Credit Suisse
Standard Securities

RESEARCH

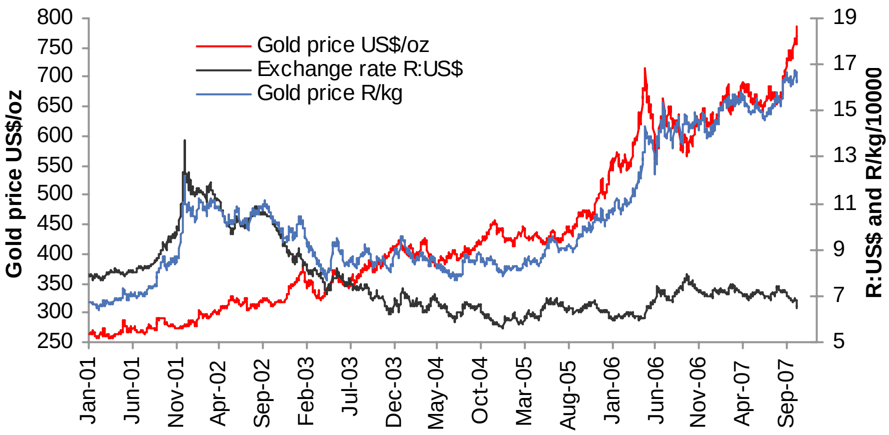
Gold Note

30 October 2007

The Future of Gold: Price forecast

Source: Rand Refinery

Gold price and exchange rate (R/kg/10000)



Source: I-Net, CSSS

Recent trends

A number of 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 or against a firmer gold price.

In the current environment upward pressure on the price of gold is likely being driven by the economic environment surrounding the US economy, in particular the strength of the US dollar, the oil and commodity prices and a change in the dynamics surrounding gold supply and demand:

- The economic environment in the US was recently “jolted” by subprime mortgage losses, the tightening of the credit market and the lowering of interest rates. These factors combined have resulted in a weakening of the US dollar, which in turn has put upward pressure on the gold price as investors see gold as a safe-haven.
- We believe the US dollar and the oil price have become key drivers for gold in the current environment. The oil price is currently hovering at record levels and analysts believe it is likely to break through the US$100/b level in the near future. Higher oil prices will likely result in inflationary pressures, which in turn will likely result in upward pressure on the gold price because of gold’s use as an inflation hedge.

Geopolitical tensions have heightened with possible cross-border operations of Turkish troops to hunt down Kurdish separatists in Iraq and tensions are increasing between the US and Iran. Geopolitical tensions lead to increased upward pressure in the gold price and volatility.

IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS ARE IN THE DISCLOSURE APPENDIX.

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Over the last six months:

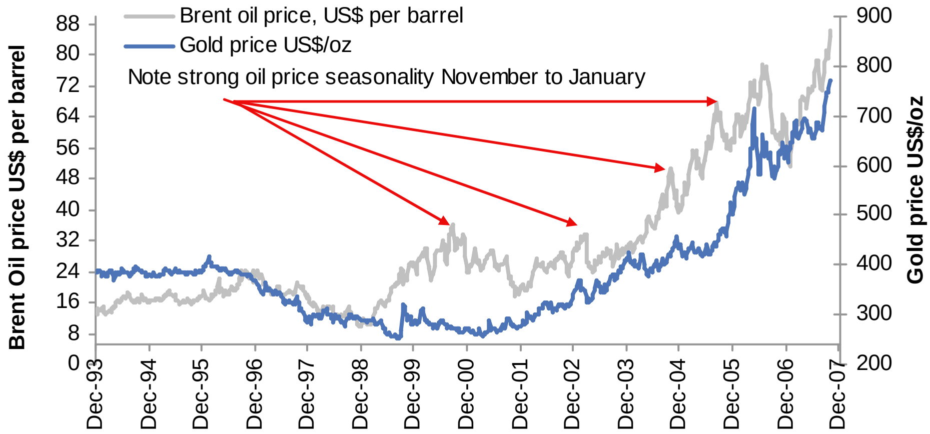
- The gold price has risen by 19% from US$663/oz to US$793/oz. In R/kg terms the gold price has risen 6.0% from R155 300/kg to R165 000/kg.
- The oil price has risen by 35% from $68/b to $92/b.
- The US dollar has weakened by 8% against the Euro from USD:Euro 1.33 to USD:Euro 1.44

