



Precious Views

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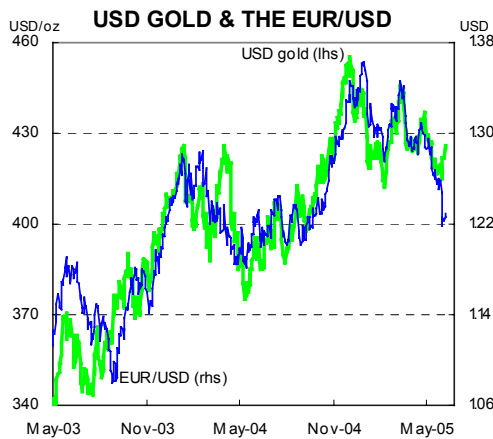
A Conundrum Wrapped In A Puzzle Inside A Teaser

- **Tactical View:** Worrying signs for the USD gold-EUR/USD relationship.
- **Strategic View:** We could set new cycle highs, but finish the year below USD400.

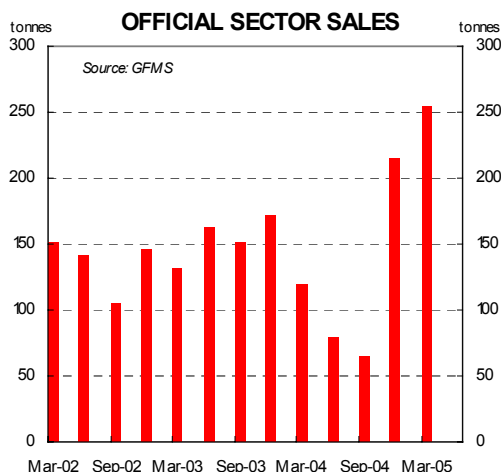
Spot Gold Forecast (quarterly av.)

	Dec 04 (a)	Mar 05 (a)	Jun 05	Sep 05	Dec 05	Mar 06	Jun 06	Sep 06	Dec 06
USD	435	427	425	415	400	388	378	369	362
AUD	573	545	555	540	530	540	535	525	525

Going Their Separate Ways?



Central Banks Step Up



Gold

Tactical View (<3 Months)

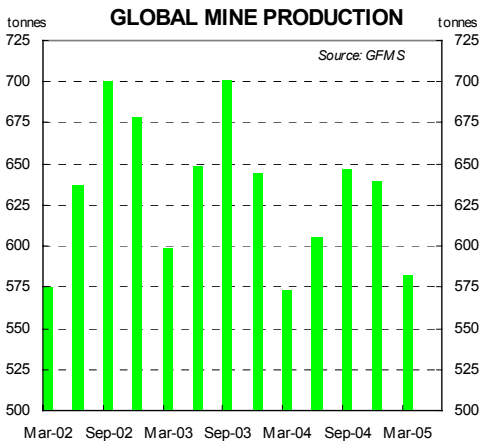
Initially, USD gold was adversely affected by the currency flow on from the French referendum on the European Union constitution. The EUR/USD weakened sharply and USD gold moved lower accordingly. However, worries about the stability of the European Monetary System then emerged, and the bulls then stepped in. At the same time, weaker-than-expected US May non-farm payrolls sparked speculation that the US Fed would end its round of monetary tightenings sooner than expected. The latter development saw the Euro stabilise and gold pick up.

World Gold Council data for Q1 now confirm an earlier Mitsui survey that showed the pace of de-hedging slowed considerably in Q1 2005. Combined with improved supply in other areas (such as central bank and gold scrap sales) in Q1, the gold price has held up remarkably well.

Part of the reason for gold's strength has been ongoing strong physical demand, particularly in Asia. World Gold Council data suggest that Q1 end-user consumption was 26% higher in tonnage terms and 32% higher in USD terms, compared to the same period in 2004.

Market sentiment on the economic outlook continues to go from boom to bust and back again. One month, we're all ruined and the next, things are going great guns. When all is said and done, a couple more 25 basis point US interest rate hikes are likely this year. Higher US interest will boost contangos and improve the incentive for the smaller, high-cost mining operations to sell forward. Higher US rates will also tend to raise the opportunity cost of investing in gold and lend support to the USD. So gold faces some obstacles on the upside.

