Gold

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1999 mine production:	$2.1 billion
World rank:	Fourth
Exports:	$2.8 billion (includes exports from Bank of Canada gold sales)

Canada	1999	2000[e]	2001[f]
		(000 tonnes)	
Production	158	152	155

[e] Estimated; [f] Forecast.

Gold is valued for its rarity, lustrous beauty, ductility, high resistance to corrosion, and conductivity. It has been treasured for its decorative and monetary value for at least 8000 years. Gold has a high density, its weight being equal to 19.3 times an equivalent volume of water. The main industrial uses for gold are in jewellery (85%) and electronics (7%). Gold bullion coins, such as the Maple Leaf coin, are also important products.

ANNUAL AVERAGE SETTLEMENT PRICES, LONDON BULLION MARKET ASSOCIATION

1997	1998	1999	2000[e]
	(US$/troy ounce)		
331	294	279	280

[e] Estimated.

CANADIAN OVERVIEW

- Goldcorp reached an agreement with the employee's union to end the 46-month strike at the Red Lake mine. The mine reached commercial capacity in November and is expected to produce 80 000 oz in 2000.
- Echo Bay re-opened the Lupin mine in Nunavut (Canada's new territory). The mine is expected to produce gold at an average annual rate of 150 000 oz through 2004.
- The Joe Mann mine suspended production in Quebec in response to low gold prices.
- Cambior continued to repay and refinance about $225 million as part of a restructuring plan to cover hedging debts.
- The federal government introduced a 15% Exploration Investment Tax Credit for flow-through share investors in order to stimulate grass-roots exploration in Canada.

WORLD OVERVIEW

- Major gold companies continued efforts to merge or acquire companies in order to increase market capitalization and attract investor interest.
- Major gold producers (Placer Dome, Barrick, Anglogold, Gold Fields) also reduced hedging programs to increase exposure to spot gold prices and improve market sentiment.
- Civil unrest disrupted production in a number of Southeast Asian countries.
- Ashanti completed a restructuring agreement with creditors and shareholders following hedging losses in 1999.
- The Swiss National Bank began a plan to sell 1300 t of gold from its reserves as part of the 1999 agreement (*Washington Agreement*) amongst

European central banks to limit total sales of gold reserves to 2000 t over five years.

- The International Monetary Fund completed a revaluation of 14 million oz of gold reserves through a transaction with member countries that did not impact the market.

Market Outlook

The world's mine supply of gold is expected to decline by about 4% in 2000, but to stabilize and increase slightly during the next few years as high-cost producing mines close, existing mines increase output to reduce costs, and new low-cost mines come on stream in regions such as Africa and South America.

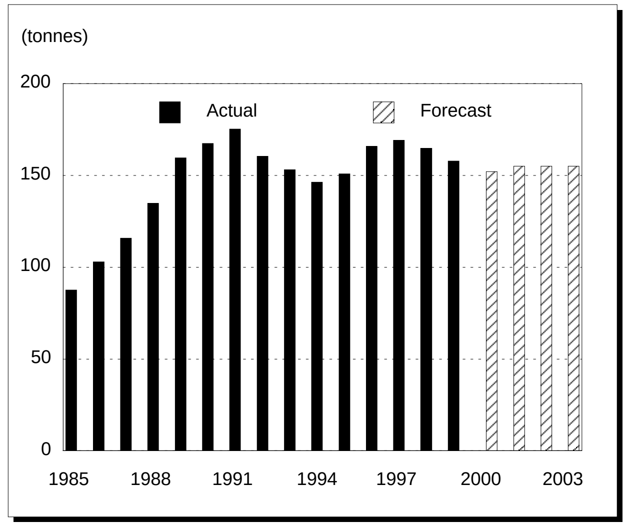
Total world demand has risen over 35% in the last decade, largely in response to increased fabrication demand for gold jewellery. However, investor interest continues to wane as gold's role as a reserve asset for central banks diminishes. World fabrication demand is expected to continue to show modest gains over the next few years as long as economic conditions remain positive, particularly in India and Asia.

The market is forecast to remain in a supply deficit situation in the near future with central bank sales covering shortages. Central bank sales should have less influence on the market, at least until 2004 when the *Washington Agreement* expires.

Canadian Production Outlook

To the end of 1999, Canada had produced over 9000 t of gold since official production was first recorded in 1858 (refer to the historical review of gold in the *Canadian Minerals Yearbook: 1999 Review and Outlook*). Production is forecast to decline by about 3% in 2000, partly because of 13 mine closures in 1999 and 1 closure in 2000. However, output is expected to increase as the Red Lake and Lupin mines complete a full year of production in 2001. Future growth in production will largely be dependent on expansion programs at existing mines and new discoveries coming on stream, such as the Hope Bay prospect in Nunavut.

Figure 1
Canadian Gold Production, 1985-2003



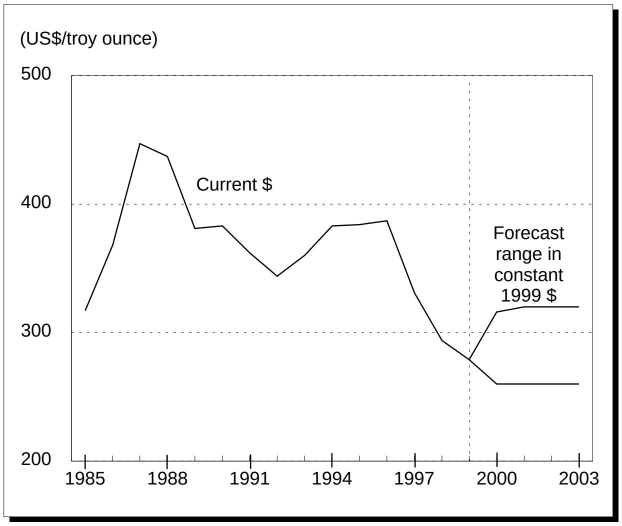
Source: Natural Resources Canada.

Price Outlook

In 2000, an average gold price of US$280/troy oz is forecast, compared to $279/oz in 1999 and $294/oz in 1998. Transparency in official sector gold sales has brought some stability to the supply of gold, at least until 2004 when the *Washington Agreement* expires. Although fabrication demand is expected to remain healthy, investor interest continues to wane and place downward pressure on prices. During the next few years, the price of gold is forecast to range between US$250 and $300/oz (in 1999 constant dollars) if bank lease rates on gold loans remain low and producers continue to hedge gold sales or increase output to reduce costs.

The current cloud over gold markets may, however, have a silver lining. The price of gold is currently near historical lows similar to the situation for silver prices in 1993. Should oil prices continue to rise, inflationary pressures increase, and equity markets soften further, then gold may become a preferred investment haven given the existing high prices for platinum group metals. The gold price could spike well above US$300/oz. The upside potential would likely only be limited by the level of interest in dishording, similar to the situation for silver in the mid-1990s.

Figure 2
London Bullion Market Association Gold Prices, 1985-2003



Source: Natural Resources Canada.

Note: Information in this article was current as of November 30, 2000.

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