years gold has offered an excellent hedge against currency depreciation and it can be assumed this will continue in the years ahead.

In any long-term investment strategy, about 5 percent of a portfolio should be in gold and in times of political or economic uncertainty this should be raised to 10 to 20 percent, he suggests.

In contrast, Fritz Plass, senior vice-president, Deutschebank, suggests there has been no recent bull market in gold, but merely a dollar bear market.

From the low point in dollar terms of $286 in February 1983 to the peak of $503 last December, gold lost 17 percent of its value in Deutschmarks, 14 percent in yen, and even 15 percent in lira.

Mr Plass says the gold market is suffering from a new breed of investor: one who wants to take quick profits from rising prices.

The willingness to buy and hold gold has decreased and this has made the market more volatile.

The ultimate task of the gold market is to find a reliable and stable equilibrium. Investor demand cannot do this in the long run.

Over-supply of gold is here to stay, he says. Likewise, the demand is there to stay, but it is much less reliable and much more diffuse.

Dennis Suskind, partner in J Aron, on the other hand, claims volatility is good for gold.

He says that for 10 hours in every gold-trading day, New York is open for business and provides the most price-volatile market in the world.

He insists this volatility can be used to good effect by both producers and consumers.

One of New York's advantages is its liquidity, partly provided by the explosion in North American gold production, which this year could reach 310 tons.

Thus, Canada and the US together would displace the Soviet Union as the world's second-largest producer.

Isao Toshima, regional manager, Far East, World Gold Council, predicts the second stage of Japan's big tax reform programme next year will, in the short term, cut investment in gold by more than 20 percent.

The changes will involve the introduction of a 3 percent value-added tax, but the current 15 percent commodity tax will be eliminated.

While this will cut total gold investment for a time, there is likely to be a boom in physical gold bullion coins, which currently attract the commodity tax.

Mr Toshima says the Japanese gold market will again be volatile next year because there is bound to be a rush by investors to buy gold between the day the details of the tax reforms are announced and the time they are implemented.

Gold price predictions have come from Alfred Schneider, first vice-president, Swiss Bank Corporation.

He says US inflation, a major influence on the gold price, seems to be rising and that this could increase its price towards $500 this year.

At the low end, Far East support should keep the price above $420.

Looking to the longer term, he reflects on the fact that the debts of many Third World countries and those of the US have reached proportions which mean they will never be repaid and will have to be liquidated in some other way.

Whether this would be by way of substantial inflation or a severe deflationary crisis is an open question, he says. — Financial Times.
It was important to get the right kind of gold in the right kind of alloy in the right kind of environment. The problem was, gold didn't melt at the right temperature...
NEIL BEHRMANN

next few months will depend on whether buyers from the Orient offset potential sales of gold in the US futures markets.

So far, Western investors have been relatively disenchanted with gold even though a severe drought in the United States and an increase in world money supply over the past eight months are raising fears about inflation.

Investors in this region contend that a rise in the dollar and interest rates in the United States and Europe will make bullion less attractive.

Priced in dollars, gold has traded within a 10 percent band either side of $450 for some 18 months.

Tom Butler, precious metals analyst at Samuel Montagu, however, estimates that Far Eastern gold demand — mainly from Taiwan and Japan — is running at an annual rate of 750 tons this year, about 10 percent higher than 1987. Including purchases in the busy Middle Eastern “souks”, or bazaars and India, well over half the world’s supplies are flowing into the Orient.

The Central Bank of Taiwan boosted its gold reserves to 12.3 million ounces from 11.1 million ounces in March.

Rising imports have pushed gold reserves, including gold held in Taiwan’s private sector, to around 33 million ounces, according to estimates there. In 1986 Taiwan’s gold holdings were only 1.3 million ounces.

Most currency traders contend that the dollar will remain firm in the summer months. The US unit was bolstered by a Toronto summit statement indicating that the leading powers favoured a rise instead of a dollar fall.

Alan Greenspan, chairman of the Federal Reserve Board said however that central banks favoured a stable dollar so if the currency attracts too many buyers, central banks with huge amounts of currency under their belt will sell.

Brendan Brown currency economist at County NatWest Bank contends that the market is overenthusiastic about the trade deficit and the dollar will fall again towards the end of the year. But it will remain above the lows seen at the end of last year, he predicts.
Finance world has become a way of life

By Sally Sealy

For Johannesburg economist Dr Paula Huysmamer, gold means more than just the precious metal that makes up the wedding band on her ring finger — it is the subject of her doctoral thesis.

Dr Huyshramer recently graduated from the Rand Afrikaans University with a doctoral thesis in commerce, with a thesis on the relationship between the physical and futures market for gold.

She began her doctorate in 1983 after graduating, with a Master’s in commerce. "I decided to study gold because it is South Africa’s most important commodity and the gold price has a profound effect on the economy," she says. "To really understand our own economy, it is of the utmost importance to have an understanding of how gold markets function.

"The study of futures markets is something new. It is a new development in our financial markets and also a subject that is not very well known in this country."

At present, Dr Huysmamer is working as a private consultant. "It's work that I can do from home and it also gives me the extra time I need to be with my family."

Her research took her to the financial capitals of the world, Hong Kong, New York and London.

"I first developed my interest in commodities and the futures market when I lived in Houston, Texas, in the Seventies."

"I became involved in trading commodities on the futures market, and that's what really sparked my interest."

She finds the world of finance fascinating.

a continual challenge and in constant flux. "It becomes a way of life."

Apart from the relationship between the physical and futures gold market, Dr Huysmamer has also looked at the role of gold in the international monetary system, taking it back to ancient times — through the Classical and Middle Ages, to the present day. She also researched the demonetisation process gold went through.

Main currency

She says since the end of the Second World War, the world has become more financially integrated. Since coming off the gold standard in 1971, the dollar has become the dominant currency in international trade.

Dr Huysmamer says in 1980 South Africa mined 77 percent of the world’s gold. In 1987 this had dropped to 54 percent mainly because of new gold mines opening in North America, Brazil and Australia and the higher gold price.

"I found on studying some of the gold pricing models, that none of the models managed to forecast the gold price correctly over time.

Gold trade

"The reason, of course, that gold is traded on a worldwide basis and prices are fluctuating and changing all the time is that pricing models rely on expectations and it is very hard to quantify expectations in a scientific sense."

"Today, gold’s main function is as a financial asset which has to compete in a portfolio with other assets."

Gold has lost its mysticism, she says, and is now traded like any other commodity.
Gold sheds $10 as dollar climbs

By Sven Lünsche and Sapa-Reuters

The gold price tumbled by more than $10 to a four-month low as investors worldwide grew less weary of inflation.

"The market seems as if its back has been broken," said a bullion dealer in Zurich where gold ended at $433.45 yesterday after Tuesday's $443.75 close.

In London gold closed at $433.55 and in New York yesterday the trend continued with the metal closing over 55 up at $433.75. In Hong Kong this morning gold opened at $438.86 down.

Local mining analysts suggested that the metal's weakness indicated a lack of interest from investors worldwide, but added that Far Eastern buyers, mainly from Japan and Taiwan, could alleviate the situation in months to come.

Jewellery and industrial demand from the Far East have been the major driving force behind the relatively stable performance of the gold price since early last year, accounting for 23 percent of total demand last year—a figure which experts predict will be much higher this year.

Gold has also been riding on the back of the platinum price, this year and yesterday's collapse in gold was preceded by a $16 decline in platinum to $583.

But the major reason behind the decline in gold was the fact that inflationary fears in the US exceeded this week as rain in the farmbelt suggested that drought damage to crops might be less severe than had been thought, thereby diminishing the risk of higher grain prices. New evidence of over-supply in the petroleum market kept oil prices weak and also allayed some inflationary fears, which pushed gold to just over $460 early this month.

As a result of better rain prospects and lower oil prices, gold, a favourite investor haven when inflation threatens, quickly lost some of its recent allure.

Gold is also under pressure from the US dollar. The currency continued a rally which it began in mid-June, despite what dealers said were renewed dollar sales by European central banks.

The dollar is back in favour after beginning 1988 at historic lows. This is largely because of an optimistic view in the markets of the US economy and a belief that America's huge trade deficit is finally being narrowed.

In early Tokyo trading this morning, the dollar opened at 132.90 yen, up 0.50 yen from Wednesday's close of 132.40 yen, but a dealer suggested that the upswing was slowed down by central bank readiness to take action to slow down the rise in the US currency.

Bank of Japan Governor Satoshi Sumita said Wednesday that appropriate action would be taken to break the dollar's rise.

The decline in the gold price was expected to hit gold shares on the JSE hard yesterday, but the blow was softened by a dramatic five percent decline in the financial rand and the all-gold index actually formed by one point to 1283.

The financial rand closed at R3.4400 compared to Tuesday's close of R3.26, as overseas investors remained heavy sellers of local mining shares, despite the fact that in old terms, the rand is now trading below 30 US cents for the first time this year.

JSE President Tony Norton commented recently that there was a certain feeling of inevitability that some form of restrictions would be imposed on American investors holding local gold shares.

"We are already seeing net sales by foreigners of about R30 million a week," he said.

But Mr Norton added that the effect of an American sell-off would be cushioned by the financial rand.
JSE showing signs of greater strength

By Magnus Heystek
Finance Editor

A surge of institutional and overseas buying yesterday saw the Johannesburg Stock Exchange put up one of its best performances since the Crash of '87 with the overall index rising by 2.8 percent to 1850, extending its gain since the beginning of the week to more than 11 percent.

The All Gold index rose strongly on the back of a strengthening in the late gold price to above $440 an ounce in London to record a gain of 62 points and closed at 1451.

Heavyweight industrials also come into favour amongst local institutional investors and the index rose by 40 points to 1740, compared with 1658 on Monday morning and 1597 at the beginning of June.

Overall, the market has recovered by 16.2 percent since the beginning of June despite the weakness in the gold price during the same time.