Tactical View (continued)

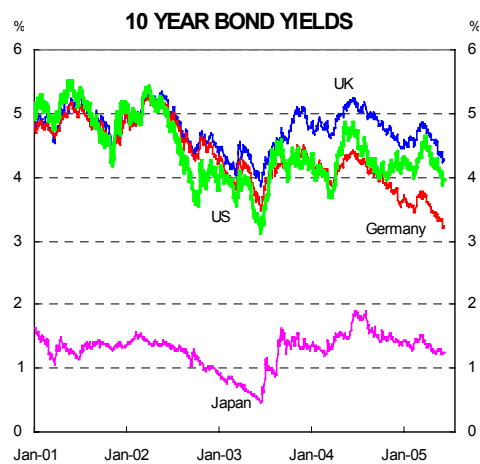


A decision is likely within weeks on whether the United States will take the North Korea nuclear issue to the United Nations, where sanctions could be imposed on the isolated communist state. This could be a trigger for North Korean retaliatory threats and give gold (and other precious metals) a boost.

We expect the Euro to weaken further against the USD and Yen over the next few months. The removal of a major pillar of support for USD gold will make for increased volatility in the gold market.

As the Indian wedding season ends, the strong demand seen over recent months is likely to slow considerably. With stocks high among jewellery manufacturers, bouts of price weakness may not see demand pick-up.

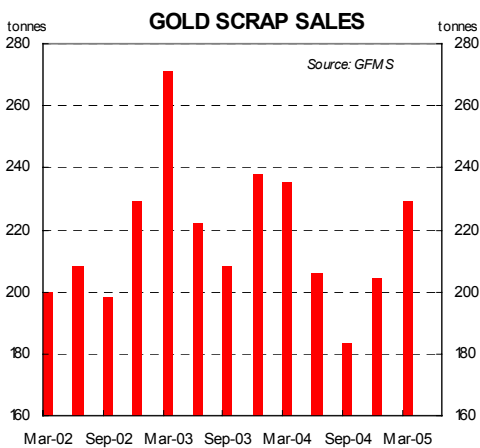
Gold is likely to struggle on any moves above USD435/oz. But the yellow metal appears to have pretty good support at the USD412/oz mark.



Strategic View (3-12 Months) Unchanged

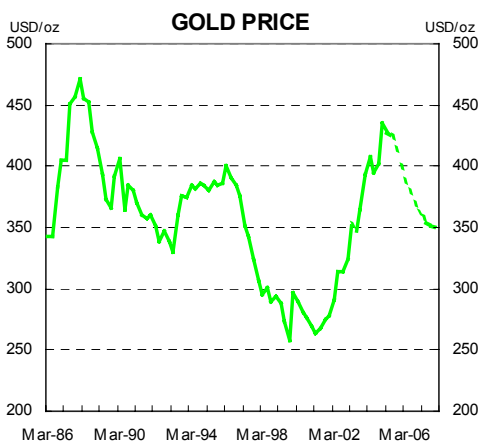
World bond yields have fallen significantly since our last report, as inflation fears subside. High oil prices appear to be affecting consumer and business spending, but are having little pass-through effects on consumer prices and wage demands. In the globalized market place, pricing power is diminishing; OPEC seems to be the notable exception to this new rule.

For some time, we've held the view that gold's role as an inflation hedge has long since passed. So the more benign inflation outlook now being adopted isn't the negative for gold that it once might have been.



So where to from here? Economic activity in western Europe continues to weaken. High oil prices and the stronger euro through 2002-04 have slowed growth significantly. The entry of ten former Soviet bloc countries to the European Union has ushered in new low-cost competitors to western European nations. And low-cost Chinese exports are seeing more of the same. With jobs being lost and price pressures subdued, the prospects are rising for the European Central Bank to cut official interest rates. Bad for the Euro. But will EUR/USD weakness be bad for USD gold prices?

Strength in both China's economy and currency should support Asian gold demand over the next year. And with rivers of energy dollars flowing into the Middle East, demand there shouldn't be too shabby either. But someone's gain is usually someone else's loss, and higher energy costs in the large energy-consuming Western economies may have a slight adverse impact on fabrication demand.