Under these circumstances we believe Gold **has moved into safe-haven status.**

US$strength/weakness and oil price have become key drivers for gold in the long term

According to US Energy Department data, global oil demand peaks in the fourth quarter when refiners in the US, Europe and North Asia make heating fuel for the Northern Hemisphere winter

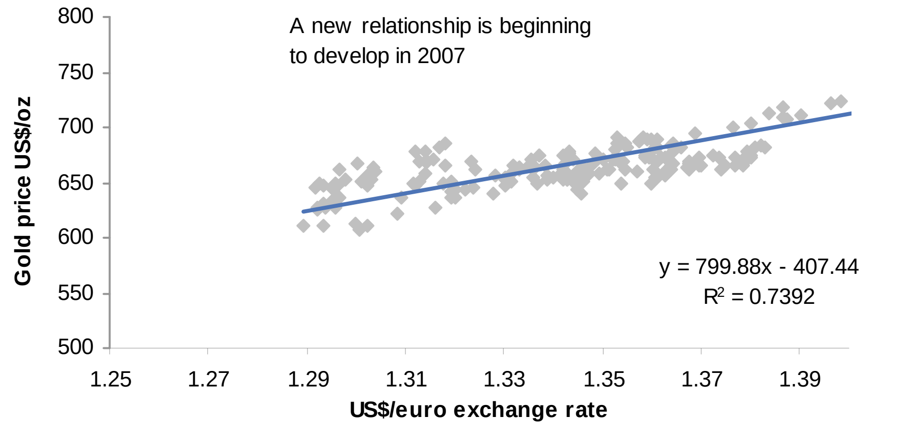
Weekly oil price (Brent) US$/b and gold price US$/oz



Source: CSSS; I-Net

We calculate that a one cent change USD/EUR exchange rate, drives the gold price by US$8/oz

Relationship between US$/Euro exchange rate and the gold price 2007 to date



Source: I-Net; CSSS

Gold price – seasonality

Over the last five years, the gold price exhibited some seasonality with a strong trend to higher gold prices in December through to March. We believe the strong seasonal upward trend in prices is linked partly with similar seasonal trends in the oil price and also partly linked to increased demand for gold during the festive and marriage season in India together with the traditional seasonal demand from the Middle East.

According to US Energy Department data, global oil demand peaks in Q4 when refiners in the US, Europe and North Asia make heating fuel for the Northern Hemisphere winter.

We believe, in the short-term, the upward pressure on the gold price will continue following seasonal trends, dollar weakness, higher oil prices and increasing geopolitical trends. Under these circumstances, we believe **the US$800/oz level could be broken through by the New Year.**

Long term trends

Supply and demand

Our studies indicate that the dynamics surrounding the gold supply and demand has begun to change inexorably towards a diminishing supply of gold and increasing investment demand, which will ultimately impact the gold price.

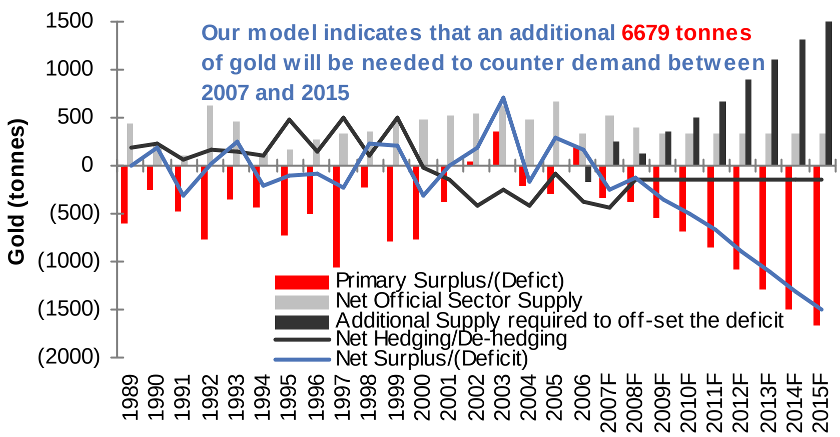
Our studies indicate in the long term global gold production (primary supply) will begin to decline as the diminishing number of new reserves fails to compensate for dying mines. The decline in global gold production will likely be accelerated, should the gold mining industry continue to incur significant year-on-year inflation rates which are not offset by similar or significantly higher gold price increases year-on-year.