Several factors are contributing to the current bullish mood on the JSE, including a weakening of both the commercial and the financial rand, institutional interest in selected industrial blue chips and, in certain cases, some overseas buying from Europe and London. Investors from the United States are still net sellers, say brokers.

Unit trust management companies have been reporting decreased levels of liquidity this week, indicating a preference once again for equities. This apparently triggered off fears in some quarters that a massive increase in local institutional buying will lead to severe shortages of stock. Large numbers of blue chip shares were traded yesterday, particularly Barlows (385 178), Fedsure (218 450), De Beers (215 680), Tongaat (122 235), Doornfontein (121 209) and Powertech (120 718).

The Overall index of the JSE has been boosted in recent weeks, somewhat artificially due to their relative weightings, by the sharp increases of shares in the Rembrandt Group on the one hand and De Beers on the other.

Coupled with a steady flow of buying orders for so-called rand-hedges, this has tended to underpin the market.

According to some analysts there has been a marked improvement in investors' sentiment in recent weeks, despite a general forecast of a slowdown in the growth of corporate earnings.

"Investors are suddenly finding current P/E's, earnings yields and dividend yields very attractive," one analyst at a large broking firm said yesterday.

A lessening of fears about higher interest rates has also contributed to the improvement in the general sentiment towards the JSE. Until recently the interest rate structure was seemingly heading sharply higher.

However, in recent weeks the money market has been characterised by a steady downward shift, thereby alleviating some of the fears of sharply higher interest rates in the immediate future.

Most economists are predicting that the prime interest rate will not rise to more than 17-18 percent in the current cycle.

Counters on the Development Capital Market yesterday also attracted some selected attention with several shares recording strong advances. Topping the list was computer-related company Don Gray which rose by 20c to 55c on huge volumes. Other DCM-stocks to show good increases were Milly's and Deale and Ruth.
Investment in gold shares over the past year has generally been extremely disappointing.

The question many investors are asking is: Should gold shares feature in a new investment portfolio, given the current negative scenario for bullion?

*No,* says Syfrets, the leading financial services company. But it adds that the holding of certain gold shares in existing portfolios can be justified.

In an article in its investment newsletter *Money Matters,* in which gold shares are scrutinised, Ian Hamilton of Syfrets says his selection criteria include:

- The life of the mine, as well as the grade and past record of the mine's cost structure.
- Labour relations should be considered, in view of current wage negotiations.
- Mr Hamilton says: "More important is the ability to maintain dividends or, better still, to have the potential to increase dividend payouts. This may appear to be well-nigh impossible for the highly geared mines in the current gold price scenario."

"Nevertheless, there are mines that are increasing gold output or have decreased capital commitments, such as Harties, Driefontein, Kloof and Randfontein."

"These mines and the mining houses to which they belong have undoubtedly an important role to play in the structures of a South African investor's portfolio."

By implication, Syfrets' view is that one should not buy gold shares now.

Syfrets' advice: "The only shares we would retain in a portfolio are the blue-chip gold producers which have a relatively small gearing to the gold price."
Britain's gold trade deficit sets a puzzle

LONDON — Britain's gold trade in the first five months of this year was £2.8 billion in deficit. That may not sound much, but it is more than twice the deficit for the same period last year.

In 1986 there was actually a surplus. The funny thing is, few specialists in the London gold market have noticed that the deficit is so big — and those who have cannot explain why.

Here are four possible explanations, in diminishing order of plausibility.

South African sales. The figures show that South Africa sent at least £1.57 billion worth of gold bullion to Britain in May, bringing its total gold imports to Britain so far this year to £2.6 billion, or 194 tons. That is 10 percent of the Western world's entire production last year. Nine Boeing 747's would have been required to ship it to London.

The Reserve Bank of South Africa admits that it has been exchanging some of its gold reserves for cash and London would be the obvious place to do it. Gold that the selling has not moved the market, though.

Future gold embargo. The South African Government might be bringing gold to London not to sell now, but to keep it in storage until it needs it. It could be for use in the event of an international embargo on South African gold, it knows something.

Mrs. Thatcher does not.

Fussy statistics. In January Customs and Excise changed its entire import-export classification system. There has been much confusion, some traders have put the wrong reference numbers at the top of their forms, and so imports and exports have been recorded in the wrong columns.

Statistics on gold might have been affected. For instance, the figures suggest that Britain imported £700 million worth of gold "waste and scrap" between January and May.

A cunning Treasury ploy. The Bank of England has frequently said that it wants interest rates higher and sterling lower. A bigger current-account deficit makes that easier to achieve.

Gold appears in the balance of payments in two places. As a commodity (for example, jewellery), it goes into the current account, as an asset (for example, bullion or coins), it appears in the capital account.

To sort out which is which, the trade department makes "compensations" to the recorded gold-trade figures. Just suppose a little imported gold were to find its way into the current account rather than the capital account. Who would notice? And if anyone were to, it was only a mistake. — The Economist.
Stormy weather ahead for SA gold watchers

If the Democrats have everything their own way, South African gold shares are in for a bumpy ride between now and the United States elections in November.

Thereafter if Michael Dukakis wins the election and files his teeth sharp enough to influence Europe, the situation could get worse.

The prices of gold and, to a lesser extent, platinum shares are being buffeted by the financial rand, the currency which foreign investors use to buy South African shares.

The value of the financial rand against the US dollar fell on average one percentage point a day during the last week of June and first two weeks of July. The fall was caused, and will continue to be caused, by over-supply of the currency as the US disinvests.

Already sanctions publicity has pushed the prices of South African gold shares to their lowest levels for two years on the London market, and in dollar terms, dropped them to 50 percent below their early 1988 levels.

Because local institutions have been snapping up shares which come on offer, especially quality shares, the fall on the South African market has been limited to 32 percent since the beginning of the year.

The Dellums-Wolpe Bill currently before the US House of Representatives reads: "A United States person may not directly or through a foreign affiliate of that United States person make or hold any investment in South Africa."

However, South Africa is likely to get a breathing space. Limited time available may well mean the Bill will not pass through Congress or the Senate before the election. And Republicans are likely to try to avoid Ronald Reagan having to veto another sanctions Bill.

While restrictions on new investment in South African shares by US persons is not new, the reference to "holding" South African shares is. It is this reference that has caused the recent off-loading of shares, which in turn has caused an over-supply of financial rands, that has caused the slide in the value of the investment currency.

If Dukakis wins, gold is in trouble. But gold is in trouble even if he does not. By JEAN TEMKIN

Disinvestment isn't new. At the end of the 1970s, some 42 percent of South African mining shares were held by foreigners - now the figure is 24 percent. Of this 24 percent, some 14 percent are held in the US.

However, of late it's not the intrinsic value of the shares that has kept foreign investors with South African shares, it's the ability to strip them of their dividends. Dividend stripping is one of the few ways of getting money out of South Africa in commercial rands.

The foreign investor uses financial rands to buy South African shares thereby benefiting from the discount between the financial and commercial rand. When 2.39 commercial rands bought one dollar and the cost in financial rands was 3.41, foreign investors bought South African shares at a 42 percent discount.

However, while he pays financial rands for the shares, the dividends on those shares are paid to him in commercial rands which means that his dividends are boosted by 42 percent.

If the dividend yield to a South African resident is 10 percent, it is 14.2 percent to the foreigner. What's more, while the South African shareholder is taxed on two-thirds of his dividend income, all the foreigner must pay is a flat 15 percent non-resident shareholder's tax.

Therefore, while some blue chip gold shares are held by foreigners, marginal and short-life mines are the favourites - they are bought and held purely for dividend stripping. Blue chip shares are typically on a lower dividend yield than a less intrinsically valuable share.

The favourites, and therefore the shares which are most in danger of being dumped on the market by forced US selling, are Gold-Holder, Blyvoor, Bracken, Grootevlei, Lo- raine, Durban Deep, Doornfontein, Venterspost, Afrikaner Lease and Buffels.
Gold speculators hit panic button

By Neil Behrmann

LONDON — A sudden slump in silver prices on the New York futures exchange on Monday has punctuated the gold market.

But following their lows in New York on Monday, precious metal prices began to recover in the more liquid and stable European markets by noon yesterday.

Gold was fixed at $431.50, silver at $7.12 and platinum at $338 an ounce.

London and Swiss bullion dealers say that speculators on the New York markets panicked when silver began to slide.

In the past few weeks silver rose around $1.50 an ounce or 23 percent to nearly $8 an ounce. Soaring grain markets and fears of inflation helped spur the metal. Yet it mainly surged because of impending strikes in Peru, a major producer. There were also leaks in the market that the Peruvian government intended withholding silver exports.

Speculators bought, but when the Peruvian government confirmed the rumours and announced that it would stop exporting silver, prices actually fell last Friday.

"It was buy on the rumour and sell on the news," said a Swiss bullion dealer. "The futures markets are terribly volatile and when the market turns, they tend to become illiquid."

"Buyers withdrew as soon as they detected large sell orders in the market and silver suddenly slumped from a peak of around $7.50 last week to $7.04 in New York before rallying slightly in London yesterday.

"When they failed to get out of their silver positions, speculators began selling in other precious metals markets. Gold fell to a low of $426 an ounce from $441 an ounce while platinum collapsed from $550 to $536 an ounce.

"The market was not helped by the rally of the US dollar and reported sales of Russian gold in London during the morning and afternoon "gold fix". Meanwhile says a Swiss trader "physical off take in the gold market is unexciting at this time of the year. It has not been sufficient to absorb gold supplies."

Besides Soviet sales some mines, notably Australian, have been raising funds via gold loans. The net effect is that this gold was also sold when the price recently rallied above $440.

"It seems that $440 is a fair resistance barrier," says a London bullion manager. "Physical supplies are in excess of demand, so gold cannot be described as exciting from a fundamental point of view."

"There is sand in the gold gearbox," says Union Bank of Switzerland in a comment on bullion.

