# GFMS GOLD SURVEY 2019
# H2 UPDATE & OUTLOOK


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# GLOBAL REVIEW AND OUTLOOK

- **Gold's strong performance in the second half of 2019 lifted the annual average price by 10% year-on-year, to a six year high of $1,392/oz.**

Gold exhibited an impressive performance over the second half of 2019, with the price rallying to a six-and-a-half year high of $1,546/oz in early September. While prices slightly retreated in the final months, the H2 average of $1,477/oz was still up by 13% from the H1 average and was 21% higher year-on-year. For 2019 as a whole, gold prices averaged $1,392/oz, which was up by 10% year-on-year and was the highest annual average since 2013. The spike in the price was largely attributed to a pick-up in investor interest, particularly among the professional investor community, which was evidenced by positioning on COMEX and a surge in inflows into gold ETPs. Renewed interest was driven by an escalation of geopolitical tensions, increased concerns over the global economic and trade prospects as well as the gold's improved price outlook. Furthermore, gold's appeal was boosted by a shift among the world's key central banks towards a more accommodative monetary policy to support slowing growth and weak inflation.

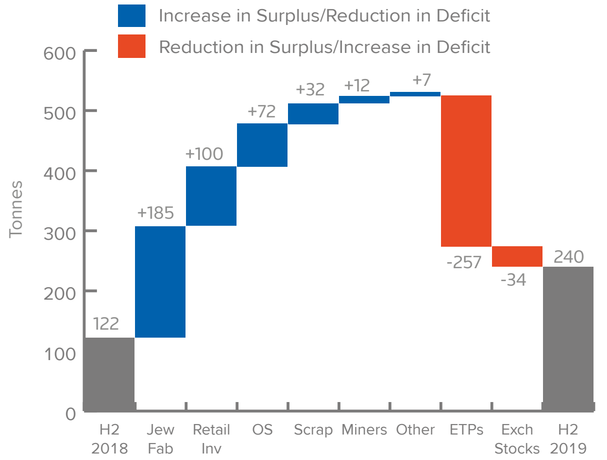
Looking at CFTC weekly reports reveals that net managed money positions jumped by 15% or 104 tonnes over the second half of 2019. While in the final months of the year the net long came off a record high level (since the change in the reporting methodology back in 2007) witnessed in late September, it remained elevated, standing at 819 tonnes by year-end, which represented an increase of 362% or 641 tonnes from the end-2018 level. Meanwhile, ETP investors added 387 tonnes of gold during 2019, with global holdings reaching a new historical high of over 2,700 tonnes by year-end. To put this in context, this represented a 17% increase from the level seen at the end of 2018 and a sharp acceleration compared to annual inflows of less than 60 tonnes reported in the previous year. In fact, it was the highest level of inflows since 2016, when ETP investors added more than 500 tonnes to their gold holdings over the course of the year.

WORLD GOLD SUPPLY AND DEMAND

| (tonnes) | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | y-o-y % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Supply** | | | | | | | | | | |
| Mine Production | 850 | 768 | 815 | 865 | 885 | 831 | 838 | 884 | 868 | -2% |
| Scrap | 286 | 304 | 286 | 307 | 293 | 306 | 308 | 331 | 301 | 3% |
| Net Hedging Supply | -25 | 57 | -40 | -38 | 29 | -25 | 70 | -15 | 15 | -48% |
| **Total Supply** | **1,110** | **1,129** | **1,061** | **1,133** | **1,207** | **1,112** | **1,216** | **1,200** | **1,185** | **-2%** |
| **Demand** | | | | | | | | | | |
| Jewellery Consumption | 591 | 467 | 473 | 446 | 532 | 455 | 469 | 332 | 471 | -11% |
| Jewellery Fabrication* | 585 | 533 | 506 | 533 | 557 | 504 | 503 | 395 | 509 | -9% |
| Industrial Fabrication | 95 | 95 | 97 | 98 | 96 | 92 | 92 | 95 | 95 | -1% |
| ....of which Electronics | 69 | 70 | 72 | 72 | 71 | 67 | 68 | 70 | 70 | -1% |
| ...of which Dental & Medical | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | -4% |
| ...of which Other Industrial | 18 | 19 | 18 | 19 | 18 | 18 | 18 | 18 | 18 | -2% |
| Net Official Sector | 92 | 100 | 121 | 200 | 160 | 145 | 210 | 136 | 132 | -18% |
| Retail Investment | 309 | 269 | 250 | 269 | 318 | 273 | 244 | 188 | 297 | -7% |
| ...of which Bars | 239 | 202 | 182 | 189 | 236 | 194 | 173 | 133 | 217 | -8% |
| ...of which Coins | 70 | 68 | 68 | 81 | 82 | 79 | 71 | 55 | 80 | -3% |
| **Physical Demand** | **1,081** | **997** | **974** | **1,100** | **1,132** | **1,014** | **1,049** | **814** | **1,033** | **-9%** |
| **Physical Surplus/Deficit** | **29** | **132** | **87** | **33** | **75** | **98** | **167** | **386** | **151** | **101%** |
| ETP Inventory Build | 8 | 31 | 19 | -100 | 110 | 32 | 92 | 231 | 35 | -68% |
| Exchange Inventory Build | 15 | -4 | -14 | -8 | 4 | -11 | -13 | 14 | 17 | 309% |
| **Net Balance** | **7** | **105** | **82** | **141** | **-39** | **78** | **87** | **140** | **99** | **N/A** |
| **Gold Price (London PM, US$/oz)** | **1,275.4** | **1,329.3** | **1,306.0** | **1,213.2** | **1,226.3** | **1,303.8** | **1,309.4** | **1,472.5** | **1,479.9** | **21%** |

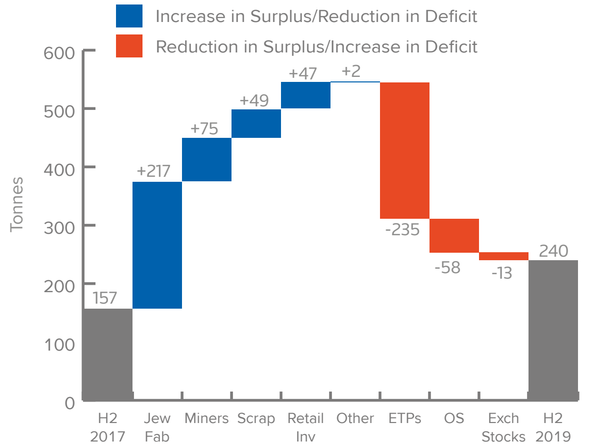
Source: GFMS, Refinitiv *Jewellery Fabrication is used in the collation of the Physical Surplus / Deficit and Net Balance
Totals may not add due to independent rounding. Net producer hedging is the change in the physical market impact of mining companies' gold loans, forwards and options positions.

