



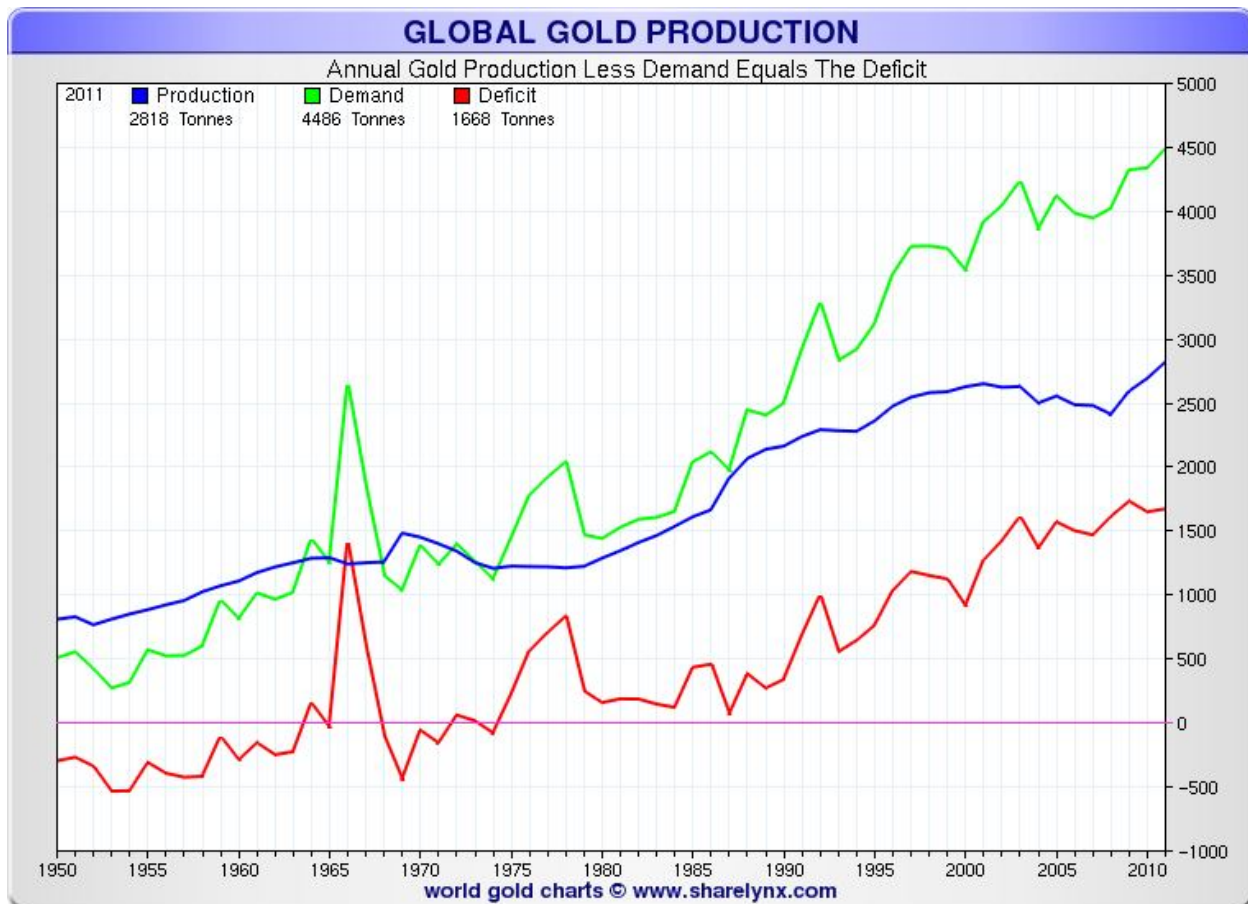
TECHNICAL SCOOP CHART OF THE WEEK

Charts and commentary by David Chapman

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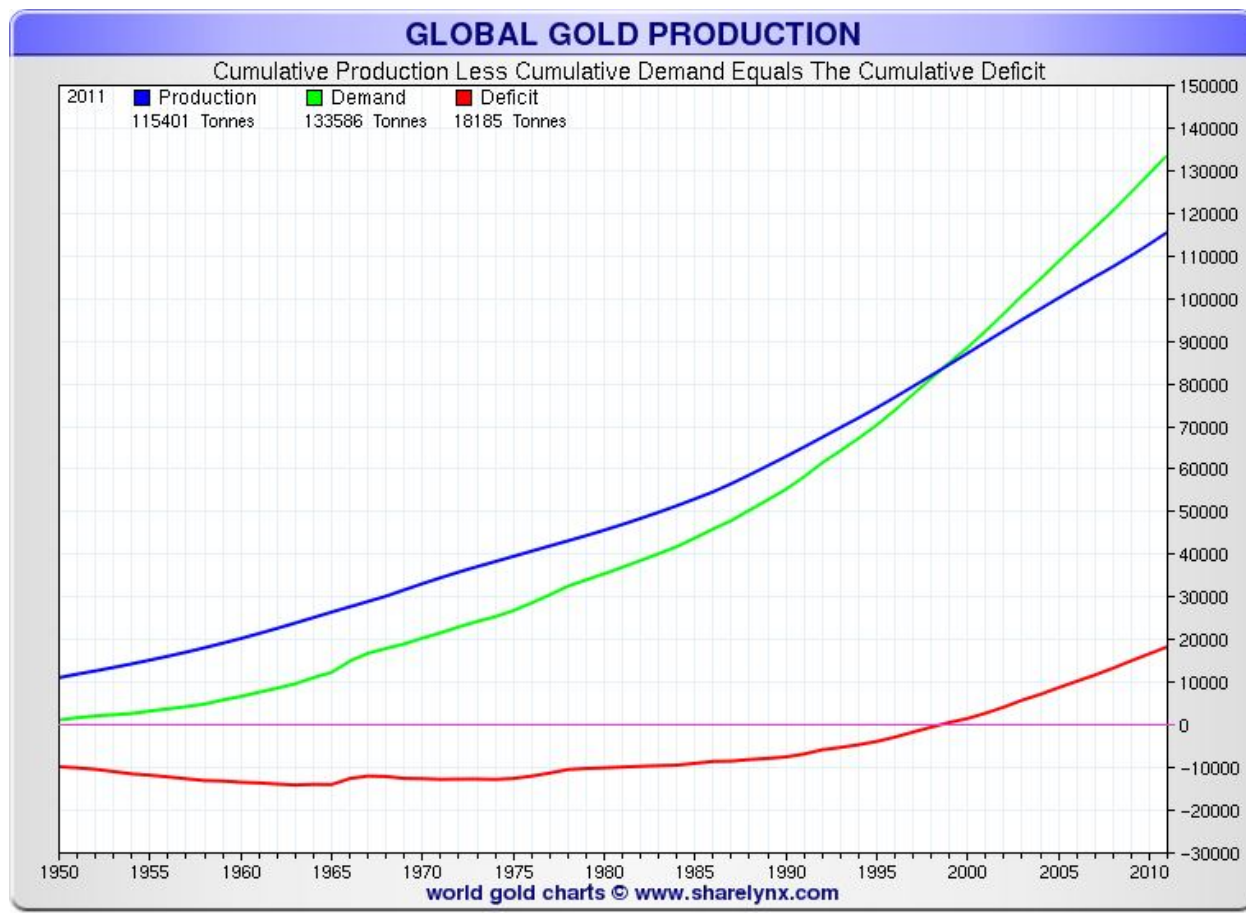
Source: www.sharelynx.com

Above is a chart of global gold demand, production and the resulting supply deficit. While global gold production is hitting a record of 2,818 tonnes in 2011 following a several years of declining production that started in 2001 the increased production is still not keeping up with demand. 4,486 tonnes was consumed in 2011 with China and India being the two largest consumers. The deficit which has been rising steadily since a low in the late 1980's is not quite at the record seen in 2008 but at 1,668 tonnes it is getting closer.

So how is this deficit made up? Deficits are made up from central bank sales, stockpiles and scrap. Except there is now a growing problem. First central bank sales have stopped and central banks have become once again net buyers of gold. Central bank net sales largely came to an end in 2009. Since then central banks have been net buyers of gold. In 2011 central banks purchased net 392 tonnes. In the first two quarters of 2012 central bank net purchases totalled 162 tonnes. The prime buyers have been Russia, Turkey, the Phillipines and Mexico. China is suspected to also have been a net buyer but their figures had to be reported.

The other problem is that stockpiles are falling. Since 1950 the world has consumed some 110 thousand tonnes. That is roughly 80% of all the gold ever found. Production has provided about 93 thousand tonnes. The shortfall of 17,000 tonnes has come as noted from central bank sales, stockpiles and scrap. However, that is now 17 thousand tonnes fewer available in the future to make up deficits. With central bank sales having come to a stop it is left to dwindling stockpiles and hope that scrap makes up the difference of over 1,600 tonnes annually. The 17,000 tonne shortfall since 1950 is equivalent at current production rates to 7 years of production.

The question begs. Where is the additional supply going to come from? The conclusion is it appears to be fairly straightforward that rising deficits requires higher gold prices in an attempt to attract more production. Trouble is a major producer, South Africa, has been seeing declining production over the past number of years including down 4% in 2011. The chart below shows this shortfall.



Source: www.sharelynx.com

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