Experience over the past few months could prompt investors to favour alternative investments.

"Gold production is high and is rising, the downturn in energy prices is easing inflation fears, the stronger dollar is not helping and in the European holiday season fabrication demand drops."

Moreover, says the bank, South Africa will have to meet interest and principal payments on its foreign debt in September. This means that the nation will be forced to step up sales of gold to cover its foreign exchange needs.

Despite these short-term negative factors, however, the Swiss bank contends that gold will rally towards the end of the year.

"Life is not that simple in the gold market," says the Bank.

Chamber confident

The Chamber of Mines believes gold's long-term bull trend is still intact.

Chamber economist Professor Beukes said yesterday one of the major factors in the decline was computer sell-offs which had probably helped trigger off the wave of selling.

He said that a number of investors programmed computers to sell when gold reached a certain level and that this had happened when gold hit $435.

Other factors were a drop in the consumer price index in the US, which relieved fears of inflation, a decline of 30 percent in the platinum price, a falling silver price and a drop in US grain futures prices.

He said a good indication of the outlook for gold could be seen in the context to which investors had bought the metal in Hong Kong yesterday morning.

Professor Beukes said that the gold price was affected by many factors, most of them—volatile and not too much should be read into short-term movements. He expected gold to be back at $445 in the near future. — Sapa.
Gold, forex reserves in further slide

SA's gold and foreign exchange reserves fell by R33.9bn to R5.57bn in July, reflecting the precarious state of the balance of payments.

The reserves, a cushion of currency enabling the country to meet its foreign payments when export earnings are inadequate, have dwindled steadily as SA's surplus on the current account of the BoP disappeared.

In dollar terms, the reserves now stand at about $2.20bn, down from June's $2.43bn and a far cry from $3.176bn held by the Bank in gold and foreign currency in December 1987. This represents a drop of 28% in dollar terms over seven months.

Reserve Bank Governor Gerhard de Kock said: "Obviously we are not pleased with the present level of the reserves, which reflects the balance of payments situation. But the reserves are much higher than the previous low point in 1986."

In April 1986 the Reserve Bank's holdings of gold and foreign exchange reserves stood at R3.24bn, significantly lower than July's R5.57bn.

On the BoP, De Kock said: "The trend on the current account improved in the second quarter, when there was a small surplus, seasonally adjusted, after a small deficit in the first quarter. But the trouble lies with the capital account — it is estimated that capital outflows in the second quarter amounted to more than R2bn."

He reiterated that further policy measures could be announced to protect the BoP.

The foreign exchange component of the Bank's balance sheet dropped by

SA's gold, forex reserves slide further

R345m to R1.25bn. However, physical gold holdings rose in July, by about 85,000 ounces to almost 4.4-million ounces.

In rand terms, gold assets increased by more than R248m between June and July to R4.28bn. The rand gold price was higher, at R254.54 a fine ounce compared with R199.29 in June.

Trust Bank economist Nick Barnardt says the higher rand gold price in June brings in a valuation factor which "dis-..."
Gold plunges to $417.75

Business Staff

GOLD plunged to an 18-month low of $417.75 in London today after opening at $423 an ounce.

Earlier, bullion recovered to $423 in Hong Kong from its $8 fall to $421, but the gains fell soon after the London market opened.

The fall put more downward pressure on the rand, which eased today in Johannesburg to $2.4250 (equal to 41.23 US cents) from Friday's $2.4142 (41.49 cents). The financial rand retreated sharply to 153/25 to the dollar (or 26 US cents) from Friday's 137/20 (26 cents).

Neil Behrmann reports from London that the metal is hovering on a crucial support level and Credit Suisse First Boston says that if the price falls below $418, there could be a wave of selling.

Bullion dealers said that when gold failed to respond to a weakening dollar in the past week, holders became nervous. A slight dollar rally was sufficient to precipitate a fall.

Normally gold begins to rise at this time of the year as jewellers stock up for the Christmas season. Yet a falling oil price and high world interest rates have curbed investor enthusiasm.

Japanese imports of gold also declined to 11 tons in August, well below this year's monthly average of more than 20 tons. Analysts expect their purchases to increase in the next few months now that prices are cheaper.

Albert Loveless, mining analyst at Smith New Court says that technical patterns on the gold charts indicate that there will be further weakness.

Analysts contend however that any further decline in the gold price will at the worst be limited to around five to 10 percent.

The behaviour of the market during the past 18 months indicates that there will be a sharp increase in physical purchases at lower prices, they say.

Yet dealers in oil and gold markets are bearish because there are more than sufficient supplies to satisfy demand. Brent oil prices closed at $13.50 a barrel slightly higher than the week's low, but well down on the $16 seen only a few weeks ago.

Weak oil prices do not augur well for gold, says Edwin Arnold precious metals analyst at Merrill Lynch Pierce Fenner & Smith in London. First, they will counter inflation, second, the Soviet Union a big oil producer will sell more gold and other commodities to counter a decline in its oil revenue, thirdly the Middle Eastern sheikhs will shy away from gold.

The most negative influence on gold, however, has been rising interest rates.

Central banks have been raising interest rates to counter inflation and bolster currencies. For the moment commodities are subdued. Investors are receiving high real interest rates on all currencies without the insecurity of holding volatile metals. Moreover rising interest rates have helped stabilise currencies.
Share losses as gold falls

BY AUDREY D’ANGELO
Financial Editor

The gold price plummeted to its lowest level for 17 months yesterday. The rand fell with it and huge sums were lost on the Johannesburg Stock Exchange as gold shares dropped.

As gold fell briefly to $416.50 an ounce in London — the lowest level since March 1987 — a Reserve Bank spokesman warned that if it dropped below the $400 mark there would be a further tightening of the economy.

Gold recovered partially to close in London at $419.75 an ounce, $7.50 lower than on Friday, and in New York at $421.25.

Meanwhile, the rand closed in Johannesburg at R2.4527 to the dollar compared with R2.4097 on Friday. The financial rand fell sharply to R3.88 to the dollar from R3.70 on Friday.

On the Johannesburg Stock Exchange the all-gold index dropped 30 points to 1219 from Friday’s close of 1249.

The fall in the gold price follows last week’s announcement that the US inflation rate was lower than expected. Falling oil and grain prices also quietened fears of rising world inflation.

Investors who had turned to gold as a hedge against inflation sold it to take advantage of rising interest rates in the US and Britain.

But the steep fall in the financial rand, caused by the sale of SA gold shares by foreign investors, is likely to cushion the Johannesburg Stock Exchange against further falls. At these levels it is unattractive for investors to sell.

The Reserve Bank spokesman said that at present levels the gold price is no threat to the balance of payments. It reinforces the measures taken by the authorities to cool the economy.

The fall of gold below the technical support level of $420 an ounce has not surprised economists and analysts, who point out that the US, Britain and Europe are taking measures to cool inflation, the oil price is dropping and world gold production is increasing.

✉ Week oil prices undermine gold — Page 9
Gold price dips briefly to a low of $415

at R2,4575/90 to the dollar against Wednesday's sharply weaker R2,4390/75 finish after it found strong support from the Reserve Bank at the R2,46 level. The local unit also continued steady against other major currencies.

The financial rand closed weaker at R3,84,91 against Wednesday's R3,82/89 finish.

Meanwhile sentiment on international markets remained generally bearish for gold.

A dealer at a major Swiss bank said:

"I see gold a touch lower overnight, then coming back as oil prices rise because of the hurricane in the Caribbean." Support seemed strong around $415/$416, she said.

Platinum yesterday followed the trend of other precious metals to fix at $517,75 an ounce, down from $533,25 at the morning settlement. The white metal closed at $524/$525,50 on Wednesday.

The commercial rand held steady around its recent lows, despite continued pressure from the stronger dollar and vulnerable gold price. The rand closed 7 points to 1 672 on heavy last-minute buying of blue-chip industrials. A dealer linked this to players with long open positions on the September industrial-index futures contracts — which expired yesterday.

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Kantor sees gold reaching $500 in 1990

By AUDREY D'ANGELO
Financial Editor

THE gold price should reach at least $500 an ounce by the end of 1990, Brian Kantor, professor of economics at the University of Cape Town, believes. And he disagrees with the view that economic sanctions are making real growth, and the development of the black population, impossible.

"They are making it harder," he conceded in an interview yesterday, "but not impossible".

Kantor has calculated that if the informal sector, for which no official figures are available, is taken into account SA achieved economic growth of 7% in the past year.

"We have been through a real boom." The party is over now ... but he believes that the US economy will run into trouble and the gold price, which closed at $412 an ounce in London last night, will rise.

Meanwhile, he urges that the gold mines should be taxed less, particularly in the good times, to encourage them to produce and export more.

At a seminar organized by the corporate division of the Trust Bank for its clients in the Western Cape, Kantor outlined alternative scenarios for the gold price and its effect on the economy.

"The first is for a gold price that remains pretty much at its current depressed levels until the second quarter of 1989, whereafter it increases to $500 by the end of 1990," he said.

"The alternative more favourable scenario is for the gold price to increase fairly steadily towards $550 by the end of 1990." Pointing out that this will depend on how the US economy is managed, or seen to be managed, he said: "Two factors are necessary for a favourable gold price.

"Firstly that the US economy slows down and secondly that the US authorities respond in their usual way with a more accommodating monetary policy. Such accommodation is likely to overshoot and in due course encourage more inflation.

"It is the fear of inflation resulting from this response by the authorities that will be most helpful for an improving gold price. It is how the Americans respond to slow growth and recession that is going to be critical."

Even with a favourable gold price Kantor expects the rand to depreciate by about $0.50 over the next two years. He expects the inflation rate to rise to a peak of between 18% and 16.5% in 1990 if the gold price does not help and to be lower if it does.

"All in all the outlook could be described as satisfactory being a period of extended adjustment to the recent excesses. However, the adjustment process will be accompanied by real growth in expenditure provided the gold price helps.