H2 2019 BALANCE COMPARED TO H2 2018




Source: GFMS, Refinitiv

H2 2019 BALANCE COMPARED TO H2 2017




Source: GFMS, Refinitiv

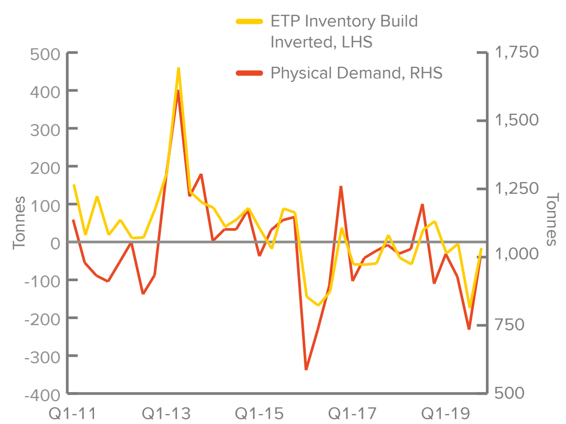
Now turning to gold fundamentals, **retail investment** plunged by 17% in the second half of 2019, with a year-on-year drop recorded in both bar investment and coin demand. **Physical bar investment** is estimated to have declined by 18%, largely on the back of sharply lower demand in Asia, where offtake came down by 28%. Bar demand in India plummeted by 53%, hit by a rise in import duty and elevated gold prices in local terms. Higher price levels along with a challenging economic backdrop put a drag on demand in many other Asian markets. China, on the other hand, saw bar investment rise by 2% during the second half, driven by a pullback in the domestic equity market and rising trade tensions with the United States. **Coin demand** fell by an estimated 17% to 135 tonnes in the latter part of 2019, driven by a 13% year-on-year drop in official coin fabrication and a 30% decline in demand for medals & imitation coins.

Another marked decline was recorded by the **jewellery** sector, with fabrication demand falling by 17% in the second half of the year. Jewellery demand in China, which accounted for more than a third of the global offtake, came down by 10%, hindered by the slowing economy and higher gold prices. The same factors, along with the rise in the import duty, put a drag on jewellery demand in India, which saw offtake drop by 36% during the six-month period. Demand for gold used in **industrial applications** eased by 3% due to ongoing weakness in all the major segments. Meanwhile, central bank activity slowed in the second half of the year, with **net purchases** declining by 26% to 268 tonnes, as a strong rally in the gold price weighed on the level of buying from some of the traditional gold acquirers. Turning to supply, **mine production** in the second half remained broadly flat, at an estimated 1,752 tonnes. Higher gold prices in various currencies benefitted **scrap supply** across all the major regions, lifting global volume by 5% in the second half, to 632 tonnes.

## OUTLOOK

**The overall macroeconomic backdrop is set to remain supportive for gold, with the numerous political and economic uncertainties likely to lead to stock market volatility and higher risk aversion. Central banks' monetary policy is likely to remain on the loose side, with a possibility of at least one interest rate cut from the U.S. Fed later in the year, particularly should the U.S. economy show renewed signs of stagnation. While demand from key Asian markets will likely to remain weak this year, ongoing central bank purchases and renewed investor interest will lend support for higher gold prices. We therefore expect gold to average $1,558/oz in 2020, with a possibility to test and move beyond $1,700/oz later in the year.**

QUARTERLY PHYSICAL DEMAND & ETP BUILD INVERTED




Source: GFMS, Refinitiv

# CHINA

- **After falling 7.6% in the first half of 2019, gold demand from the jewellery sector deteriorated further in the second half, declining 9.7% year-on-year. As a result, total demand amounted to 629 tonnes for the full year, an 8.6% decline.**

- **On the other hand, investment demand remained relatively stable, with retail investment demand increasing by slightly more than 1% in 2019, to 235 tonnes. The uncertainties of the trade negotiations between China and the United States prompted increased investments into gold.**



While hampered by the uncertainties surrounding the economic outlook, Chinese consumers have been reluctant to spend, dragging jewellery consumption lower. The jewellery market has become somewhat saturated, as carat gold (K gold), the segment that has been growing by double digits annually over the last 5-6 years, has finally slowed down, particularly in the second half of 2019.

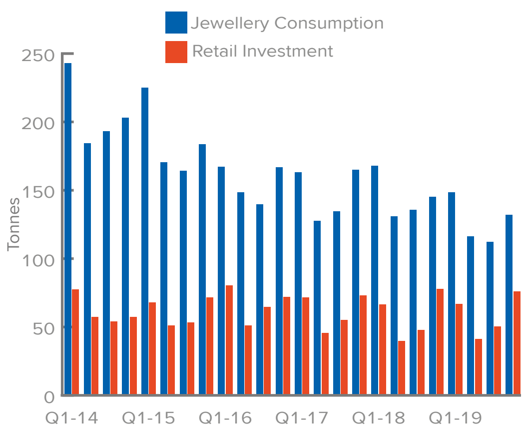
In order to stimulate consumer interest, the supply chain has been developing all sorts of new products and gimmicks. The latest one to hit the market is 5D gold. This new product range offers jewellery that is as large as a normal 24k piece, but because it is hollow inside and extremely thin walled the use of fine gold is typically 50%-75% less. As the industry continues to shift in a higher margin, lower gold purity/content per piece direction, it is not surprising that gold demand from the jewellery industry, which makes up over 65% of the country's annual gold consumption, continues to decline.

Retail investment demand recorded slightly more than a one percent annual increase in 2019, but the process was not smooth. Initially, the Chinese increased their allocation into gold on rising uncertainty as the relationship between China and the United States began to sour in 2018. However, gold was later abandoned as investors favoured equities, which resulted in lacklustre demand for gold bars in the following months. Only when domestic stocks crashed again in May, and the U.S. Federal Reserve later began to cut interest rates in the second half of the year, did Chinese investors return to the bullish camp on gold.

