We are witnessing the greatest explosion in world gold production since the Australian and Californian booms of the 1850s. Despite supply pressures, the price outlook for the rest of this century is encouraging.

In the second half of the nineteenth century, something like three times as much gold was mined as in the first half of the century. Today's growth may not be quite so rapid, but between 1980 and 1987 non-communist supplies have risen by 50 per cent and further expansion is forecast at least into the 1990's.

Already in Canada, output has more than doubled, in the United States it is up fivefold and here in Australia it is up sevenfold. And more important, perhaps, something like 80 per cent of the exploration budgets of mining companies worldwide are now devoted to the hunt for gold, and they are finding it in Egypt and in Saudi Arabia, in Sudan, in the Ivory Coast, in Guinea, in Papua New Guinea, in Solomon Islands, in Indonesia. You can go on and on. Big alluvial deposits in Brazil are drawing hundreds of thousands of people to places like Serra Pelada or Cumaru in the Brazilian jungle. The latest action is at a place called Kilometre 88, in southern Venezuela.

Certainly I'm finding that estimates that I made for The Prospect for Gold in the middle of last year are already outdated. I am reminded of a prediction by a mining consultant at a seminar at Queens University in Canada about a year ago, on gold output to the year 2000, who said that “an understanding of the forces at work is of greater importance than any formal forecast.” Predicting what output will be in, say, 1990 or the year 2000, is almost meaningless because we can assess only the known deposits and not what may turn up next week or next month or next year. After all, anyone who said just five years ago, that Australian production would top 120 tons last year, that the potential was there to go to perhaps 150, 160 tons, would have been dismissed as a dreamer.

So this raises the crucial question: Who will buy all this new gold and at what price can it be absorbed? We should get one thing clear at the outset. There is not, and I repeat not, a gold glut. Fears that the nineteenth-century rushes would depress the price proved quite groundless; rather the gold rushes in Australia and California financed a great expansion in world trade in the second half of the nineteenth century.

And we should remember that even 10 years ago, the market was receiving a much higher level of supplies than it is today, from the combination of US Treasury and IMF sales, plus a very high level of sales by the Soviet Union. But, as we all know, the international price went up to $850. The more gold the US Treasury threw at it, the higher and higher the price went. The gold was very easily absorbed in an era of high inflation coupled with very strong Middle East buying from oil.

Let's put a little more flesh on the

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The most spectacular growth has been in Australia, up from 17 tons to something like 120 last year.
give any statistics at all about Soviet gold production or gold sales.

He was very thoughtful about it. He said that he didn't want to put people like me out of work in the West, because we make our livelihood trying to estimate what the Soviet Union produces and what it sells. Well, earning my living, I estimate the Soviet Union production to be just ahead of 300 tons a year and perhaps rising rather slowly.

Although there are new deposits being explored in the Soviet Union, we are not seeing the degree of efficiency that we would see here. But, nevertheless, there is potential for growth, so in any analysis of the gold market, we have to look at the combination of the Soviet Union, China and also North Korea, selling between 300 and 400 tons a year into the international market.

So, with Western mine output and communist sales, the market must expect to see perhaps 1,750 tons this year, perhaps up to 1,900 tons a year by 1990.

The added dimension to this is the gold loans to producers. I estimate that such gold loans have added about 200 tons in the sense of accelerated supplies to the gold market in the past two years. And it is particularly significant that since Black Monday in the sharemarket, gold loans are even more in vogue.

For example, America Barrick raised an 8 1/2 ton gold loan just after Black Monday, at a very good price, $US465, to finance a new gold mine in Nevada. Newmont Mining in the United States has done a million-ounce loan this year.

Other gold loans (I believe one for Alan Bond here) and certainly for some US companies are still in the pipeline. So quite clearly, we must anticipate more of this accelerated gold production.

Eventually, you may argue, that's good news. When the loans are being repaid, the gold will go back into repaying the loans and not in fact come on the market. But in practice a lot of the mines roll over the loans, so I'm not sure when we are going to see the full benefit of that.

I think we should realise that it was the news of the Newmont loan recently that gave the market the excuse to go down from about $US480 toward the lower levels of $US420 and $US430. I don't believe, incidentally that the Newmont loan in itself had that effect on the market. I think the market was looking for an excuse to go down, and Newmont provided it.

But even with today's lower price, gold mining is still very, very profitable. Nor should we forget that gold mining is primarily flourishing in countries with relatively weak currencies. The Australian dollar has been very weak, so has the US dollar, the Canadian dollar, most Latin American currencies and of course the South African rand. Those are the countries where mining is flourishing, and since most of the costs are in local currency, it remains a very profitable operation in local terms.

I have emphasised that rapidly rising supply need not be bearish if the sentiment exists to absorb it. The gold market, we should remember, is very small compared with the amounts of money under management around the world. In the US alone the assets under management by the 100 largest money managers are worth close to two trillion US dollars. Against this, the $US25 billion of new gold supplies each year is just a drop in the ocean.

So, given the right economic environment, the increase in gold production poses no threat to the price. The crucial question of course is the mood. Now in the late 1970s, as I mentioned earlier, we had high inflation, we had surging oil prices which created immense financial muscle in the Middle East, much of which was then channelled into gold. Today it is a rather different story.

Inflation remains low, oil prices are weak. The Middle East, which in my judgment was the real catalyst of price rises from 1973 to 1983, is short of liquidity. Indeed, the physical gold market there is now virtually neutral, with almost as much scrap coming back out of countries like Saudi Arabia each year, as new supplies going in. We estimate that all the new kilobars and all the gold jewellery coming into Saudi from Italy and from Singapore and other South-East Asian manufacturing centres last year, was imported against scrap. Absolutely no new initial payment was necessary.