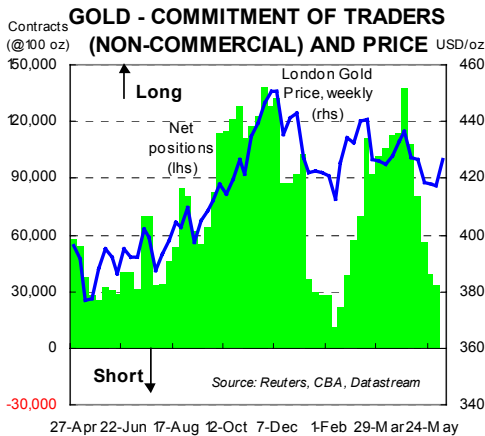
A rebound in the USD against most currencies in H2 will ease some of the margin squeeze that has had an adverse impact on miners around the world. And a stronger USD will boost the (weighted) production price of gold, which has been flat for the past three years. This should boost gold production in the next few years.

The pace of de-hedging by miners will tend to diminish, as doubts rise about the durability of the gold price. The smaller size of the global hedge book these days makes the pace of de-hedging of recent years more difficult to sustain anyway.

Gold could easily reach the high of last year (USD455/oz), but we feel that the tide will definitively turn for the USD (and hence gold) from mid 2005. USD400 is within pretty easy reach when the USD starts to rise strongly on a TWI basis.

Derivatives Trade

Futures

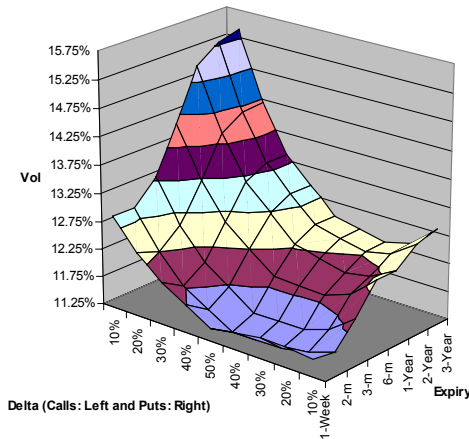


'Commitment of traders' data show that, in net terms, 'fund' longs have more than halved since our last report. The fund long position is now as low as it has been since mid February. The bulk of the decline came in the middle weeks of May.

The fall in the fund net long position over the past month is roughly equally due to a rise in the number of shorts and a fall in the number of longs. The number of fund shorts is back above 80,000 contracts. Moves in gross longs appear to have a much greater impact on gold prices than the number of fund shorts.

Since the COT report, open interest has risen modestly. The USD price of gold has moved up, suggesting the establishment of some fresh fund long positions.

Option Volatility

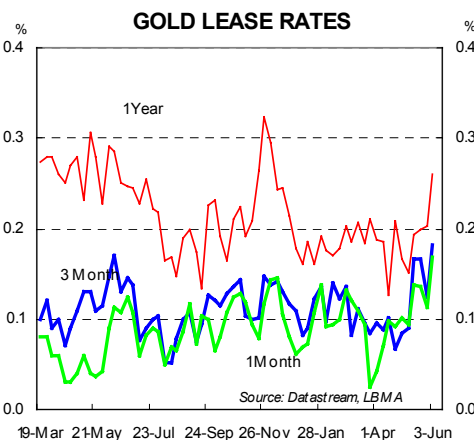


Options

Once again, spot gold has failed to interest anyone. Spot is back where it was this time last month after visiting 413. The market is trading around the 200 day moving-average, which gives no-one any incentive to buy volatility. Sub one-month volatility is all that moved during May, and at 11%, even it is back where it was this time last month, after visiting 10.5%. The rest of the ATM curve is mostly unchanged. The risk-reversals have again fallen along the curve, making calls relatively cheaper. Since there is almost nothing to say about USD Gold, AUD Gold is even less interesting. Since mid April, AUD gold vols have been little changed along the curve.

The interesting thing about the uninteresting gold vol market is that implied volatilities have not fallen further, given the lack of volatility in the spot markets. As suggested previously in this column, this could be the formation of a base in USD gold and AUD gold volatility. Going forward, watch carefully for a break lower of USD410, the formation of a new downward trend and the emergence of interest in gold volatility.

Lease Rates

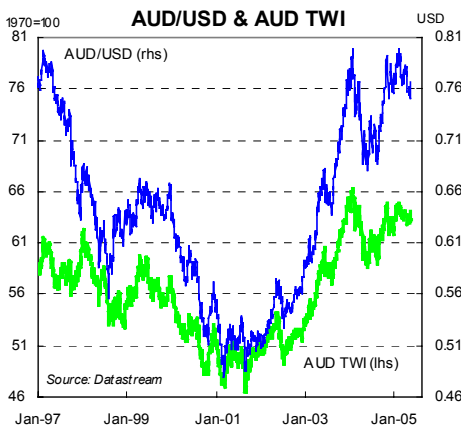


Lease Rates

Lease rates surprised us further in May, with the start of the curve rallying up 10 basis points from the 1-month through to the 9-month term. However, there has been little move in the 1-year plus part of the curve. This move suggests increased borrowing to fund short physical positions or equally less lending due to reduced long physical positions.