On the industrial side, while the Chinese government has provided tax cuts, liquidity and other benefits to support businesses, the manufacturing sector continued to sacrifice margin to retain orders, and thus it did not have too big a negative impact on the use of gold. We estimate that the country's industrial gold use fell 2.3% to 76 tonnes last year. Given China continues to focus on technology development, including 5G telecommunications and artificial intelligence, which will require more gold due to its reliability, we remain optimistic that gold demand in this sector will continue to be well supported in the coming years.

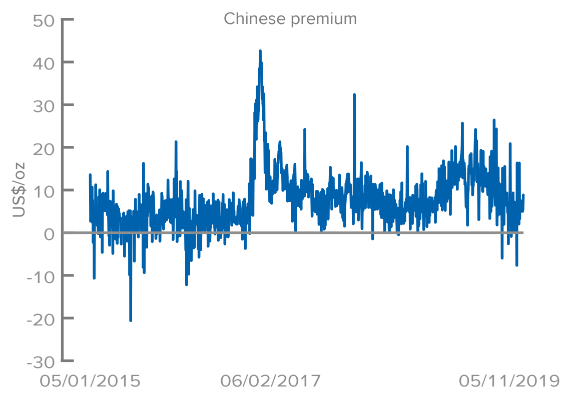
Overall, the country's total gold demand (not including central bank purchases) fell 5.9% to 939 tonnes in 2019, down 59 tonnes from 2018.

CHINA JEWELLERY CONSUMPTION & RETAIL INVESTMENT




Source: GFMS, Refinitiv

SGE GOLD PREMIA AGAINST LBMA GOLD PRICE




Source: GFMS, Refinitiv

However, one might be surprised at just how much China's gold imports fell in 2019. Based on customs data provided by Hong Kong, Switzerland, United Kingdom, Australia and Singapore, they exported an aggregate of 682 tonnes of gold into mainland China in the first 11 months of 2019, a 44% decline, or 541 tonnes less than the combined volume shipped in the first 11 months in 2018. To put this into context, global gold ETPs added approximately 400 tonnes of gold in 2019. We believe the large falloff in gold import volumes was due to the elevated tension with the United States, and that the Chinese central bank (PBOC) advised all industries to import less non-critical items, to reduce the outflow of the yuan currency. While on one hand the PBOC has been discouraging commercial banks to import gold, on the other hand, China has been adding to its gold reserves at the same time.

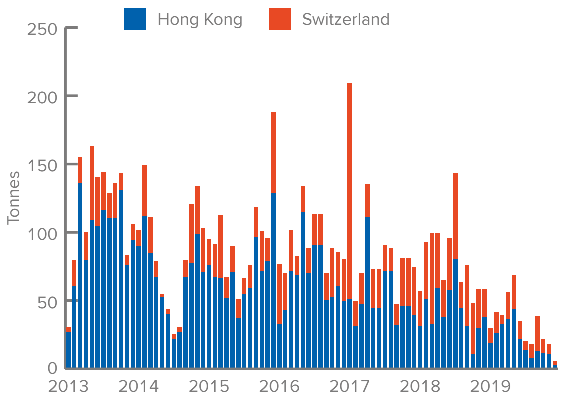
Breaking down the importing sources, Hong Kong is the more notable one, as its market share continues to fall. After averaging a 39% market share in the first 11 months in 2018, its market share fell to only 30% in the corresponding period in 2019, with its market share breaking below 10% (its first time in history) in November, when only 3.1 tonnes of gold were exported to the mainland. In the first 11 months, Hong Kong exported 223 tonnes gold to the mainland, a 53% decline yoy.

Perhaps an even more surprising observation is that metal sourced from Switzerland has fallen at an even faster rate than Hong Kong. The European country shipped just 139 tonnes gold to the Chinese mainland in the first 11 months, a 67% yoy drop. Australia has also failed to take advantage of the sharp decline in lost market share by Hong Kong and Switzerland, as their shipments have also fallen to negligible levels since August last year.

Only the United Kingdom and Singapore took advantage by increasing their market share, with their shipments to the mainland expanding by 19% and 55%, to 170 tonnes and 99 tonnes respectively.

The average Chinese gold premia was $10.32/oz in 2019, compared to $6.22/oz in 2018. However, this headline can be somewhat misleading if one did not put this into context. The Chinese premia stayed strong in the first half of 2019, averaging $12.71/oz. However, the premia slowly dipped month after month in the second half, and since October, the Chinese gold price has been trading at a discount on some days. The Chinese gold price had not traded at a discount to the LBMA benchmark since July 2018. As a result, the average premia in the second half was $8.11/ oz, which is still higher than the average in 2018. However, we also need to consider that 1) The Chinese yuan had depreciated against the dollar during most of 2019 due to trade uncertainties. 2) last year the mainland imported 500 tonnes less compared to the year before. Both of these two factors should have contributed to a higher premium. While the lacklustre premium in the second half was partly due to the soft demand from the jewellery sector, domestic banks also relinquished some of their physical stocks which lessened the blow of the reduced imports, as the PBOC had been restricting and limiting market activities in the Over the Counter market.

GOLD IMPORTS FROM HONG KONG & SWITZERLAND




Source: GFMS, Refinitiv

## CHINA MARKET OUTLOOK

**We expect gold consumption in China, especially from the jewellery sector, will continue to fall, regardless of the progress made with the trade negotiations. This has more to do with the evolving product offering of lighter and often lower purity items that is reducing fine gold fabrication. From the investment side, while the Chinese remain broadly optimistic for the gold price in 2020, the consensus has become less bullish on the yellow metal this year, as many believe there will be positive progress in the trade negotiations with the United States and their focus has now switched to copper and other base metals. Less uncertainties (at least on the trade front), along with a stronger yuan, should lessen demand for safe-haven assets, and speculators might opt for opportunities in the domestic stock market over gold.**