When we strip out the secondary supply of gold to the market, which comes mainly from Central Banks and producer hedging, we find that over the last 18 years, apart from three occasions, the supply of gold has been in deficit. This primary deficit has been masked by the secondary supply of gold into the market mainly from Central Bank sales and producer hedging. We believe Central Bank sales will likely wither going forward, and the Banks could become net buyers of gold. Producer de-hedging, which has the effect of removing the supply of gold from the market, has accelerated in recent months. This transition, together with increased investment demand (ETF's), jewellery consumption and diminishing mine supply, in our opinion has already begun. Under these circumstances the supply-demand imbalance will begin to accelerate at an ever increasing pace into a net deficit, which in turn, will likely put significant upward pressure on the gold price. The scenario just described is depicted in a graph of our supply and demand model below.

Based on the supply and demand scenarios, our supply and demand model suggests a significant and increasing net deficit after 2009 - 2010; this will likely continue to put upward pressure on the price in the long term

We believe a net deficit of over 500 tonnes will trigger a significant upward change in the gold price

Supply and demand model to 2015



Source: GFMS: World Gold Council; CSSS estimates

We believe the US$ will continue to underpin the gold price. However, supply and demand factors will begin to make their presence felt to such an extent that they alone (or in combination) could trigger a quantum upward change in the gold price, enough to sustain a new gold price/US$ equilibrium.

Gold price - Oil supply and demand trends

As indicated above, we believe the US$ and oil price have become key drivers for gold in the long term. Under these circumstances we have examined oil supply and demand trends going forward and summarised, in particular, comments from Credit Suisse's Global oil team below:

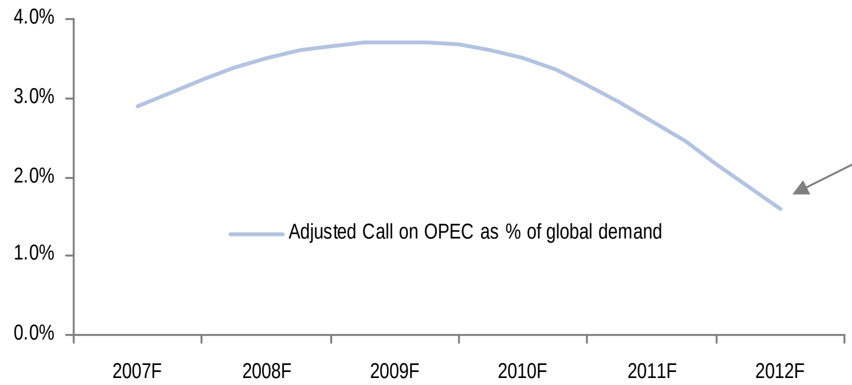
"The IEA estimate that global oil supply and demand situation will remain tight over the next 5 years. Global spare capacity as a percentage of global demand, which is estimated to be 2.7% in 2007 and 3.5% in 2009 is likely to fall to around 1.6% by 2012. Thereafter there is relatively poor visibility of supply growth. It is worth noting that the average of spare capacity from 1995-2005 was around 7%. Although we believe IEA demand growth estimates are too strong, the outlook for supply growth (particularly non-OPEC supply) over the same period is not substantial enough to indicate that the market will return to a comfortable balance. We therefore see continued support for high oil prices, with volatility (caused by geopolitical tensions or other potential supply shocks)".