What are the positive developments on the demand side for gold? The first thing to be said quite clearly is that the new cornerstone of the gold market, over the last four years or so, has been right on your doorstep. It is India and South-East Asia and Japan. The combined physical off-take of Asia is accounting for something like 40 to 50 per cent of all Western gold mine production. Last year, 1987, close to 700 tons of gold, that's about 22.5 million ounces, or 51 per cent of all Western gold mine output, or five times all Australia's output, was absorbed in this Asian area. And on present form that total will be equalled this year.

Japan, as we all know, sets the pace, although in 1987 Japan did not absorb the exceptional amount of gold (700 tons) that she took in 1986 when the Government issued the Hirohito gold coin. Total demand in Japan last year was about 300 tons. The Japanese seem to be in the process of building up a private stock of gold, rather like people in
France, India or the overseas Chinese have done in earlier years.

Taiwan has an enormous surplus and it is a major market for gold. We estimate that last year at least 100 tons of gold went into Taiwan. Your nugget coin was introduced there quite successfully. Indeed if you look at the total off-take for Taiwan last year it was probably not far short of the total of Australian production.

This year Taiwan seems to be doing even better; if we judge from Hong Kong imports in the first two months, which were 70 tons. Most of that would have gone to Taiwan. Significantly, there was an announcement that the Central Bank of Taiwan, which is holding reserves of something like $US76 billion, bought 65 tons of gold last year and intends to continue diversification of reserves this year. Now, if Taiwan put even 5 per cent of that reserve into gold, that would solve all our problems in the gold market this year. It would give us a very comfortable floor price.

India, that traditional sponge for precious metals, is also taking extraordinary amounts of gold. The domestic price in India last year averaged over US$100 an ounce above the international price, which was enough to draw at least 120 tons of gold through smuggling into the sub-continent.

A traditional pattern is emerging. A region with rising prosperity is picking up gold in really quite extravagant quantities. The Middle East did it in the 1970s, the Pacific basin is doing it in the late 1980s and I think it will do it into the 1990s.

Despite the excellent demand in Asia, the underlying pattern of consumption in jewellery and industry worldwide does give some cause for concern. Jewellery used to be the cornerstone of the gold market. Sixty-five per cent of all the gold that came on the market through the whole of the 1970s went into jewellery including gold from IMF and US Treasury sales. Now the jewellery section is under 50 per cent.

The old cornerstone, if you like, is eroding and I believe that very radical initiatives are necessary to reverse this. I am very pleased, incidentally, to note that Australian mining companies are now joining the new World Gold Council to help promote gold.

I believe that much more emphasis has to be given to the concept of high-carat, that's to say at least 18, even 21, 22, 23 carat, low-mark-up jewellery that we see in Asia. Certainly, on the gold coin front, Goldcorp is to be congratulated in its initiative with the Nugget. The Krugerrand, which was pioneered back in the 1970s, was the radical initiative of that decade. It opened up a whole new market in gold for the ordinary person, for the ordinary investor. It is good to see that the Nugget is now following that lead.

We find a gap is opening up between the rising tide of production on the one hand, and what I like to call the broad and butter take-off in jewellery, industry and coin on the other. That means the onus is going to fall in the future, not just this year but each year for the rest of this century, on the investor.

The term investor is a rather vague one. Do we mean a central bank, a money manager or pension fund manager, or do we mean the ordinary private investor who may buy one coin? But the investor, in all his different forms, is what we have to rely on. His is serious money. The test for the gold price for the rest of this century is how much of that serious money is going to go into gold.

Now comes the crunch. With a few notable exceptions central banks have not been major new investors in gold in the past 20 years. They have actually been net sellers. But I now detect a slightly more positive approach, especially in Asia, at the government level. Japan, remember, stockpiled over 100 tons of surplus gold in 1986, which they had originally bought for the Hirohito coin. Taiwan has now admitted buying last year and is planning to diversify further this year. I believe that we may see similar moves elsewhere in Asia.

But the ultimate test is going to be the attitude of many money managers in the aftermath of the sharemarket crash. The lesson of that event is that gold, unlike stocks (which means gold shares), did not collapse. It didn't appreciate either, but anyone who bought gold at the beginning of October last year had virtually the same value for it at the end of October.

What we had last year was a bull market, not in gold the metal, but in gold shares. The market was anticipating an international price of something like $US600 to $US650 an ounce, but it didn't get there primarily because everyone bought the mining shares and not the gold itself. Something like $US52 billion went into 24 gold funds in America last year. But of that, barely $US50 million or 2.5 per cent went into metal. No wonder the gold price didn't perform, except to mirror the dollar's decline.

One or two major banks and bullion dealers in Europe already are looking at a newer type of gold fund which will have a much better balance between shares and metal. So I suspect we may see rather more money going into gold itself and less chasing gold shares to rather absurd heights.

I'm encouraged too, because I hear the word 'cheap' being used about gold, not just in terms of yen, or in deutschmarks or Swiss francs, but even in terms of dollars. The point is when the price is 'cheap' we see a very strong physical off-take and that is certainly helping to hold the price at the moment.

Despite the questionable pressures of new gold supplies, the down-side risk can be contained by the various undercurrents of positive buying that I have been talking about. At the same time don't get too bullish on the up-side. Remember that gold's historic reputation is not as a speculative vehicle, but is founded on the stability of its price as a standard of value.

The best argument for buying gold is not to make money but to avoid losing it, to preserve assets. In the Middle East I asked the manager of an investment fund if his attitude to gold in their strategic stock changed in view of its rather lacklustre performance. He said quite simply: "No, we keep it as insurance." That is the best credential, and as long as that attitude remains, I am not unduly perturbed by the impact of the new gold supplies.

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