## QUARTERLY JEWELLERY CONSUMPTION

| (tonnes) | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | YoY% |
|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | |
| United Kingdom | 12.1 | 3.0 | 2.8 | 3.5 | 11.2 | 2.9 | 2.7 | 3.3 | 10.3 | -8% |
| Russia | 9.9 | 7.9 | 7.7 | 8.0 | 9.6 | 7.5 | 7.4 | 7.4 | 9.1 | -6% |
| Italy | 9.1 | 2.4 | 3.3 | 2.2 | 8.5 | 2.3 | 3.0 | 2.0 | 8.1 | -5% |
| Turkey | 9.3 | 10.2 | 9.7 | 6.4 | 6.9 | 8.5 | 7.9 | 7.0 | 7.7 | 11% |
| Germany | 5.6 | 1.6 | 1.7 | 1.3 | 5.7 | 1.5 | 1.6 | 1.2 | 5.4 | -5% |
| France | 5.9 | 2.2 | 2.0 | 1.5 | 5.7 | 2.1 | 1.9 | 1.4 | 5.4 | -5% |
| Spain | 2.5 | 1.6 | 1.7 | 1.7 | 2.5 | 1.6 | 1.7 | 1.6 | 2.4 | -5% |
| **Europe Total** | **54.4** | **28.9** | **28.8** | **24.5** | **50.1** | **26.4** | **26.2** | **23.8** | **48.3** | **-4%** |
| | | | | | | | | | | |
| **North America** | | | | | | | | | | |
| United States | 36.9 | 21.2 | 32.4 | 39.5 | 42.0 | 22.3 | 27.3 | 37.6 | 34.8 | -17% |
| Canada | 4.7 | 3.0 | 4.2 | 3.7 | 4.7 | 3.6 | 4.1 | 3.7 | 4.9 | 5% |
| Mexico | 2.2 | 2.5 | 2.0 | 1.8 | 2.2 | 2.6 | 2.0 | 1.8 | 2.3 | 4% |
| **North American Total** | **43.8** | **26.8** | **38.6** | **45.0** | **48.9** | **28.4** | **33.4** | **43.1** | **42.0** | **-14%** |
| | | | | | | | | | | |
| **Asia** | | | | | | | | | | |
| India | 190.8 | 111.5 | 145.8 | 120.3 | 161.5 | 120.7 | 168.6 | 54.0 | 136.6 | -15% |
| China | 165.0 | 167.8 | 130.8 | 135.7 | 145.1 | 148.4 | 116.2 | 112.1 | 132.1 | -9% |
| UAE | 17.8 | 10.2 | 11.0 | 7.7 | 12.5 | 9.6 | 11.1 | 5.1 | 11.5 | -8% |
| Indonesia | 11.5 | 10.3 | 8.8 | 8.8 | 12.6 | 11.3 | 9.3 | 7.0 | 10.7 | -15% |
| South Korea | 10.1 | 10.1 | 10.3 | 9.8 | 10.0 | 9.0 | 9.6 | 8.3 | 8.8 | -12% |
| Iran | 11.2 | 9.9 | 8.6 | 7.5 | 7.6 | 8.9 | 7.6 | 8.1 | 8.2 | 8% |
| Saudi Arabia | 8.9 | 7.6 | 9.8 | 9.4 | 8.6 | 8.1 | 9.3 | 8.7 | 7.9 | -9% |
| Hong Kong | 10.2 | 11.4 | 11.6 | 11.2 | 9.8 | 11.3 | 10.5 | 7.3 | 6.0 | -38% |
| Vietnam | 3.8 | 6.1 | 5.5 | 4.5 | 4.6 | 6.5 | 5.6 | 4.0 | 4.2 | -9% |
| Kuwait | 5.6 | 7.1 | 5.9 | 5.3 | 5.3 | 6.8 | 5.5 | 4.4 | 4.7 | -10% |
| Japan | 4.8 | 4.7 | 4.2 | 5.1 | 4.5 | 4.8 | 4.3 | 4.9 | 4.7 | 6% |
| Bangladesh | 4.2 | 5.4 | 5.9 | 5.3 | 3.9 | 5.5 | 6.1 | 2.5 | 3.1 | -21% |
| Pakistan | 4.2 | 3.7 | 3.5 | 2.9 | 3.4 | 3.3 | 3.3 | 1.0 | 3.0 | -12% |
| Thailand | 3.3 | 4.8 | 4.1 | 3.6 | 3.1 | 4.7 | 3.8 | 3.0 | 2.6 | -16% |
| Singapore | 2.5 | 2.2 | 2.9 | 2.6 | 3.0 | 2.0 | 2.5 | 2.2 | 2.6 | -12% |
| Bahrain | 2.3 | 2.5 | 2.4 | 2.7 | 2.7 | 2.6 | 2.3 | 2.1 | 2.3 | -13% |
| Malaysia | 2.7 | 1.6 | 1.5 | 2.7 | 2.8 | 1.5 | 1.3 | 2.2 | 2.3 | -19% |
| Lebanon | 2.8 | 2.4 | 2.5 | 2.5 | 2.3 | 2.3 | 2.3 | 2.3 | 2.0 | -13% |
| Other Asia | 18.9 | 17.6 | 16.9 | 17.0 | 18.0 | 17.4 | 16.0 | 14.0 | 15.6 | -13% |
| **Asia total** | **480.6** | **396.6** | **391.7** | **364.4** | **421.0** | **384.5** | **394.9** | **253.1** | **368.8** | **-12%** |
| | | | | | | | | | | |
| **Africa Total** | **5.6** | **7.1** | **6.0** | **6.2** | **6.0** | **7.7** | **6.5** | **5.7** | **5.5** | **-8%** |
| | | | | | | | | | | |
| **South America** | | | | | | | | | | |
| Brazil | 3.7 | 4.5 | 5.0 | 3.5 | 3.5 | 4.6 | 5.1 | 3.6 | 3.6 | 3% |
| Other South America | 2.9 | 2.9 | 3.0 | 2.9 | 2.9 | 3.0 | 3.0 | 2.9 | 2.9 | 1% |
| **South America Total** | **6.6** | **7.4** | **7.9** | **6.4** | **6.4** | **7.5** | **8.1** | **6.5** | **6.5** | **2%** |
| | | | | | | | | | | |
| **World Total** | **590.9** | **466.7** | **473.0** | **446.4** | **532.3** | **454.6** | **469.1** | **332.2** | **471.1** | **-11%** |

Source: GFMS, Refinitiv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# INDIA

- **Indian retail gold demand in H2 2019 declined by 35%, with Q3 posting a 59% YoY fall.**

- **Jewellery consumption fell by 32% to 191 tonnes in the second half, while investment demand decreased by 45% on an annual basis. The higher gold price, together with seasonal lower demand (in Q3), resulted in the cumulative hefty fall.**