IEA Global oil supply and demand balance

IEA Global Balance Summary	2007F	2008F	2009F	2010F	2011F	2012F
Global Demand	**86.13**	**88.27**	**90.02**	**91.91**	**93.84**	**95.82**
Non-OPEC Supply	49.98	50.99	51.65	51.94	52.2	52.56
OPEC NGLs	4.86	5.51	6.28	6.73	6.91	7.08
Global Supply excluding OPEC crude	**54.83**	**56.5**	**57.93**	**58.67**	**59.1**	**59.64**
OPEC Crude capacity	34.4	35.46	36.1	37.11	37.92	38.36
Call on OPEC	**31.3**	**31.77**	**32.1**	**33.24**	**34.74**	**36.18**
Adjusted Call on OPEC	**31.89**	**32.39**	**32.73**	**33.87**	**35.37**	**36.81**
Implied OPEC spare capacity	3.09	3.69	4.00	3.87	3.18	2.18
Adjusted spare capacity	2.5	3.07	3.37	3.24	2.55	1.55
Adjusted Call on OPEC as % of global demand	**2.9%**	**3.5%**	**3.7%**	**3.5%**	**2.7%**	**1.6%**

Source: IEA

Adjusted Call on OPEC as a % of global demand



Source: IEA, Credit Suisse

Credit Suisse's Global oil team sees the global oil supply and demand remaining tight over the next five years with shrinking spare capacity which in-turn will likely provide continued support for high oil prices.

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Higher oil prices are likely to result in inflationary pressures in the US, which in turn will likely result in upward pressure on the gold price, because of gold's use as an inflation hedge.

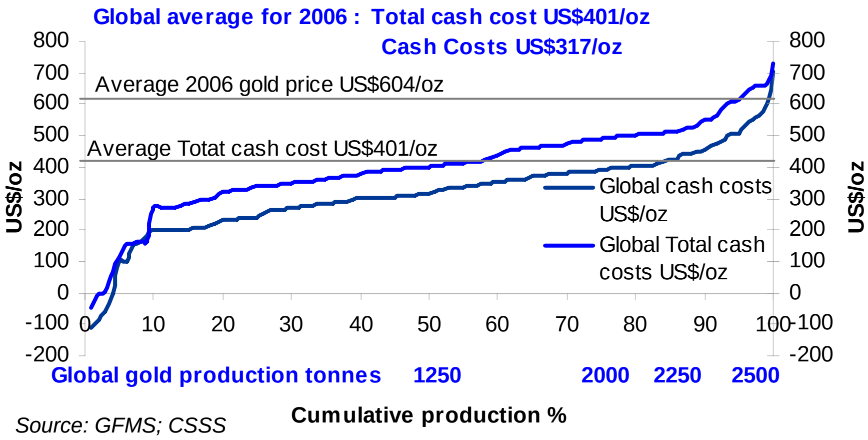
Gold price – Costs likely to tip the supply dynamics

We believe our forecast decline in global production will be aggravated by an increase in costs, which will impact on the marginal mines forcing premature closure. We believe the significant increase in costs will change the current supply dynamics, which in-turn will likely trigger upward pressure on the gold price.

For some time now the global gold mining industry has had to contend not only with a much weakened US$ but also significant increases in commodity prices, consumables, labour and equipment.

GFMS reported that the global average cash costs increased substantially in 2006 by 17% to US$317/oz year-on-year.

Global gold mining industry total cash and cash cost and cumulative production for 2006