"Without an increase in the gold price the movement in the real formal economy will be sideways until the balance of payments provides the necessary room for manoeuvre. Such room will depend as always on the gold and other commodity prices."
Gold slump signals new rates hike

KAY TURVEY and GREGA STEYN

THE dramatic decline in the gold price to a low of $400 in New York has sharply intensified pressure on foreign reserves and underscored the need for austerity measures, particularly higher interest rates, economists and bankers said yesterday.

Responding to last week's $20 decline in the gold price, which wiped as much as $70m off gold and foreign reserves, the economists said a long-overdue rise in Bank rate could no longer be ignored.

Further, rise in the Treasury Bill rate for the past seven weeks indicates upward pressure on the Bank rate.

At Friday's tender for the R20m of bills on offer, the average rate on threemonth Treasury Bills rose slightly to 12.63% from the previous week's 12.76%.

At the beginning of August the rate was 12.53%.

The rate is to a large extent manipulated by the Reserve Bank and analysis

Gold slump signals new hike in rates

last week before closing at $412.25 in Hong Kong on Saturday.

The Reserve Bank calculates that every $10 fall in the bullion price could cost SA about R600m a year.

Already it is estimated the balance of payments (BoP) on the current account is unlikely to exceed R1.2bn this year, leaving government at least R800m short of the R2bn necessary to meet capital commitments.

The Reserve Bank's gold and foreign exchange reserves have slipped for three successive months and slid R256m to R5,31bn in August.

Anglo American economist Aubrey Dickman said the metals fall made a rise in interest rates unavoidable.

It was important this hike was not delayed for political considerations and was not too little, too late again, he said.

Bearish sentiments about a recovery in the gold price, fuelled by the decline in the oil price and international disillusionment with the metal's performance, leaves the Reserve Bank less room to manoeuvre.

Some bullion dealers and chartists say a decline below $400 is possible as the metal has fallen through support levels:

Sapa reports a Reserve Bank spokesman saying while gold's fall would harm the BoP, it was not yet serious and would not become a real problem unless gold fell below $400/oz.

One of the new factors contributing to the drop was that the Taiwanese Central Bank had stopped buying due to a dispute with the US. The Taiwanese government had indicated it would resume buying soon, he said.

Standard Bank economist Nico Czpiokka said the lower gold price necessitated cutback domestically and government could no longer ignore a rise in interest rates.

Trust Bank's Kobus Roos said all the market signals were saying that Bank rate, and banks' prime overdraft rates, should already have risen.
Finrand hits 18-month low as...

Gold price continues its plunge

GOLDF Steyn and
CHERYLYN IRETON

GOLD continued its plunge on world markets yesterday, causing the finrand to hit an 18-month low and fuelling bearish sentiment on interest rates.

The metal dropped a further $2.70 in London to end at $409.45, up on the $405 an ounce recorded earlier in the day in Zurich. In New York, it traded in a range of between $409.50 and $410.00.

Heavy foreign selling of gold shares drove the financial rand down a further 4% to R4.12 — its lowest level since February 1987. The commercial rand ended at R2.4707 to the dollar, 0.34% lower than Friday's close of R2.4833.

Fears that the Reserve Bank would raise Bank rate to protect gold and foreign exchange reserves intensified upward pressure on short-term interest rates. The 90-day liquid Bankers' Acceptance rate rose 30 points to 13.80% from Friday's 13.50% — signifying investors' reluctance to commit themselves to a three-month investment now while expecting an increase in rates.

Trading in the capital market was thin, but the lower gold price sent the

Gold continues plunge around world

Demand for blue chip stocks such as De Beers saw the overall index close two points higher at 1749.

A relatively stable oil price moved towards calming international markets. Sapa-Reuters reports that Britain's key Brent oil price eased slightly to $13.35 a barrel for November contracts in afternoon trade, about 10c lower than its opening price.

Weaker oil prices — and the damping effect on inflation — sparked the slide in the gold price on Friday.

This turned investors away from precious metals, as was evident in the platinum price which edged closer to $500 an ounce level, fixing at $495.75, down 50c from the morning.
LONDON — A sustained fall in the gold price was likely to accelerate the reorganisation of the gold industry which is already on the cards, says a report from Metals & Minerals Research Services, a consultancy based in London.

The study looked at the eight largest gold producers in Australia, Canada and the US, based on output last year. It said that on the basis of their likely 1990 results, only the biggest five or six could be confident of thwarting predators.

Newmont Gold Western Mining, Placer Dome, Echo Bay, Placer Pacific and possibly Corona Corporation would be big enough to deter all but the most ambitious from launching a bid, the report suggested.

All these companies were likely to produce operating profits of more than $170m each in 1990, with a gold price of $400 an oz or more than $110 with gold at $550 an oz.

American Barrick Resources and Homestake Mining also looked unlikely to be takeover targets.

But, the study said, if the price fell below $400, or even to $350, "the ambitions and financial muscle of the independents may wane, leaving a store of gold reserves to be added to by those already established as major mining companies".

LAC Mineral, Pegasus Gold, Battle Mountain Gold, Cambior and Australian Consolidated Minerals "may be vulnerable to this scenario".

It said the gold industry's destiny was being shaped by factors which only recently emerged at the end of the so-called gold rush in the first half of the 80s.

Authors Tim Petterson and Huw Roberts said: "Concern is mounting about the ability of investors to absorb an ever-increasing surplus of gold. Equity finances for projects is more difficult to raise. Gold properties with easily-exploitable ore reserves are now harder to find."

— Financial Times.
Gold, which closed below $400 in New York, has renewed calls from bankers and economists for a reserve Bank-led increase in interest rates.

- The steep rise in the money supply, which was 10% higher than in the end of August was 27,356, higher than in the end of 1976. It is expected to rise to close at 922 in New York at the end of the year, as the demand for gold has increased.

- European markets, which were the main source of gold demand, have also increased their gold holdings, which has led to a rising gold price.

- The Reserve Bank's target is to keep the gold price between 1% and 2% lower than the New York gold price.

- Economists say that this disturbing trend is due to the low gold prices and the high gold consumption.

- The money supply has also increased, which has led to a higher gold price.
Russians to step up gold sales this year

By Neil Behrmann

LONDON — Soviet officials have indicated that gold sales will increase this year, bullion dealers say.

At a Savoy Hotel meeting with the London Bullion Association, eleven delegates from the Bank for Foreign Affairs in the Soviet Union said that it was "probable" that there would be higher sales this year.

Delegates did not disclose quantities, but dealers believe that recent sales helped depress the gold market. "They have been consistently offering gold," said a Zurich based dealer and were aggressive sellers when the price was in the $428 to $431 range.

Russian sales are generally estimated at 250 tons a year. Total Eastern Bloc sales were 300 tons in 1987, said the Bank For International Settlements in its latest annual report. But sales could be higher this year because of a poor grain crop, low oil prices and the need to industrialize the economy.

"They have been selling more platinum, palladium and other raw materials to supplement their foreign exchange reserves," says a Swiss dealer.

The Soviet Union is also tapping Western markets for more capital. It issued a $500 million D-mark ($350 million) loan on the Eurormarkets in July and has set up export finance and short term loans from Western banks this year.

Moscow Narodny Bank, a London-based Soviet foreign bank has joined the London Bullion Association, a trade body of the major bullion houses and precious metals firms that trade gold in the City.

With "Perestroika" reaching the gold market the general aim is to improve communication and direct access to the bullion market, a Soviet official told delegates at the closed meeting.

"Normally visits to banks were on a one-to-one basis, being part of a group will help," the official said.

Besides London, the Soviet Union actively trades gold through houses in Switzerland, New York and Hong Kong. Direct sales instructions are from Moscow.

Reuters trading screens allow the Bank for Foreign Affairs direct access to the markets from the Soviet Union.

As a member of the London Bullion Market Association, however, the Russians might trade more actively in a variety of gold instruments, including futures and options.

Besides gold discussions, the top level Soviet banking delegation has called on London clearing and merchant banks, accountants and lawyers.

It is also visiting London's Financial Futures Exchange, the Bank of England and Lloyds Insurance market.

Bankers say that the Russians want to train and develop executives to restructure their own antiquated banking system.
GOLD's slide below $400 an ounce has brought closer the spectre of direct controls on SA's economy.

A lower gold price reduces export receipts and the surplus on the current account of the balance of payments. It tightens liquidity, drives up interest rates and reduces the tempo of business. But, say economists, direct controls are by no means inevitable.

Calls for another increase in interest rates are becoming more strident.

"Whatever happens, we have to cut spending," says Anglo American economist Aubrey Dickman.

Fred's threat

Business has been heartened by the improvement in the trade surplus for the second successive month in August — it edged up to R1.09-billion from July's R974-million.

There is, however, still a real fear that the authorities, studying a 13-point plan by Saniam chairman Fred du Plessis calling for import control, among other measures, will panic into a tight clamp because the import bill is still rising. Last month it resumed its climb, moving from R2.96-billion in July to R3.65-billion.

Much of the surge was apparently due to importers stocking up ahead of expected measures to curb imports. It was a disappointing performance, coming after signs that imports had begun to level off after the second quarter.

Economists say the effects of the credit restrictions and the import surcharges announced last month will soon begin to filter through. A boost for exports caused by a lower rand will be quickly reflected in the monthly trade figures.

Mr Dickman says the im-

Fears of new curbs grow as gold falls

Business Times reporter says position of controls will not slow domestic demand to the point where it affects imports for food.

That leaves interest rates. "I am not suggesting that we return to the bad days of 20% rates," says Mr Dickman. "But 10% or 17% would not be unreasonable in South Africa's current position."

Another economist believes SA's imports must be reduced by at least 10%.

"I do not advocate direct controls, but it might be wise to expect some move in this direction."

Dr Du Plessis' plan, presented to the Economic Advisory Council this month, has been referred to the economic strategy committee for closer study.