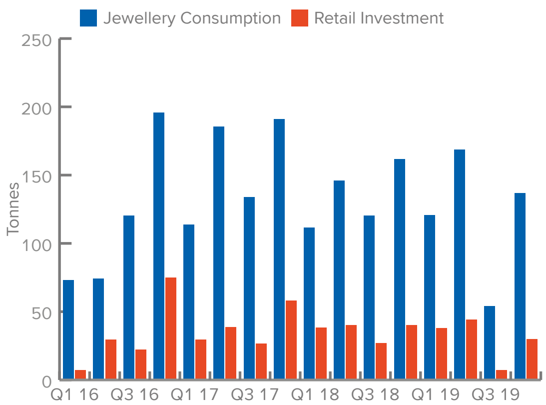
- **India imported only 219 tonnes of gold in H2, a decrease of 44% from the same period the previous year.**

After a fabulous first half, Indian retail gold demand in H2 decreased by 35%, due largely to a rising price and seasonal low demand. Of this, jewellery consumption attracted 191 tonnes, while investment demand dipped to 37 tonnes. The greatest impact was observed in Q3 with demand falling acutely. Domestic consumption in Q3 nosedived on two accounts – a rise in import duty, combined with a rise in the gold price in local currency terms. Though gold did not hit a new high in the global market, the depreciation of the rupee against the U.S. dollar pushed the domestic gold price to a new high in Q3. High volatility also created confusion in the minds of the consumers. In India, gold is mostly bought for marriages and social occasions. As Q3 traditionally is not a marriage or festival season, demand normally remains low, compared to the other three quarters. However, what we observed this time was unprecedented. The official supply for domestic consumption dropped to only 21 tonnes in Q3, a fall of 86% compared to the same period in 2018.

Demand remained extremely low even in the first month of Q4; it only returned in November on seasonal festival demand. The volatility in price also settled during this time, with the price stabilising around the Rs.36,000/10gm level. In fact, demand was extremely good until the first half of December when the price again soared due to the U.S. - Iran conflict, with demand falling sharply thereafter. We estimate retail demand (jewellery + investment) decreased by 17% to 167 tonnes compared to 201 tonnes a year ago. However, the official market suffered a 25% drop in demand. This was due to the availability of gold from unofficial sources. Anecdotal evidence shows that gold was available at a 2.5% discount in the unofficial market. In rural and semi-urban areas, jewellery manufactured out of unofficial gold saw good demand.

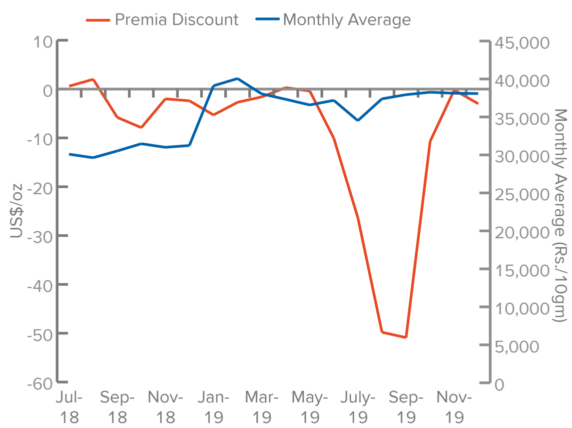
Jewellery fabrication decreased by 36% in H2, compared to the same period the previous year, to an estimated 217 tonnes. When retail demand eased due to the high price and volatility, fabrication was bound to suffer. During our regular field research, we observed that small to medium manufacturers in semi-urban areas were surviving by only making jewellery out of scrap. Aggregators used to bring old jewellery to these manufacturers to be processed and as a result of the slowdown, many 'Karigars' (artisans) lost their jobs.

INDIAN JEWELLERY CONSUMPTION & RETAIL INVESTMENT




Source: GFMS, Refinitiv

INDIAN GOLD PRICE




Source: GFMS, Refinitiv; IBJA

**Introduction of mandatory hallmarking**

Jewellers also remained cautious on the issue of mandatory hallmarking. The government earlier declared that they would issue notification of mandatory hallmarking on January 15th 2020. As per the schedule, the Bureau of Indian Standard (BIS) notified that no jewellery will be permitted to be manufactured or sold without hallmarking from January 15th, 2021. The BIS ruling also confirms that only 14, 18 and 22 carat jewellery can be hallmarked. This means jewellers must clear all non-hallmarked jewellery stocks by January 15th next year. This is another reason that jewellers decided to replenish only required stocks as per the existing market demand.

With BIS registration now becoming mandatory, the country might get a more accurate numbers of jewellers currently operating in the market. In our conservative estimate, we believe there could be around 120,000 to 150,000 jewellers in the country. Whatever the number, it is very astonishing that only 25,000 odd jewellers have taken up BIS registration. While hallmarking has been in existence since 2000, although voluntary, jewellers have not shown the adequate interest to embrace the BIS registration, which implies that they are not interested in adapting best compliance and happy to dupe consumers for better profitability. There are exceptions of course who did not take the BIS registration, but still satisfies the highest degree of corporate governance and purity assurance. However, this kind of ethical practice is surely not visible everywhere.

India imported 219 tonnes of gold in H2, a fall of 44% from the same period in 2018. Of this, net imports for domestic consumption stood at 105 tonnes, compared to 274 tonnes a year ago. Scrap supply remained robust in proportion to demand. We estimate that 25% of jewellery demand was met through the exchange of old jewellery. In Q3, the discount in the local price (the prevailing spot price - the landed cost based on the international price) had risen to as high as $55/ounce. Refiners processed less than nine tonnes of gold from doré during the entire Q3, which otherwise was the largest supplier of gold in the domestic market. Typically, refiners supply on average 24 tonnes of gold in a month. Banks, on the other hand, only imported the required gold to meet gold metal loan (GML) demand in Q3. In Q4, they sold a little bit of gold on an outright basis when parity returned to the market.