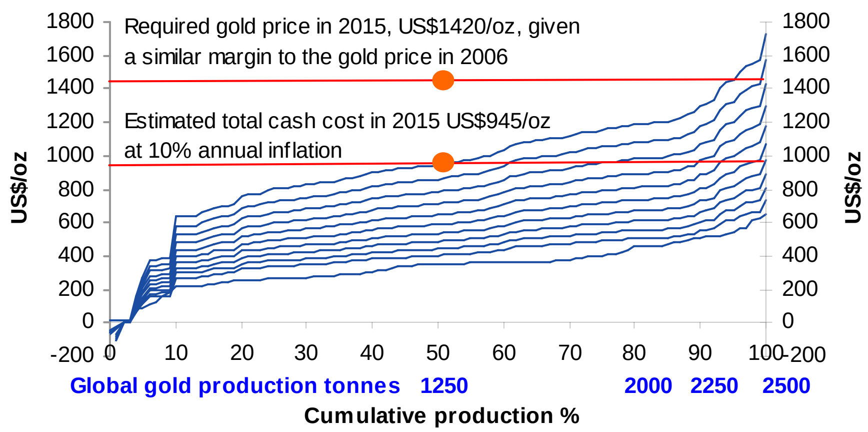
Source: GFMS; CSSS

Gold mine margins in the main have not increased significantly, as costs have increased in parallel with the gold price year-on-year. We believe the industry will record a similar year-on-year cost increase for 2007. Going forward, we expect the significant cost pressures to continue.

Global industry future cost trends

In order to gain an insight to the likely future total cash costs, we have escalated the 2006 global cost curve, as calculated by GFMS, incrementally to 2015. The results of this exercise are shown in the graph below. Given an annual mining inflation rate of 10%, we calculate a gold price of around US$1420/oz would be required to support global production at similar margins to those achieved in 2006 (based on a similar margin to the gold price) ceteris paribus.

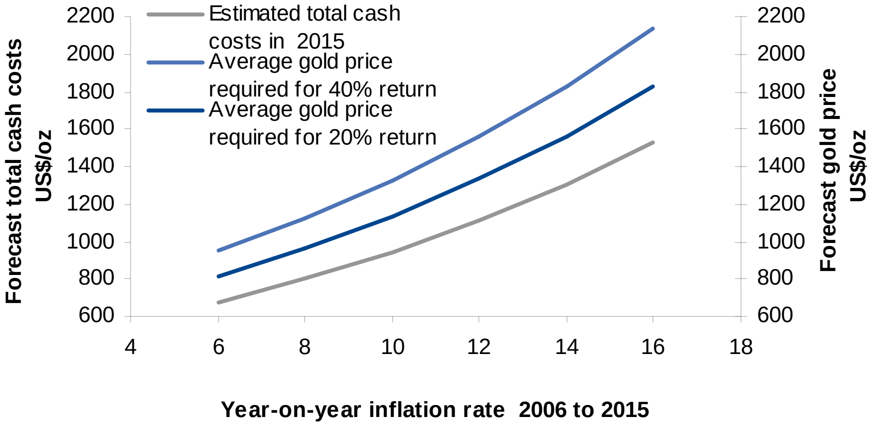
Estimated global total cash cost curves and cumulative production from 2006 to 2015



Source: Company records; GFMS; CSSS estimates

The next graph illustrates our estimates of the required gold price in 2015, given year-on-year inflation rates of between 6% and 16% for a 20% and 40% return *ceteris paribus*.

Estimated global total cash costs in 2015 and required gold price at variable year-on-year inflation rates for 20% and 40% average returns



Source: GFMS; CSSS estimates

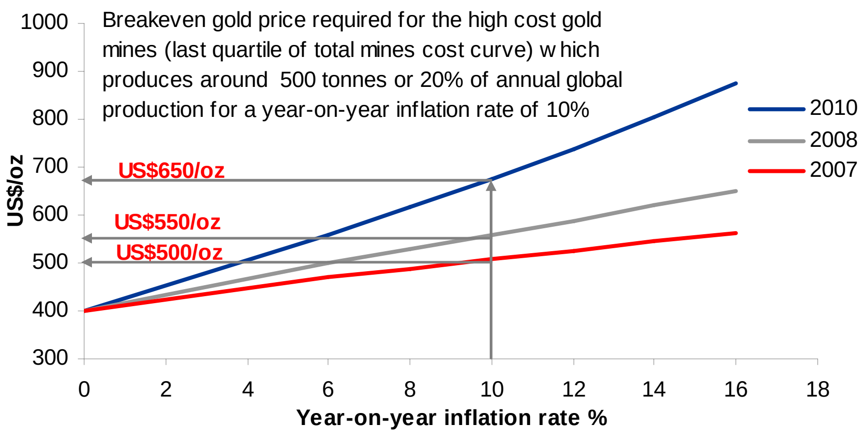
We calculate that in 2006, the high cost of global gold mining companies, which fell into the 4th quartile of the global cost curve, had total cash costs greater than US$503/oz. These mines produce some 500 tonnes or 20% of the global production.