No details have been divulged, but the plan is believed to include suggestions for quantitative import controls and foreign currency rationing.

Last month Dr du Plessis criticised import surcharges, saying they would force up inflation.

He said that instead of "dampering the economy to a no-grow situation", the Government should have introduced quotas to limit expenditure of scarce foreign currency to essentials.

The most logical step would be to improve foreign currency earnings by promoting exports. He said the gold-mining industry should receive a better tax deal.

Elections

Ecosometrix director Azar Jaminey says that although there is a strong likelihood that more controls will be imposed, the main problem could be solved by raising interest rates.

But the Government might want to delay an increase until after the October municipal elections.

"This will only aggravate the pressure on the balance of payments. If the medicine were administered now, direct controls might not be necessary."
Gold $389.05 — lowest in 21 months

Business Staff 26/5 26/5 1958

GOLD's recovery ran out of steam today as the price plunged to $389.05 an ounce at the London fixing — a drop of almost $12 since Friday and the lowest price since December 1956.

Bullion opened at $393.25 in London, where it was fixed at $400.55 on Friday afternoon.

Gold recovered to $395.55 in Hong Kong on Saturday from its New York close of $394.

A stronger American dollar and lower oil prices combined to undermine gold today.

The dollar edged up against the Japanese currency in Tokyo to around 134.72 yen.

But the rand slid lower in Johannesburg, quoted early at R2.4892 to the dollar (40.17 US cents to the rand), against Friday's close of R2.4817 (40.29 cents).

The lower gold price also hit gold shares in early trading on the Johannesburg Stock Exchange. Heavyweight Randfontein lost R5 at R228.
Russians to enter gold coin market

MOSCOW — A new Soviet firm plans to launch gold and other precious metal coins on international markets next month to commemorate events such as the invention of the Cyrillic alphabet and the millennium of Christianity in Russia.

Vladlen Antipov, general manager of the firm Mezhrumizmatika, said in an interview that the gold, silver, platinum and palladium coins would go on sale on October 17 through various distributors abroad and in 24 Soviet cities.

Six different types of coin are to be sold — two in gold with face values of 100 roubles ($159) and 50 roubles ($79), one in platinum with a 150 rouble ($238) face value, a 25 rouble ($40) palladium coin and two three rouble ($5) silver coins.

Antipov said the purity of the gold and silver coins would be 90 percent and the platinum and palladium ones 99 percent.

He said about 90 percent of the new coins would be offered abroad for hard currency and the rest domestically for roubles.

Hard currency sales were expected to raise the relatively small sum of about $10 million, he said, but added: "This is a programme not from our pockets but for prestige."

He said the coins, which mark 1,000 years of Christianity in Russia, the invention of the Cyrillic alphabet and old Russian literature and architecture, result from "perestroika", the economic reform plans of Kremlin leader Mikhail Gorbachev.

Mezhrumizmatika, which has a share capital of five million roubles ($7.9 million), was formed last June.

BACKERS

Vneshekonombank, the Soviet bank for Foreign Economic Affairs, has a 50 percent stake in the new company and Gosbank, the Soviet state bank, 45 percent. Soviet-owned West Deutscher Bank AG, based in Frankfurt, holds the rest.

Antipov said that besides operating on numismatic markets, Mezhrumizmatika would take over gold leaf and nugget sales previously handled by Vneshekonombank, which would now concentrate on its bullion market activities.

Until his new appointment, Antipov was deputy general manager of Vneshekonombank's precious metals department.

He said Vneshekonombank minted a coin to mark the 1980 Moscow Olympic games but otherwise had not operated on new coin numismatic markets.

Mezhrumizmatika would operate on a self-financing, self-accounting basis, he said, but added that it was too early to estimate the firm's annual turnover.

Antipov said the distributors of the coin — banks and firms in West Germany, the US, Switzerland, Italy, Austria and Japan — were chosen because of their long-standing contacts with the Soviet Union, were in countries with major markets for gold and precious metals coins.

He added that foreign distributors would set hard currency prices, but added that the 100 rouble half ounce gold coin would probably sell for about $350.

This coin would have a mintage of 14,000 while the 50 rouble quarter-ounce gold coin would have a 25,000 mintage.

Antipov said this was the first time the Soviet Union, a major palladium producer, was issuing a coin in the metal.

The one ounce palladium coin would have a mintage of 7,000 and sell for about 60 to 75 percent more than the market price for the metal of around $120 an ounce, he said.

NUMISMATICS

Antipov said the new firm's activity in gold leaf and nugget markets would not be significant at first as it would concentrate on numismatic markets abroad and in the Soviet Union, where coin collecting was growing more popular.

But he added that the market was very promising for nugget sales.
Signs point to return of JSE investor confidence

By Derek Tomney

These days there is an air of quiet confidence, even of suppressed excitement, in the Crystal Palace — the small glass-and-steel confection in Diagonal Street that houses the JSE.

After almost a year-long bear market, characterised by falling prices and dull trading, buyers are re-appearing; turnover has surged and share prices have started to move up — a strong indication that the bull market may have returned.

In the first three weeks of August, turnover averaged R190 million a week. In the past three weeks, it has been averaging R260 million — a 35 percent rise. And while trading in Consigolds has been heavy, this has not been the dominant reason for the rise.

In the past four weeks, the JSE overall index has risen 7.7 percent and the value of listed shares has risen by R231 billion to over R292 billion, indicating that the market as a whole is back to where it was in June last year.

Metal and mineral shares have risen 13 percent in the four-week period, copper shares 8.5 percent, financial and industrial shares 7.7 percent, industrials 7.3 percent, diamonds 5.7 percent, platinum 5.2 percent and gold 4.5 percent.

However, it is the gold market that is attracting the attention of brokers, despite a comparatively small increase in prices last month.

In recent weeks much of the heavy buying has been in the gold section and, as a broker said yesterday: “The charts look fantastic.”

They showed almost perfect bottom formations, he said. If the charts mean anything, a strong rally could be in the offing.

Several factors have helped boost confidence. Among them: • A slight improvement in the political situation, with a possible retreat from Namibia signalling reduced defence spending.

• The temporary shelving of the sanctions-tightening Dellums Bill in the US.

• Better export earnings as a result of the 20 percent drop in the rand against the dollar, with the gold price remaining fairly high in rand terms.

• The strong economic growth overseas has lifted the price of many SA base minerals. Since mid-August, for example, the price of standard copper has risen from £1.250 to £1.510.

• Some of the money not spent on imports as a result of surcharges should flow into local products and investments.

• Increased inflationary fears in the West, which could eventually lead to an increased demand for gold. Stockbrokers say gold’s ability to remain above $300, despite Taiwan’s withdrawal from the gold market in mid-August and a major increase in bear sales, indicate it has probably bottomed and that a price of $350 is probably the start of a recovery.

This has led to heavy buying of golds on the JSE in the past few days and to a firmer trend in SA golds on Wall Street where the American South African Investment Company (ASA) has risen above $36 for the first time since August.

Finally, one must take into account the build-up of money in financial institutions. Unit trusts have had a net inflow every month this year and the insurance companies have been receiving record premiums. There comes a time when they have to start investing this money. It looks as if that time has arrived.

Summing up, it seems the economic outlook, and the prospects for the share market, could be rather brighter than many have been forecasting.
Gold and forex reserves continue downward trend.
Gold to continue its decline say analysts

NEW YORK — The world is all but awash in gold. Why, then, should gold prices have been showing some renewed signs of life?

Analysts consulted by Barron's Financial Weekly suggested that Minocro's hotly contested bid for Consolidated Gold Fields (ConsGold) might have something to do with it.

If Minocro is willing to pay US$2bn for ConsGold, the reasoning goes, it must be worth considerably more. And if ConsGold is vulnerable to a takeover, what about many of the much smaller outfits, especially the ones with very low-cost deposits?

Karl Elers, who runs Battle Mountain Gold — which happens to have some of the lowest mining costs in the business — has no doubt that the industry is ripe for consolidation and notes that the companies generally depressed share prices only make them more so.

Record levels

Far Eastern demand has been strong all year, and picked up significantly when the price dipped below US$400 an ounce. One analyst says, in fact, that although world gold output will be at record levels this year, so will demand for the metal on the part of gold bugs in the Far East.

A very conservative estimate, he says, is that Middle Eastern and Far Eastern gold markets — alone — will absorb around 110% of gold this year, or some 73% of all non-communist production.

Says John Shier, president of Johnson Matthey in Toronto: "There is certainly a definite squeeze in physical gold at the present time because so much of it is being funnelled to the Far East. Taiwan is the most glaring example, but Hong Kong and Japan are also taking quite a bit."

The Taiwanese Central Bank earlier this year was a big buyer of gold, applying the purchases as a cosmetic fix to the nation's enormous trade surplus. But more recently, the trade reports, much of the buying has come from private investors.

Smith Barney's William Siedenburg is the dean of Wall Street's metals analysts. He sees gold prices headed lower because the fundamental influences on the metal are just plain bearish.

KATHRYN M WELLING

Barron's asked him if gold was regaining some of its old glitter around the street?

Siedenburg replied: "Not from where I sit. I'm not very bullish on the gold market. Longer-term, I don't think that the gold price will go up very far unless we have a substantial rise in the rate of inflation, simply because of the very large amounts of new gold production that I see."

Barron's: "Then prices are headed lower, despite gold's recent rally?"?

Siedenburg: "Generally, the number I have been using for the price of gold in 1989 is an average somewhere around US$400 and, in the next year, I can see the price of gold getting down to something as low as the US$380-US$395 range. This implies that I'm not looking for any great expansion in the rate of inflation."

Barron's: "Then you're not recommending any of the gold mining stocks?"

Siedenburg: "On the basic numbers, probably not.