## INDIA MARKET OUTLOOK

**We maintained a cautious estimate in our H1 review on a persistent high price and monsoon progress. However, demand fell far more than our initial estimate. The average H2 jewellery and investment demand over the previous five years was 330 tonnes and 89 tonnes respectively. We believe H1 in 2020 will be equally challenging, and that demand will remain at a moderately stable or slightly lower level than the average we have witnessed in the last five years.**

INDIAN GOLD IMPORT ESTIMATES BY SOURCE PRODUCT

| Imports (tonnes) | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 |
|---|---|---|---|---|---|---|
| **Banks** | | | | | | |
| Duty paid | 50.9 | 42.9 | 32.0 | 91.0 | 11.3 | 20.7 |
| Duty free | 11.5 | 9.0 | 10.2 | 9.9 | 5.3 | 7.2 |
| **Nominated agencies** | | | | | | |
| Duty paid | 18.5 | 11.2 | 2.5 | 19.1 | 1.2 | 3.5 |
| Duty free | 1.3 | 2.4 | 3.1 | 0.9 | 0.4 | 2.8 |
| **Fine gold from doré** | 83.0 | 67.5 | 58.9 | 75.1 | 8.6 | 59.3 |
| **Direct import by exporters** | 52.3 | 42.0 | 62.8 | 62.3 | 55.0 | 43.3 |
| **Total** | **217.5** | **175.4** | **169.5** | **258.3** | **81.8** | **136.8** |
| **Net imports** | **152.4** | **121.6** | **93.4** | **185.2** | **21.1** | **83.5** |
| **Unofficial Imports** | 35 | 38 | 15 | 20 | 37 | 40 |
| **Average price (Rs./10grammes)*** | **30,101** | **31,222** | **32,614** | **32,280** | **36,479** | **38,125** |

Source: GFMS, Refinitiv; IBJA*; MCX **; Various Sources

## BULLION COIN SALES

International bullion gold coin demand increased by 4% year-on-year in Q4 2019 which resulted in 128.4 tonnes of total sales for the year. This was only a marginal 0.1% increase from the previous year but the highest annual level since 2016. In value terms the picture looks even better, with the dollar value of total sales for the year increasing by 20% year-on-year.

Such a steady performance, despite the impressive rally in the gold price last year, was mainly due to the 24% year-on-year growth in accumulative sales for the year in the African region. Demand in **Africa** took the lead in 2018 when its market share represented 46% of the global market. It continued to expand, dominating among all regions in each quarter of 2019 and resulting in total annual sales reaching 72.7 tonnes, which was the highest level in the region on record and represented 57% of the global demand for gold bullion coins for the year. This was in spite the fact that the average annual gold price in rand terms appreciated by 20% in 2019. As we have previously reported, a diverse and improved range of the Krugerrand gold coin and an introduction of the Big Five series, coupled with the positive gold price outlook, played a role in enticing consumers in **Africa**.

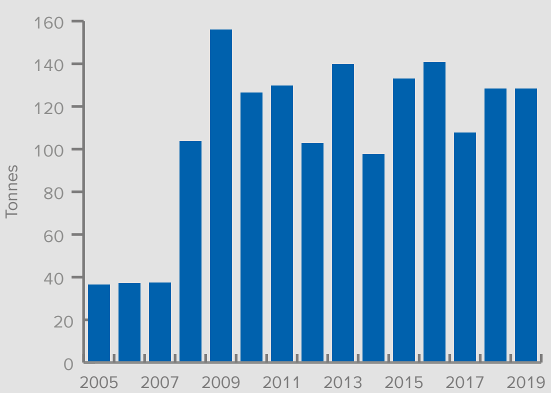
**Europe** was the second largest market for gold coins in 2019. As political tensions and an economic slowdown continued to intensify last year, investors turned to safe-haven assets, prompting demand in the region to jump by 19% year-on-year in the final quarter. Overall for the year, coin sales totalled 34 tonnes, which represented more than a fourth of global demand in 2019. However, accumulative European sales volumes for the year failed to repeat an impressive level recorded in 2018, reporting a 16% decrease. As the annual average gold price in euro terms appreciated by 16% year-on-year in 2019 (versus a 4% depreciation in 2018), some investors hesitated to enter the market waiting for a more accommodative price level.

In **North America**, sales in the last quarter of 2019 dropped by 29% year-on-year. Total volumes for the year reached 18 tonnes, a 30% year-on-year decline, which marked the third consecutive year of softening demand in the region. This trend is reflective of a robust economy with a strong U.S. dollar (rising by 2% over the course of 2019) and easing trade tensions with China, where speculators turned to gold less than other investment assets, such as equity stocks (S&P 500 Index surged by 28% on an intra-year basis in 2019).

Elsewhere, a decline was reported in **Japan**, where annual sales in gold coins fell for the third year in a row in 2019. Despite a 36% year-on-year increase in Q4 of last year, the weak performance throughout the rest of 2019 resulted in annual sales barely reaching half a tonne, a significant 32% drop compared to the year prior. Meanwhile, our "other **Asia**" and "other" categories saw year-on-year upticks of 9% and 68% respectively in annual bullion coins demand for 2019.

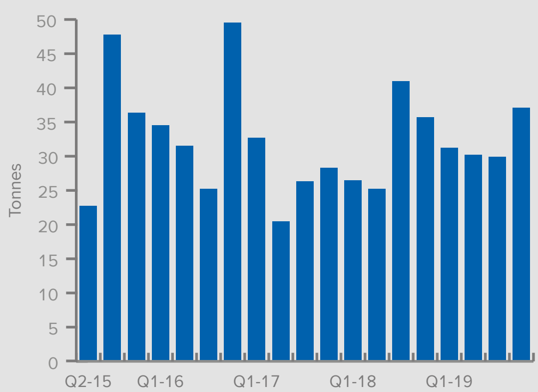
Entering a new decade in 2020, weak macroeconomic sentiment driven by low rates and a slowdown in global growth, protectionist trade policies and tensions around Iran, will continue to drive safe-haven demand, supporting precious metals bullion coin sales.

### ANNUAL BULLION COIN SALES




Source: GFMS, Refinitiv

### QUARTERLY BULLION COIN SALES




Source: GFMS, Refinitiv

# UNITED STATES

- **Jewellery consumption slowed in 2019 on the back of robust sales in previous years and higher gold prices. Scrap returns rose, but not only for jewellery. Bullion dealers recorded strong buy-back activity in H1 which changed materially in H2, benefitting business for bars. Coin sales contracted another whopping 46% last year.**

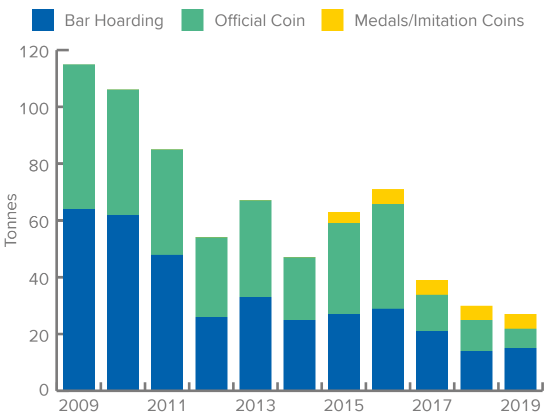
- **Sales at the U.S. Mint were the second weakest since our series started in 1999 with only numismatic gold coin sales witnessing another considerable increase last year. Product premiums fell to an abysmal low level during the summer months but recovered towards the end of the year.**