The high cost gold mines which fall in the 4th quartile of the global cost curve are substantially more sensitive to annual inflation rates and gold price change, for obvious reasons. Going forward, we expect these marginal producers to close and, as a result, cause a significant reduction in global production should the gold mining industry continue to incur significant year-on-year inflation rates which are not offset by similar or significantly higher gold price increases year-on-year.

The graph below illustrates the breakeven gold price required in 2007, 2008, and 2010 for a 10% year-on-year inflation rate. The progressive closure of these marginal mines will likely occur should the gold price fall below the indicated breakeven value. Under these circumstances, we calculate up to 500 tonnes or 20% of global production could be lost if the gold price remains below the indicated breakeven values.

Estimated breakeven gold prices required for gold mines that fall into the 4th quartile of the global cost curve.

Up to 500 tonnes of gold will likely be lost if the gold price falls below U$650/oz in 2010 and suppressed thereafter



Source: GFMS; CSSS estimates

In the long term, we believe that the gold price will continue its upward trend, as we believe factors described above continue to have an ever-increasing impact on our gold market environment.

Gold price forecast 2007 to 2010

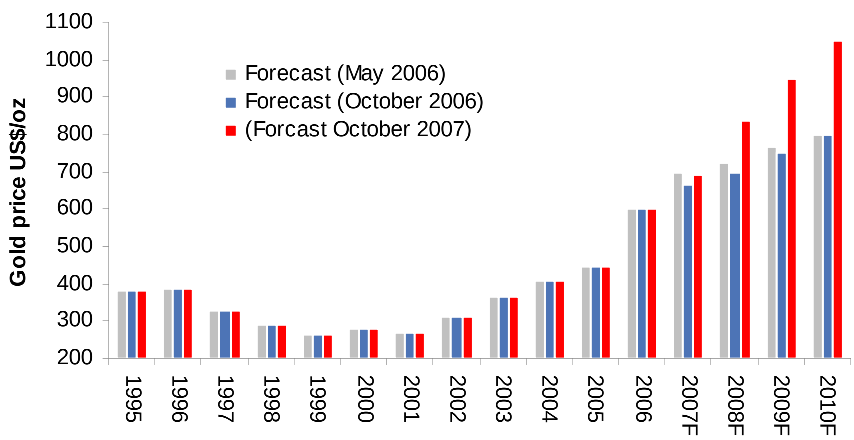
In the long-term, we believe that gold price will continue its upward trend, as we believe factors described above, continue to have an ever-increasing impact on our gold market environment.

Our CSSS economist has however revised his views on the USD/ZAR exchange rate with regard to years 2009 and 2010 with the rand depreciating marginally slower.

Gold price and exchange rate USD/ZAR forcast	Q1A 2007	Q2A 2007	Q3A 2007	Q4F 2007	2007F Year 2	2008F Year 3	2009F Year 4	2010F Year 5
Gold US$/oz	650	671	682	770	694	838	950	1050
USD/ZAR	7.23	7.08	7.09	6.49	7.29	7.61	8.15	8.38
Gold R/kg	151102	152726	155396	160667	162659	205031	248927	282894