The rest of this month could see the whole curve grind higher, as producers fulfil mandatory hedge requirements before 30 June. All in all, the gold market has been extremely quiet this last month. Brokers, sales and traders alike have made this comment.

■ **AUD Outlook (USD0.750-0.795 over the next month)**



The AUD has not been spared in the resurgence of the USD over the past month. The AUD/USD is now trading at around USD0.7680, roughly one cent below levels of a month ago. But the 'Aussie battler' has fared better than the Euro, which has been knocked around by the deteriorating growth outlook and the French/Dutch rejection of the new EU constitution. Australian commodity prices remain strong, and official Australian interest rates are unlikely to fall from their relatively high level any time soon.

With world growth likely to be modestly softer in the coming twelve months, commodity demand will tend to suffer. Lower USD commodity prices and a deteriorating Australia-US interest rate differential will tend to hurt the AUD/USD.

■ **Equities**

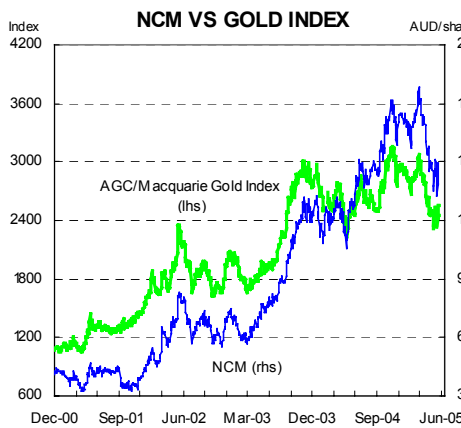


The S&P/ASX 200 index rose 5.6% from its 6 May 2005 open to close at 4198.03 on 7 June 2005. Over the same period, the AGC/Macquarie gold index rose by 3.4%.

Newcrest Mining (NCM) closed at \$14.97 on 7 June 2005, up 0.47% from its 6 May 2005 price of \$14.90.

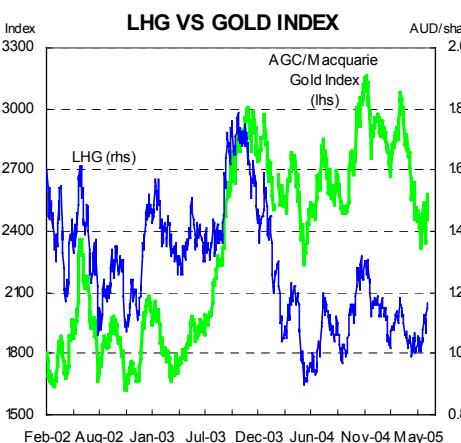
On 12 May 2005, NCM announced that it successfully issued USD350 million of long term senior unsecured notes. The issue was completed with an average rate of 5.61%. The proceeds of the issue will be used to restructure existing debt.

On 26 May 2005, NCM advised that a fire had occurred in a development project at the Telfer mine in WA. Damage was confined to a localised area and all mine personal were safely evacuated. Investigations into the cause of the fire are continuing. Full mine development activities recommenced on 31 May 2005.



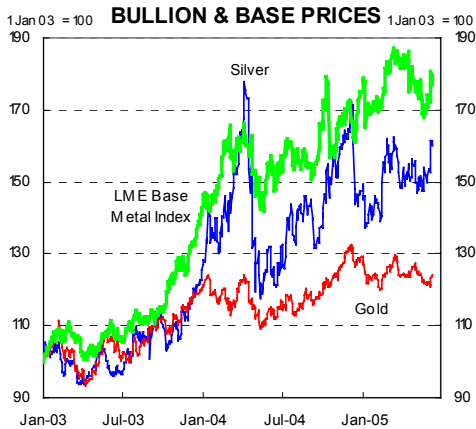
NCM announced a profit downgrade on 30 May 2005. NCM said its 2005 and 2006 profit will be impacted by the late start and slower than anticipated ramp up at its Telfer mine. In addition, NCM said volatility in the level of inventory of copper concentrate expected to be held as at 30 June, 2005 may impact on its earnings. The company will continue to take steps to minimise inventory levels at all sites however it is currently estimated that the full-year after-tax profit result for 2005 will be in the range of \$130-\$145 million.