Following a year of considerable growth in 2018, jewellery industry sales in the United States slowed in 2019. Sales were particularly weak in the first half, with various months of contraction underperforming the general retail segment, however the second half of the year made up for that. Personal consumption expenditure was $77 bn in 2019, 2% higher compared to the previous year. At $5.5 bn, the gold metal content by value represented 7% of the total, which was 1% lower than the previous year. Gold jewellery fabrication reached 74 tonnes in 2019, also 1% lower compared to 2018. However, that only tells part of the story as the United States imports a large volume of jewellery as well, representing another 60 tonnes of gold last year, which was 9% lower compared to 2018. With a 10% increase in exports, jewellery consumption at the wholesale level fell 6% to 121 tonnes in 2019. The slowdown in sales, particularly in the second half, had a lot to do with the rising gold price and a softening sentiment following strong years of growth.

Gold investment recorded another meagre year in 2019, contracting for the third consecutive year. Sales came in at only 26 tonnes, which is well below the record 114 tonnes recorded a decade earlier. Although physical bar sales held up relatively well in the second half of the year, official bullion gold coin sales contracted another 42% last year. Medals and all other numismatic related coins, however, fared much better, rising 9% to approximately 5 tonnes and now make up an impressive 20% of total gold investment demand. Activity on the secondary market continued to be robust, despite product premia for new sales falling in 2019. Indeed, American Eagle 1oz premia averaged around $30/oz in 2018, or 2.5%, but fell to as low as $10/oz during the summer months, before recovering again to 2.3% by the end of last year.

With the gold price advancing on average 10% in 2019, many investors sold into a rising price trend, which hampered sales in the first half of the year. Bullion dealers indicated that some buying was taking place but that a large part of their business was on the bid. Investors had purchased at higher prices and were happy the price was finally moving which allowed them to either book a small profit or offset some of their previous losses. This metal typically does not always end up as scrap, in fact the majority of coins in particular go to storage for resale at a later date. Nevertheless, jewellery and other gold scrap returns considerably rose over the year by 10% to 62 tonnes. Fortunately, refining capacity on the gold side is not as constrained as it is for PGMs at present, which in the case of the latter is struggling with significant bottlenecks and rising lead times.

U.S. RETAIL INVESTMENT




Source: GFMS, Refinitiv

U.S. JEWELLERY CONSUMPTION


Source: GFMS, Refinitiv

## QUARTERLY RETAIL INVESTMENT

| (tonnes) | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | YoY% |
|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | |
| Germany | 34.1 | 20.9 | 23.1 | 20.9 | 35.2 | 21.2 | 20.4 | 22.2 | 39.5 | 12% |
| Switzerland | 10.9 | 11.7 | 7.6 | 7.1 | 10.5 | 11.2 | 7.0 | 7.6 | 11.8 | 12% |
| Turkey | 4.7 | 12.3 | 8.8 | 3.7 | 7.6 | 14.1 | 7.4 | 5.5 | 11.6 | 53% |
| United Kingdom | 4.5 | 4.0 | 11.0 | 17.0 | 7.5 | 6.1 | 13.8 | 11.0 | 6.8 | -9% |
| Belgium | 5.3 | 2.9 | 4.4 | 2.6 | 5.4 | 2.9 | 4.7 | 2.7 | 5.7 | 6% |
| Austria | 4.8 | 2.7 | 1.8 | 4.8 | 5.4 | 1.9 | 1.8 | 1.1 | 5.1 | -5% |
| Netherlands | 1.8 | 1.1 | 0.8 | 1.0 | 1.9 | 1.2 | 0.8 | 1.0 | 2.0 | 7% |
| Luxembourg | 1.6 | 1.4 | 1.1 | 0.7 | 1.6 | 1.4 | 1.1 | 0.7 | 1.7 | 5% |
| Spain | 1.1 | 0.9 | 0.8 | 0.9 | 1.1 | 1.0 | 0.9 | 0.9 | 1.3 | 15% |
| Czech Republic | 0.9 | 1.1 | 1.1 | 0.7 | 0.9 | 1.1 | 1.1 | 0.7 | 0.9 | 2% |
| Poland | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 | 0.9 | 1.0 | 0.8 | 0.8 | 5% |
| Other Europe | 4.1 | 3.3 | 3.1 | 2.7 | 3.4 | 2.2 | 2.0 | 1.8 | 3.7 | 8% |
| **Europe Total** | **74.6** | **63.2** | **64.6** | **63.0** | **81.3** | **65.1** | **62.1** | **56.2** | **90.9** | **12%** |
| | | | | | | | | | | |
| **North America** | | | | | | | | | | |
| United States | 10.8 | 7.1 | 6.9 | 8.5 | 7.9 | 8.3 | 5.7 | 5.3 | 7.3 | -8% |
| Canada | 4.9 | 3.6 | 3.2 | 4.9 | 5.0 | 3.9 | 2.8 | 3.3 | 5.9 | 16% |
| Mexico | 0.3 | 0.6 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | -2% |
| **North America Total** | **16.0** | **11.4** | **10.3** | **13.8** | **13.3** | **12.5** | **8.7** | **8.9** | **13.5** | **1%** |
| | | | | | | | | | | |
| **Asia** | | | | | | | | | | |
| China | 73.0 | 66.4 | 39.8 | 47.9 | 77.9 | 67.0 | 41.2 | 50.5 | 76.0 | -2% |
| India | 58.2 | 38.2 | 40.0 | 26.9 | 40.0 | 38.0 | 44.0 | 7.0 | 30.0 | -25% |
| Thailand | 23.7 | 22.5 | 18.5 | 24.5 | 17.3 | 17.5 | 15.5 | 4.7 | 15.0 | -13% |
| Vietnam | 9.2 | 11.7 | 11.3 | 14.1 | 15.3 | 12.2 | 10.5 | 9.3 | 10.2 | -33% |
| Iran | 6.0 | 9.4 | 15.4 | 17.9 | 17.4 | 14.7 | 12.9 | 11.6 | 9.8 | -44% |
| South Korea | 4.0 | 3.9 | 4.0 | 5.2 | 4.6 | 5.0 | 5.6 | 6.3 | 6.0 | 30% |
| Indonesia | 4.8 | 4.8 | 5.5 | 6.8 | 6.1 | 6.1 | 5.5 | 2.3 | 3.2 | -48% |
| UAE | 3.8 | 1.3 | 2.1 | 1.9 | 3.7 | 1.3 | 2.1 | 1.4 | 3.2 | -14% |
| Japan | 1.0 | 1.1 | 2.0 | 5.9 | -0.3 | -4.3 | -2.1 | -6.7 | -3.0 | -900% |
| Singapore | 2.1 | 2.5 | 2.5 | 2.3 | 2.2 | 2.1 | 1.9 | 1.6 | 2.0 | -7% |
| Saudi Arabia | 2.3 | 2.3 | 2.2 | 2.3 | 2.0 | 2.1 | 1.9 | 1.8 | 1.9 | -5% |
| Pakistan | 2.3 | 2.2 | 1.9 | 2.1 | 2.3 | 2.0 | 1.8 | 1.0 | 1.9 | -17% |
| Kuwait | 1.5 | 1.7 | 1.5 | 1.8 | 1.5 | 1.5 | 1.2 | 1.0 | 1.5 | 0% |
| Malaysia | 1.5 | 1.2 | 1.5 | 1.9 | 1.5 | 1.3 | 1.2 | 1.1 | 1.2 | -20% |
| Taiwan | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | -1.2 | 0.8 | -51% |
| Cambodia | 0.6 | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.4 | -33% |
| Lebanon | 0.4 | 0.5 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.3 | 0.4 | -22% |
| Hong Kong | 0.5 | 0.5 | 0.5 | 0.4 | 0.6 | 0.5 | 0.4 | 0.2 | 0.3 | -55% |
| Other Asia | 2.3 | 2.2 | 2.1 | 2.2 | 2.1 | 2.2 | 2.2 | 1.5 | 1.9 | -12% |
| **Asia Total** | **198.6** | **174.5** | **153.2** | **166.6** | **196.7** | **171.7** | **148.1** | **94.1** | **162.6** | **-17%** |
| | | | | | | | | | | |
| **Oceania Total** | **5.9** | **5.3** | **4.0** | **6.5** | **6.5** | **4.5** | **4.2** | **5.8** | **8.0** | **23%** |
| | | | | | | | | | | |
| **Africa** | | | | | | | | | | |
| South Africa | 12.9 | 13.9 | 16.4 | 18.3 | 19.3 | 18.0 | 19.8 | 22.2 | 21.2 | 10% |
| Egypt | 0.7 | 0.6 | 0.6 | 0.7 | 0.9 | 0.9 | 0.7 | 0.6 | 0.7 | -25% |
| **Africa Total** | **13.6** | **14.5** | **17.0** | **19.1** | **20.2** | **18.8** | **20.6** | **22.8** | **21.8** | **8%** |
| | | | | | | | | | | |
| **South America Total** | **0.6** | **0.5** | **0.5** | **0.4** | **0.4** | **0.4** | **0.5** | **0.4** | **0.3** | **-3%** |
| | | | | | | | | | | |
| **World Total** | **309.3** | **269.4** | **249.6** | **269.3** | **318.3** | **272.9** | **244.1** | **188.2** | **297.1** | **-7%** |