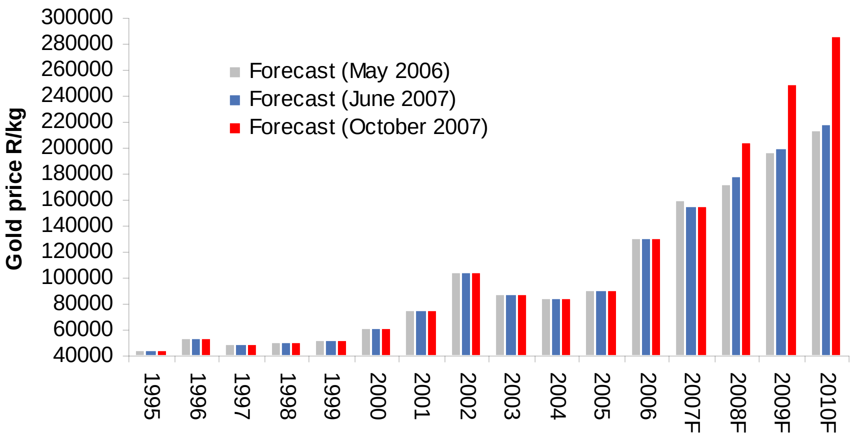
Source: I-Net; CSSS estimates

Gold price forecast US$/oz 2007 to 2010



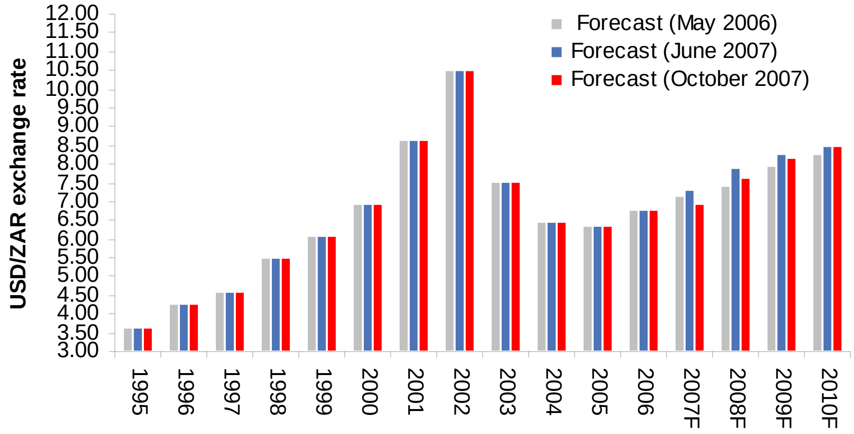
Source: I-Net; CSSS estimates

Gold price forecast R/kg 2007 to 2010



Source: I-Net; CSSS estimates

USD/ZAR exchange rate forecast 2007 to 2010



CSSS economist sees the rand depreciating at a marginally slower rate in 2009 and 2010

Source: I-Net; CSSS estimates

The CSSS economist's summary on the rand

The fall in the overall savings rate in South Africa, while not yet as low as elsewhere in inflation-targeting economies, suggests that the funding of future investment will depend increasingly on foreign excess earnings. The current account on the balance of payments is likely to shift further into deficit as the rate of consumption growth continues to outstrip growth in disposable income. This deficit will have to be financed by – increasingly dear – foreign capital flows. As foreign interest rates rise and some of the current liquidity surplus is drained out of global markets, it would seem unlikely that emerging markets will continue to attract the large amounts of capital they currently do.

This should increase competition for foreign capital and accordingly increase required returns on investments in order for capital poor countries to be able to attract foreign capital. South Africa unfortunately is still plagued by structural impediments that will most likely constrain economic growth at around 4.5% – not excessively strong growth for an emerging economy.

Thus, the ability of the South African economy to continue to attract large sums of foreign savings in order to finance a growing consumption boom is likely to diminish going forward. This would imply that the current surplus on the balance of payments – which has allowed the SARB (SA Reserve Bank) to build reserves quite strongly – will dissipate, implying a need for a drawdown on reserves or a depreciation of the rand exchange rate in order for the balance of payments to balance. The latter is the most likely outcome. Thus, we continue to expect that the draining of liquidity out of global markets will lead to the rand depreciating.

CSSS' inflation forecast is around 5.8% per annum and relates to the difference between inflation-linked bonds and vanilla bonds between 2006 and 2025, as derived by our economist.

Disclosure Appendix

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