



## ETF's have become the "Peoples' Central Bank": a force to be reckoned with



A number of major drivers collectively support the gold price. Many are mutually reinforcing, but they do not act with equal weight.

At any one time, sentiment towards the drivers may change, thereby changing the cocktail of pressures for and against a firmer gold price. In 2005, the weight of the drivers changed significantly; that is the cocktail of pressures for and against a firmer gold price changed significantly – essentially the *primary demand for gold increased significantly*, whilst supply remained constant.

Investment demand was the catalyst of this change, in particular investment in Exchange Traded Funds (ETF's)/Gold Bullion Securities.

Investment in Gold Bullion Securities is beginning to accumulate a significant quantity of gold, and is now beginning to compete with Central Banks (Official Sector) and Comex.

We believe that in the long term, the alternative investment buying of gold through gold bullion securities will be very bullish for gold, as investors will likely see this investment as a safe haven in times of economic and geopolitical crises. Notwithstanding, any increase in this type of investment (a) takes gold out of the system and (b) has the effect of countering Official Sector sales.

In our previous research *The Future of Gold* (dated June 2005), we described those factors likely to trigger a change in the supply and demand dynamics, which in turn would trigger upward pressure on the gold price. We indicated that **a consistent upward investment in ETF's would be a likely catalyst to trigger a change in the gold price when investment in these funds reaches around 500 tonnes** (the ETF's holdings in June 2005 were around 230 tonnes).

This transition has already begun with ETF's increasing by 100% year-on-year. Investment demand in gold bullion securities increased significantly in 2005, by almost 100%, from 170 tonnes to 337 tonnes. We expect this upward trend to continue *and* accelerate in 2006. Investment in ETF's has increased 59.4 tonnes this year to date – 24 tonnes over just the last two days!

### Exchange traded funds

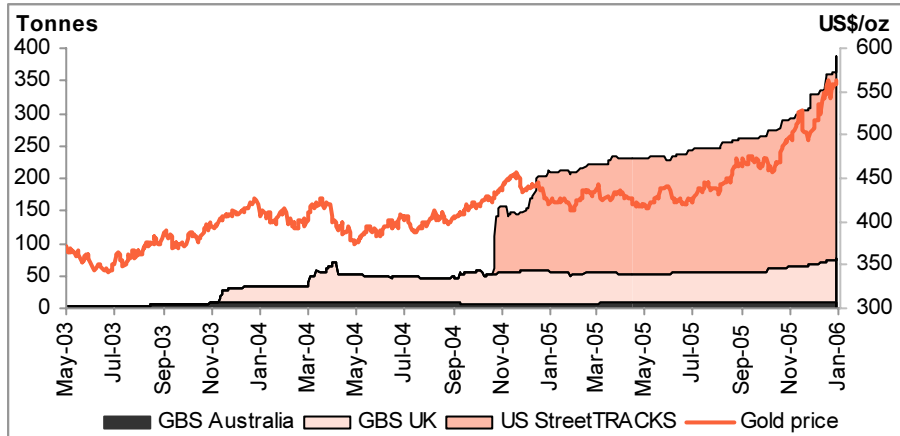
ETF	Tonnes	Change (t)
Gold Bullion Securities (LSE)and Euronext France	67.25	1.88
StreetTRACKS (NYSE)	312.13	22.91
Australia (ASX)	8.48	-
ABSA (JSE)	8.68	-0.74
<b>Total</b>	<b>396.54</b>	<b>24.05</b>

Source: *Gold Bullion; Andisa Securities*



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**Exchange traded funds**



*Gold Bullion Securities tipped to list in Hong Kong and India this year*

Source: Gold Bullion; Andisa Securities

ETF's are now acting as a new "Central Bank", buying gold, thereby taking gold out of the system and countering Official Sector sales.

The total investment in EFF's, benchmarked against Central Bank holdings, now ranks No 14.

Rank	Central Bank holdings	Tonnes Gold
1	United States	8133.5
2	Germany	3427.8
3	IMF	3217.3
4	France	2856.8
5	Italy	2451.8
6	Switzerland	1290.1
7	Japan	765.2
8	Netherlands	716.9
9	ECB	719.9
10	China, Mainland	600.0
11	Spain	472.5
12	Taiwan	423.3
13	Portugal	407.5
14	<b>ETF (current)</b>	396.5
15	Russia	386.7
16	India	357.7
17	Venezuela	357.4
18	<b>ETF (27 Dec 2005)</b>	337.1
19	United Kingdom	311.2
20	Austria	302.5
21	<b>ETF (30 Nov 2005)</b>	296.7
22	Lebanon	286.8
23	Belgium	227.7
24	<b>ETF (30 Mar 2005)</b>	223.0
25	Philippines	170.6
26	BIS	189.3
27	Algeria	173.6
28	<b>ETF (4 Jan 2005)</b>	170.1
29	Sweden	154.5
30	Libya	143.8
31	Saudi Arabia	143.0
32	Singapore	127.4
33	South Africa	124.0
34	Turkey	116.1
35	<b>ETF (1 Oct-04)</b>	49.5

**ETF holdings now rank No. 14 when compared to Central Bank holdings. (to date 2006))**

**ETF's to be launched in India**

The Securities and Exchange Board of India amended the SEBI (Mutual Fund) Regulations, 1996, on Tuesday this week, allowing mutual funds to launch gold exchange-traded funds.

We believe that this fund will accumulate significant quantities of gold in addition to jewellery demand.

What goes up generally comes down. We believe that the type of person who invest in ETF's currently are of a risk-averse nature, wants to invest in gold in the long term but not in volatile securities. They are therefore unlikely to sell if gold goes down in the short term.

However, we believe investment funds are beginning to invest in ETF's. The South African fund has shown this trend, with large buying and selling of the funds over the last week.

Regards

David



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