Quality stocks

"What I've said to people is: if the price of gold comes down to, say, US$380, US$395 and you feel that you can't live without owning gold in some form, buy quality gold stocks. And, as far as I'm concerned, the two quality gold stocks around — at least in the US — are Battle Mountain Gold and Newmont Gold."

Barron's: "Why those two?"

Siedenburg: "They have 45% returns on equity. They have no debt. Newmont is going to grow gold production very fast. And, therefore, in the stock market, you have to pay twice the multiple for it that you pay for Battle Mountain Gold. "Battle Mountain's gold production costs are among the lowest in the US, US$200 an ounce, everything taken into account. That compares to a current cost on Newmont Gold of around US$270." — AP-DJ.
Gold price shoots up five dollars

The JSE enjoyed another good run yesterday as the gold price shot up $5 from $417.50 to $422.50.

The All/Gold index rose 38 points to 1407, overall index 28 points to 2028 and the platinum index a massive 182 points to 3334. Dealers said a weaker dollar and a stronger platinum price supported the bullion price.

Mr Michael Carlsson, investment manager at the stockbroking firm Irish & Co, said a more positive investment was evident in the last few days.
Savings deposit rates rise and...

Gold gives the rand a needed boost

GRETA STEYN
SAVINGS deposit rates rose and the rand strengthened yesterday as financial markets digested the two percentage point increase in Bank rate.

The Standard Bank rushed to move on retail deposit rates, raising rates by as much as two percentage points in some cases from today. Competition will force the other banks and building societies to follow suit.

The increase in savings deposit rates is in line with Reserve Bank Governor Gerhard de Kock’s wish for a return to positive real rates of interest to generate much-needed savings.

The Standard’s increases apply to call and notice deposits and certain other special savings plans which the bank offers. The rate for 32-day notice deposits moves from 10% to 12% and call deposits from 8% to 10%. For six-month fixed deposits, the rate moves from 11% to 13% and for one-year from 13% to 14.5%.

On foreign exchange markets, the rand closed sharply higher against the dollar, ending the day at R2,4583 to the dollar from R2,5078 on Wednesday. Earlier yesterday, it improved to R2,4390 to the dollar.

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Du Plessis responds to criticism

FINANCE Minister Barend du Plessis yesterday responded to criticism of monetary policy in 1988, saying interest rates were not administered prices.

He said: “In a free enterprise economy which aims to promote the proper working of markets, fluctuating interest rates must be as acceptable as any other variable in the economy.”

GRETA STEYN
He recognised that the arguments of critics calling for an earlier increase in Bank rate had been well founded. However, he said: “The obvious result of large increases in interest rates is cost increases for large numbers of businessmen, farmers and home owners, many of whom just cannot afford it.”
Call for gold may outstrip supplies

There is a strong possibility that the supply of gold will be insufficient to meet demand, states Jeffrey Nichols, managing director of American Precious Metals Advisors.

He told the conference yesterday that there had been a shift in investor interest from soft assets to hard, from stocks, bonds and US dollars into gold.

As more and more people started looking for hedges against the risks involved in the various investment sectors, it was likely that there would be insufficient gold to meet this demand.

He said: "As a consequence a substantial and lasting rise in the metal's price is to be expected before the decade closes".

Mr Nichols told delegates that he expected a weaker US dollar to help the gold price firm. He believed the recent strength in the American currency was just an episode and the dollar still remained in a declining trend.

"Recent market action indicates that traders and investors who were slow to back the dollar on the way up, may be quick to sell the greenback on the way down."

He said that America had become complacent about its five percent inflation rate. He points out, however, that this will lead to an insidious rise in the rate. This, combined with the falling dollar would help a gold rally.

Mr Nichols also said that factors influencing the Soviet Union, such as the pull-out from Afghanistan, weaker oil price and instability in the gold market itself all pointed to a lower gold-sales profile of the Soviets.
Pessimistic picture apparent, says Gouws

‘Dangerous’ to bank on sharp rise in gold price

CAPE TOWN — It would be dangerous for SA to bank on a sharp gold price rise in the next five years — it might even be lower than now.

This warning was issued yesterday by Rand Merchant Bank group economist Rudolf Gouws at a Stellenbosch University Bureau for Economic Research conference here, reviewing prospects for the next five years.

Likely trends in the international economy presented a pessimistic picture for gold, and it would be dangerous to bank on any material rise in reviewing economic prospects for SA, Gouws said.

His reasons were:

- Inflationary expectations worldwide were likely to remain low;
- Real investment rates were expected to continue as high levels;
- The oil price was destined to remain on a comparatively low plateau;
- Gold production worldwide was increasing;
- The Soviets were likely to be sellers; and
- The possibility of more loans being negotiated, using gold stocks as collateral, was growing.

Gouws also forecast soft commodity prices generally, because of a cyclical slowdown in the world economies, a structural weakness in demand and higher interest rates.

At the same conference, Privatisation Minister Dawie de Villiers said privatisation and deregulation were the most suitable instruments to redress the negative trends in the SA economy and place it back on a sound footing.

Market forces

These were among the most important steps being taken by government to ensure more efficient use of the country’s scarce resources, notably capital.

"By exposing the provision of as many goods and services as possible to market forces, greater efficiencies in the allocation of capital and human resources, as well as operational efficiencies, will result."

De Villiers said the problem with inefficiencies in state enterprises was that they did not necessarily stem from bad management.

The problem lay rather in the fact that managing an enterprise in the public sector required adherence to different criteria than those of the private sector. Socio-political and commercial objectives became confused to the detriment of both.

"Bureaucratic and political interference complicate the management of state enterprises."

He said privatisation could change the situation and compel management to adhere to criteria that dictated success or failure in the private sector. Management would be freed from government interference and the burden of non-commercial reporting lines.

Privatisation and deregulation and strict adherence to important business guidelines, leading to better capital utilisation, could dramatically improve economic performance.

De Villiers stressed government’s commitment to this path, promising further important developments in 1989.
Gold and forex reserves still showing rapid decline

By Sven Lünsche
Economists are calling for more measures to protect rapidly declining gold and foreign exchange reserves.

In October, total gold and foreign assets fell by R4.77 billion to R4.615 billion, figures released by the Reserve Bank yesterday show.

The situation looks worse for gold reserves, which fell by R640 million to R2,966 billion.

The gold reserves are valued at R910.68 per ounce (R960.17 in September).

It is the first time total gold and foreign exchange reserves have fallen below R6 billion since August 1988. In dollar terms, the situation has been aggravated by the declining rand exchange rate and reserves are now $1.87 billion.

The reserves cover imports for the next one and a half months, a situation the authorities hope will be alleviated by import surcharges and higher interest rates.

The impact of surcharges and the recent encouraging rise in export revenue is likely to be reflected in a more favourable current account surplus in the fourth quarter after a R4.5 billion surplus in the third quarter.

The Bureau for Economic Research (BER) at Stellenbosch University says in its latest report: "Despite the fact that a current account surplus of R1.3 billion can still be generated this year, it is not sufficient to meet expected foreign exchange debt obligations of close on R4 billion. This means net reserves will decline by R2.6 billion this year."

The current account, however, could again produce a substantial surplus next year. The BER estimates a figure of R4.9 billion. It is responding fairly well to monetary and other policy measures introduced earlier this year and, as such, does not constitute a grave problem.

Gold and forex reserves (R billion)

The weakness in the overall balance of payments remains the capital account. The net outflow of foreign capital amounted to R700 million in the first quarter of 1988, but rose to R2.1 billion in the second and third quarter.

The BER projects that capital outflows will hit R4 billion next year, which, given a current account surplus of R4.9 billion, might be too high to replenish some of the foreign exchange reserves lost this year.

Economists say urgent action is needed and for it should be taken on the interest-rate front.
Charting the vagaries of gold

By Dir Issy Bacher

At the end of the day, there can be no doubting that the economy and the JSE dance to the tune of the gold price.

On September 12, the gold price broke below $425 — an event which proved that the bears had assumed control over the yellow metal.

Two months later, gold is trying to cross back through the $425 mark.

Should it succeed, the bull trend will have been reinstated.

But the fundamentals for gold do not appear encouraging.

The falling oil price has kept world inflationary expectations in check, while the recent slight rise in the inflation statistics in the US and the UK has not been a spur to gold.

Gold’s advance to the $424 level can be traced to the dollar’s post-election collapse.

Considerable support

At Dm1.71, there should be considerable support from the world leading central banks, so that further impetus to the gold price from a dollar much below current levels is an unlikely scenario.

If gold’s fundamentals are not, for the time being, encouraging, is it possible for its price to rise?

Yes, it could indeed move higher, as the current price only reflects the obvious and the present.

If and when it moves suddenly higher, the reasons only become apparent at a later date.

This is where technical analysis can reflect future movements.

What, then, are the charts telling us?

Chart 1 is a conventional weekly graph of the gold price, showing the breakthrough at the support level of $425 on September 12 (point A).

Resistance line

At the November 25 price of $424.10, it is apparent from the graph that gold has run past the resistance line at the point (B), which is encouraging.

The metal would have to cross the second resistance line (2) at $430 before one could say for sure that gold was back on the bull track.

Is there a technique to reveal whether or not this marginal break will be transformed into a move of greater proportions?

Experience has shown that a comparison of gold price movements and the New York Stock Exchange’s Dow Jones Industrial Index can very often pre-indicate the near-term trend of gold itself.

The second chart compares the price strength of bullion against the Dow.

A falling graph indicates the Dow is the superior performer and that this is where investor funds have been channeled (as indicated by the arrow at A) in the past few months.

Note that when the Dow ended the week at 2074 and the gold price at $424.10, a marginal break in favour of the gold price was achieved for the first time this year (see arrow at B), indicating that investor funds were beginning to move back into bullion.

Conclusion: Gold’s superiority over the Dow is only marginal at the moment.

Readers should watch the movements of the two closely this week. Should gold gain further in relative strength, this will signal the start of a bull trend in bullion. Conversely, a loss in relative strength will indicate that the current positive trend has aborted.