NCM announced a focus on reserve replacement and reserve growth. NCM's reserve target of 40Moz is expected to be achieved in 3 years. NCM also presented a focus on pursuing internal growth opportunities. NCM's project expenditure over the past 7 years has totalled \$2.3 billion.

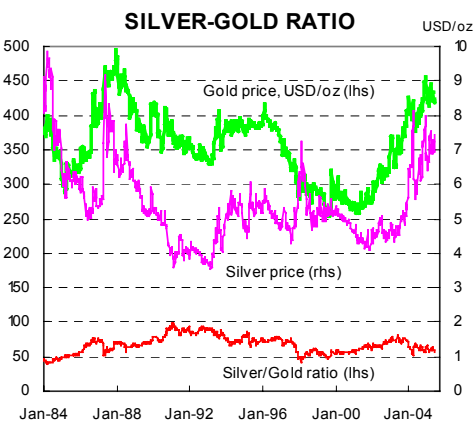


Lihir Gold (LHG) closed at \$1.16 on 7 June 2005, up 10.4% from its price of \$1.05 on 6 May 2005. There were no market announcements for LHG during May.

■ Silver



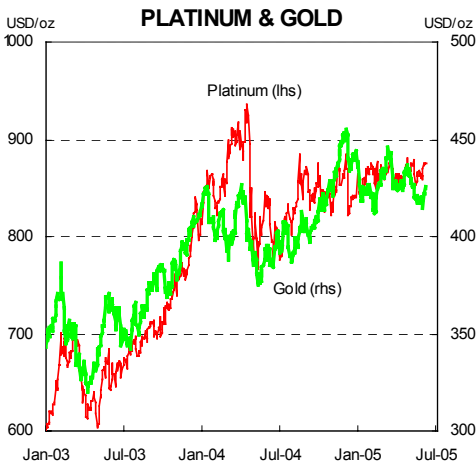
The silver market has lifted significantly over the past month, and is now close to the top end of the USD6.85-7.57/oz range traded since mid February. Fund buying appears to have given the market a lift, and this has had more to do with a surge in base metal prices than any significant turn in silver market fundamentals.



The World Silver Survey 2005, released since our last report, points to investment demand as the dominant factor behind silver's advance since late 2003. GFMS, who conducted the survey, estimate that implied net investment in silver, including buying by funds and interest from high net-worth individuals, rose to 42.5 million ounces in 2004 from 8.7 million ounces in 2003. The silver market had a structural deficit between conventional supply – including mine output and recycled scrap – and fabrication demand for the 16th straight year in 2004. That gap reached 21.2mn ounces out of a roughly 880mn-ounce annual market. Total silver supply last year slipped 0.4% to 879.2mn oz from 883.1mn oz a year earlier. Worldwide mine production of silver rose 4% to 634.4mn oz, with metal from only primary silver mines up 9% at 188.5mn oz. However, the amount of silver recovered from scrap fell to 181.1mn oz last year from 183.6mn in the previous year. Also making a dent in supply was net government sales that tumbled to 61.7mn oz from 88.2 million in 2003. Chinese official sales dropped to 34mn oz from 61.7mn. On the demand side, silver fabrication usage eased 2% to 836.7mn oz. Demand for jewellery and silverware slid to 247.5mn oz from 274.2mn.

Over the next year, we expect moderating world growth and improved supply to push silver down towards the USD6/oz mark.

■ Platinum



Since our last report, spot platinum has kept within the extremely narrow (USD856-883/oz) range traded since January. The white metal is currently trading at USD880/oz.

Anecdotal evidence suggests that the May holiday week in China, a very important buying period in China, saw a substantial jump in sales of plain jewellery in some of the key retailers in the large cities.

Zimbabwe, wallowing in its sixth year of recession under President Robert Mugabe, devalued its currency by 45% against the USD during May. The southern African nation has the world's second biggest deposits of platinum.

South African miner African Rainbow Minerals (ARM) and platinum producer Implats this week announced that they have clinched funding for their joint 220,000-ounces-per-year project.

We expect the platinum price to trade sideways to moderately lower over 2005. Supply should rise by around 4%. Demand should be adversely affected by softer demand for use in jewellery and auto catalysts.

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