As far as the gold price itself is concerned, the two key points for bullion to pass are $425 and then $430.
Institutions in action as JSE hits post-Crash high

By Magnus Heystek 79
Finance Editor

The JSE rose to a post-Crash high yesterday as institutional buying pushed the overall index to 2001, a rise of 31 points on the day.

Heavyweight gold shares made most of the running but selected industrial blue chips also attracted solid support from local institutions. The All Gold index rose by 34 points to 1386 while the Industrial Index fell by nine points to 1873 in a day described by dealers as "one of the busiest in weeks".

The sudden spurt in the Hong Kong gold price over the weekend, which was sustained in other international markets yesterday, provided the spark for widespread buying of heavyweight gold mining and mining financial equities.

The platinum price in London also reached its highest level for six months Monday. Recent renewed interest in platinum has been sparked by the launch of two 'legal tender' coins from Australia and Canada and reports suggesting supplies of the metal will be tight.

On Monday platinum touched $514.25 in morning trading, before profit-taking pared its gains the price ended at US $613, up $14.25 from Friday.

Gold was fixed at $429.40 an ounce during the afternoon fix in London, up more than $6 an ounce from its Friday close. It fell back slightly to $428.65 at the opening in Hong Kong today.

Reasons for this sudden move vary, but many international dealers ascribed it to higher oil prices and fears of a further weakening of the US dollar.

Most JSE stock brokers are positive about the short-term outlook for gold.

According to Sapa a snap survey by the SABC showed that brokers believe gold will at least maintain current levels around $430.

Some added that short-term movement to around $470 was possible within the first quarter of next year.

Reasons for the generally bullish perspective include oil price increases, Far Eastern gold purchases, continued uncertainty about the immediate future of the American dollar, underlying strength in other precious metals particularly platinum, and doubts as to whether President-elect Bush will begin to make meaningful attempts to address the budget deficit.

The JSE has now moved into a technically-important area, which many analysts consider to be a prelude to a meaningful rise.

Last month the index rose to 2000, but declined back to levels around 1900 as many investors took profits.

The level around the 2000-mark is considered by many analysts to be an important resistance level, which, if broken upwards, could herald a renewed upturn in local equity prices.

The JSE tested the 2000-barrier for many months, from about September 1986 to January 1987 before surging to an all-time high above 2800 at the time of the October crash last year.

December is normally a very quiet period for the JSE, but a continued rise in the price of gold and other precious metals is bound to lead to higher prices.

Stockbrokers, however, are not all convinced that the rise in share prices can be sustained.

According to technical analyst Mr Johan Pretorius of Investment Decision Support System (IDSS) gold will have to penetrate an important long-term resistance barrier around $435 before the recent upward move can be seen as a renewed bull-market in the gold price.
Gold fall follows platinum

GOLD slid $4 to $411.95 in London yesterday in the wake of the sharp fall in platinum prices around the world.

The closing figure represented a recovery on the morning low of $409.25.

In New York the gold price recovered slightly to close at $413.50.

The fall in platinum prices yesterday followed the announcement by the Ford Motor Company on Thursday that it had developed a platinum-free catalytic converter for car exhausts.

In less than 24 hours the price of platinum fell by $60, over and above the fall of $21 on Thursday, dragging gold down with it.

* Sliding platinum dulls gold — Page 15
Gold: The Driving Force of South Africa's Economy

The piece uses a variety of visual aids and quotes to highlight the importance of gold in South Africa.

"Gold, the ultimate commodity, is becoming more than just a precious metal. It is a tool for economic diversification, driving growth and creating jobs."

"The demand for gold is not only driven by its intrinsic value, but also by its role as a store of value and a hedge against inflation."

"In South Africa, gold mining is not just an industry, it is part of the national identity."

"The South African economy is closely intertwined with the global gold market."

"Gold mining is a significant source of foreign exchange earnings, contributing to the country's balance of payments."

"The government has implemented policies to ensure the sustainability of the gold mining industry, including investment in technology and training."

"Despite challenges, the future looks bright for the South African gold industry as it continues to adapt and innovate."

"Gold remains a significant asset for South African citizens, providing a hedge against economic uncertainty."
Gold heading for

By DEREK TOMMEY
Finance Editor

PROSPECTS for gold, South Africa's biggest export and the main source of the country's wealth, are looking up again, believe Cape Town stock brokers.

The surprise reference to gold by the American delegate at the annual meeting of the International Monetary Fund last week has caused local brokers to take a hard look at America's financial situation to see if there is any connection between it and the renewed American interest in the metal.

The reference to gold came in a call by the American Treasury Secretary, Mr James Baker, for a gold-based commodity index.

The brokers could not see much reason for the commodity index. But they did see a lot of sense in the scheme if it led to the partial 'monetisation' of gold. This would enable the United States to sell gold to ease its extremely seriously balance of payments problems.

Vested interest

It would also give the United States a vested interest in at least maintaining and possibly increasing the gold price.

Mr Baker's reference to gold drew attention to the mounting financial problems the United States is facing, and the fact that these problems could be eased if the US were able to sell gold at an "official" price to other central banks - something it cannot do easily at the moment.

The United States' problems arise mainly from the huge budget deficits it has run in recent years. This was $221-billion in the fiscal year just ended, will be $157-billion in 1987/88 and is forecast to be $196-billion in 1988-89.

These deficits have had some beneficial results. They have greatly stimulated the US economy and helped give Americans a higher standard of living.

But they have also led to the huge balance of payments deficits and have greatly increased America's foreign debts and increased distrust of the dollar, in spite of its huge devaluation in the past two years.

The United States has only been able to run these huge deficits because foreigners, and especially the Japanese, have invested large sums of money in that country.

These funds have been used to finance both the budget and balance of payments deficits. But there are indications that this could be coming to an end.

The Japanese Ministry of Finance has reported that the net outflow of long-term capital collapsed in August. It amounted to only $1.35-billion, compared with $18.5-billion in July and a monthly average of $15.6-billion or a total of $95-billion in the first seven months of the year. Of course, not all of this money was being invested in the US.

Economists in Tokyo, quoted by the London Financial Times, said the slump was due in part to the reluctance of Japanese institutional investors to invest in US securities following the poor trade figures.

In fact, Wednesday's unexpected half-a-percent rise in US bank lending rate, suggesting a shortage of ready cash is developing in the US, could reflect the absence of new Japanese money.

There is no doubt that a continuation of this trend would obviously cause problems for the US. The question the American government now has to ask is what will happen to the American economy and the dollar if the Japanese were no longer prepared to support them, and what should they do about it, the brokers said.

Last laugh

The Americans could ease the domestic money shortage by creating more money. But this would not help the current account deficit which was $78-billion in the first half of this year and was mainly financed by an inflow of foreign capital.

However, this problem would be overcome if the US were able to use its gold to pay its foreign debts.

Therefore any move by the Americans to free their gold reserves makes sense, the brokers say. It would also give the Americans the last laugh on the London Daily Telegraph, which semi-seriously suggested recently that if the US did not start solving its financial problems it could be broke by 1989 and would have ask the International Monetary Fund for assistance.

The "remonetisation" of gold would give those countries with large stocks a vested interest in maintaining and even increasing the gold price — which would favour South Africa.
GOLD ZOOMS

By TOM HOOD
Business Editor

GOLD jumped to $482.15 an ounce in Hong Kong today, up $16 since Friday to the highest price for almost five years, after a share-selling binge on world stock markets.

After topping $482 in Hong Kong, the price eased later to $476.25 in London.

At the latest price, equal to R978 an ounce, the country could raise in billions more in export earnings and give the gold mines a high price of about R31 500 a kilogram — 12.5 percent more than the average of R28 000 they received for the first nine months of this year.

In Johannesburg the rand rose to 49.40 US cents this morning from 48.72 cents on Friday.

Gold shares and Krugerrand prices moved ahead on the Johannesburg Stock Exchange and stockbrokers' telephone exchanges were inundated by investors trying to track the reaction of shares.

Record fall

Immediate reasons for the sudden surge in the gold price are fears about the American dollar, the Wall Street crash and escalating tension in the Gulf.

The dollar was hit by a huge fall in share prices on Wall Street on Friday.

The Dow Jones average of 30 industrial stocks, America's best-known indicator, plummeted a record 168.36 points to 2 246.73 on Friday in the busiest trading session so far on the New York Stock Exchange.

When the stock markets opened in Tokyo, Hong Kong and Sydney today investors lost their nerve and dumped shares, sending markets reeling.

The dollar slipped early today in Asian currency markets and stabilised at 141 yen and 1.77 German marks.

Analysts are uncertain if the tumble in stock prices marked only a temporary retreat or "correction" that could preface further gains and a continuation of the five-year-old bull market.
Gold steady at $466.50

LONDON. — Bullion markets paused for breath after the volatile swings of the past two sessions to close steady at $466.25/$466.75 and some $5 above Tuesday’s weak close, dealers said. Gold soared to $490 during Monday’s session as world-wide equity markets collapsed, only to collapse during Tuesday’s afternoon dealings as market operators liquidated to cover margin calls on share holdings, dealers said.

Trading yesterday was considerably quieter as the market consolidated, they added.

Gold opened yesterday at $466/$467 compared to Tuesday’s close of $461/$462.

The metal was later set at $466.75 at the morning fix and $467.00 in the afternoon.

Dealers said there was disappointment that gold failed to breach $500 when equities slumped and this is now making participants very wary of its future direction.

Early weakness in the New York Metal Exchange platinum futures pressured the white metal here and platinum ended at $567/$569, down from Tuesday’s close of $572.00/$574.00. Platinum was fixed at $573.75 and $566 at the morning and afternoon sessions.

In Zurich, gold ended almost unchanged from the previous close as calm resided on the market after the dramatic swings of Monday and Tuesday, dealers said.

“It has gone completely dead again with everyone waiting to see what happens next,” said a dealer at a Swiss bank.

Gold ended here at $466.50/$467, $0.20 above the opening and against Tuesday’s $465/$467 close.

However, other metals were weaker, with platinum ending at $568/$572, $6 below the previous close, while silver slipped $0.12 to $7.33/37 an ounce.

In New York, gold closed at $467.50/$468.00.

— Reuters
$500 gold price seen for 1988

By MAGGIE ROWLEY

A STAGNATING world economy which will adversely affect South African export volume, a fall in the dollar and an average gold price of $500 an ounce are predicted for next year by leading Afrikaans economists.

At an economic conference organised by Bo-land Bank in Gordon's Bay today, Professor Attie de Vries of the University of Stellenbosch Business School, said he did not think last week's crash on the world's stock markets was an indication of a impending world recession.

"I don't think it is a repeat of 1929. There is a basic difference and that is in 1929 the authorities reacted by putting up interest rates. This time they have lowered them."

"While what has happened has been more than a mere correction in the stock market it is too soon to say whether or not we are heading for a bear market."

"I believe the fiscal authorities will do their utmost to stop a total collapse."

However, Professor de Vries said he believed world economic growth would virtually stagnate in the coming year with the US dollar dropping and US inflation increasing.

"All these things, together with lower interest rates, will possibly benefit the gold price which I believe will average at $500 rising as high as $530."

SERIOUS EVENT

He warned a high gold price would not act as a saviour for the South African economy.

"In line with the stagnating world economy, we can expect lower export volumes and lower commodity prices."

Mr Louis Geldenhuis, of George Huysamer and Partners, said that last week's stock market crash was "a serious event which cannot just be swept under the table."

The bull market was definitely over, he said. However he warned investors not to over-react and sell in a panic.

Dr Ockie Stuart of the Stellenbosch Bureau for Economic Research said he had believed that for a long time there had been many investors on the stock market who should never have been there in the first place.

In addition an investment move by big investors from equities into the real economy had been expected for some time as the economy had been gathering momentum.

"This has just speeded thing up," he said.

Dr Stuart said the outlook for the economy was somewhat better than it had been for many years. "I expect lively growth in private consumption expenditure where spending on durables should perform especially well."

"Government's consumption expenditure will unfortunately remain high."

He said fixed investment would show vigorous growth — almost all of which would be generated by the private sector.

"In all, real growth domestic product could expand by 3.8 percent during 1988," he said.
JSE dives in panic selling

By AUDREY D'ANGELO
Financial Editor

MILLIONS of rands more were wiped off the value of South African shares yesterday in a renewed bout of panic selling which brought the Johannesburg Stock Exchange (JSE) overall index to its lowest level for more than a year.

The index fell 147 points to close at 1,812. The all gold index fell 156 points to 1,578 and the industrial index 78 points to 1,537.

As the dollar continued to fall and there was no compensating rise in the bullion price — which meant lower export earnings for South African gold mines, investors unloaded gold shares on the JSE and international markets. Quality gold shares fell by as much as R40 on the JSE.

But a hopeful sign that the market had bottomed out came at the end of the disastrous day, when bargain hunters found a shortage of quality shares on the JSE, indicating that their owners were not prepared to sell at current prices.

Brokers said there were signs that institutions considered shares were now good value.

However, two of the companies listed yesterday — the Cape Town-based Strebel group and Alex White — opened below their issue prices.

The JSE was following a worldwide trend as investors dumped shares on concern about the falling dollar, which will hit exporters to the US.

The possible loss of the US as an export market for industrial countries in Europe and the Far East revived the spectre of worldwide recession. But the dollar began to recover, bolstered by central bank intervention.

And share prices began to rise again on the London Stock Exchange after a half-percent cut in the British bank rate. After the cut the Financial Times 100-share index recovered about half its losses to end at 1,608.1.

There were signs of recovering confidence in the US on news that President Ronald Reagan had appointed four top business executives to a commission studying the current turmoil in the financial markets, and had met for the first time with the group.

Wall Street, which had seesawed throughout the session, closed 18 points down at 1,945.

JSE prices take 'terrible licking' — Page 6
Platinum plunges as gold moves off lows

LONDON. — Gold made a limited recovery to close at $460/$461, off morning lows of $454/$456 but still down from Wednesday's $466.50/$467.

Platinum closed at $460/$465, down from Wednesday's $499/$501 and just above the lows set after large scale morning liquidation. The afternoon platinum fix of $464.50 was the lowest since August 1, 1986.

Dealers said platinum started the early fall, sliding to a low of $451/$455 as sell stops were triggered below $450.

After going down the $25 limit in New York on Wednesday night, platinum “dropped like a stone” in London yesterday morning from a high of $481.5/486, one dealer said. It was fixed in the morning at $472. The metal traded for much of the day at near to parity with gold, after showing a premium of $33 on Wednesday and $84 at the start of last week.

Platinum again felt the $25 limit in early Nymex trading.

Active selling of gold at the morning fix also played a part in pushing the markets lower. Gold slid to a low of $454/$456 shortly after the fix of $459.70.

Bearish sentiment was seen as the most powerful factor driving bullion lower, with the market ignoring normally positive influences such as the continuing slide of the dollar.

In Zurich, gold ended sharply lower after sentiment was hit by continuing falls on stock markets, dealers said.

The weaker dollar hindered rather than helped the dollar as the old inverse relationship between gold and foreign exchange simply ceased to apply, they said.

Gold ended here at $456.50/$457.75, just above the day's lows, and $9 below the opening and the previous close.

Dealers said gold had been dragged down by platinum, which had plummeted to $461/$465 an ounce, $21 below the opening and $39 below the previous close.

Platinum has, anyway, always been a more speculative metal than gold and was being pressured by fears of recession which would hit demand for cars, particularly in the US, and with it demand for their pollution-cutting catalytic convertors which use platinum.

Silver was also sharply lower, ending at $6.30/$6.40 an ounce, $0.36 below the previous close.

In New York, gold closed at $458.50, down from its previous close of $466.35. — Reuters

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ENGINEERING PROFESSION

Patching up the leaks

A grave shortage of professional engineers is threatening SA’s future industrial growth. There is no dispute that the shortage, in almost all branches of the profession, is already a problem — and any acceleration in the rate of industrial expansion will exacerbate matters.

The crisis is largely attributable to a bottleneck in university engineering departments, who are finding it increasingly difficult to recruit and hold staff within current salary parameters. This brings the problem into the arena of university subsidies, with all the contingent political issues between government and the English-speaking campuses. Any solution to the engineering shortage will have to tread its way through this political minefield.

A further contributory factor is the high current rate of emigration — an engineer who emigrates does not have to run the gauntlet of requalification procedures overseas.

Dr Philip Lloyd, president of the Associated Scientific and Technical Societies of SA, researched the problem in 1986 (“The Supply Of and Demand For Engineers”) on behalf of the Federation of Societies of Professional Engineers. His findings are unequivocal and eloquent.

The shortage of professional engineers is reaching critical proportions. One answer would be to increase university funding for engineering students — possibly through a carefully thought-out levy. On the wider front, Taiwan could be looked at as a model economy which favoured engineering as a route to growth and prosperity.

Despite the fall-off in demand for engineers caused by the economic depression, supply also fell (see chart), so that there still remained at least two jobs on average for each graduating engineer. A developmental model predicted that this measure of shortfall would continue until 1990. But if the economy picked up, demand for engineers could easily rise to the point where there would be more than four jobs for every engineer in several disciplines.

In the past decade, notes Lloyd, SA has been significantly dependent on imported engineers. In the light of increased rates of emigration, and adverse overseas sentiment towards SA, it would be naive in the extreme for us to rely on this source in the future — except perhaps in narrow areas (and, of course, at exorbitant expatriate salaries) like military aeronautics or electronics.

So we are thrown back upon our universities as the only plausible source of most professional engineering manpower for the foreseeable future. All universities approached, regardless of other divergences, are unanimous in ringing an alarm bell over current deficiencies in engineering education.

Salaries and conditions of service within professional departments generally, but engineering in particular, cannot compete with those offered by the private sector — and even, in the case of engineering, the public sector too.

University faculties have responded to the salary crisis in various ways. The Afrikaans ones have tended, according to Professor David Glasser, dean of engineering at Wits, to promote enough consulting work to make up earnings to levels comparable with the private sector.

Professor Christo Viljoen, dean of engineering at Stellenbosch, confirms that the universities of Pretoria and Stellenbosch have assertively followed the sponsored research route. And it has brought in enough money from industry to give them an edge.
GOLD HITS $480

By TOM HOOD
Business Editor

SHARE prices surged ahead on world markets today, encouraged by the gold price touching $480 and strong rallies on the New York and London stock markets.

The JSE's gold-share index jumped by 66 points to 1 725 this morning. The overall index rose 33 points to 1 780, while the industrial index gained 10 points to 1 416.

Gold opened at $479.95 an ounce in London, its highest since the Black Monday crash of October 19.

Millions of rand were added to the market value of gold-mining shares on the Johannesburg Stock Exchange yesterday as the gold-share index soared by 8.5 percent.

These gains were extended in early trading today and included front-runner Vaal Reefs, gaining R20 to reach R345 a share after yesterday's R37.50 rise. Another market leader, Anglo American, firmed R1.20 to reach R62.20 after yesterday's R62.50.

The worldwide surge was fuelled by a wave of interest-rate cuts by European central banks in response to a United States agreement to cut its budget deficit.

But the American dollar eased slightly today to 134.70 yen and 1,669 West German marks.

The shares rally was viewed as a delayed response to the United States budget-cutting effort, which led to the rate cuts as America's trading partners co-operated to hold the world economy together in the aftermath of the October market crash.

The stock market crash may have been a blessing in disguise, said former Federal Reserve Board chairman Mr Paul A Volcker.

The October 19 crash might have benefited the economy by forcing policy-makers to address long-range economic problems such as the US budget and trade deficits.