Source: GFMS, Refinitiv

# MINE SUPPLY

- **Global mine production rose by less than 1% year-on-year, during the second half of 2019. The largest increase was realised in Canada and Ghana, while Indonesia posted the largest decrease, as Grasberg continues its transition to underground operation, considerably lowering its ore throughput. Preliminary reports indicate most companies managed to achieve their production guidance for the year, while stronger than expected results at some of the largest new operations result in 2019 reaching record production of 3,421 tonnes, surpassing last year's output by 89 tonnes.**

- **Average Total Cash Costs rose by 5% in H2 2019 to $743/oz on a year-on-year basis, while average All-In Sustaining Costs (AISC) rose 6% to $977/oz.**

- **The global producer hedge book rose by 46 tonnes on a delta-adjusted basis, year-on-year, as companies were trying to lock-in on record-high gold prices in local currencies in Australia, Canada and Russia. Overall, 36 companies increased the size of their hedge book, while 17 took a net de-hedging position.**

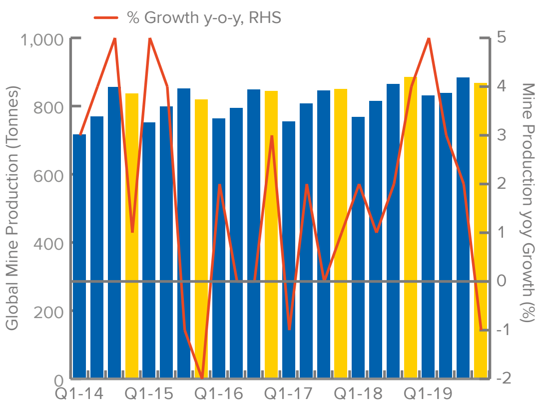
## MINE PRODUCTION

Global mine production rose by only 2 tonnes during the second half of 2019, compared to the same period last year. While gains were posted in Canada, Ghana and Australia, Indonesia posted a major decrease in its gold output, as the final phase of the Grasberg open pit mine was exhausted, while transitioning to the Grasberg Block Cave mine. Considering the year as a whole, gold output worldwide was 3,421 tonnes, representing an increase of 3% from 2018.

According to our estimates, more than 12 tonnes of additional gold was sourced from new operations, including GoldField's Gruyere mine, in Ghana; South African Obuasi mine, operated by AngloGold Ashanti, Equinox Gold's Aurizona mine, in Brazil, and the Amaruq satellite deposit, owned by Agnico Eagle, all of which achieved commercial production during the second half of 2019. The ramp-up of the Nevada Gold Mines complex, and the Meliadine mine, also contributed to the growth during this period. Partially offsetting this results, Kinross' Bald Mountain and Round Mountain mines posted lower output, mainly due to lower grades and lower throughput. Larger Chinese companies, as China Gold International and Jiangxi Copper increased their gold production compared to the same period last year, but we estimate artisan and small mining, which represents a relevant share of Chinese gold output, is still contracting due to the stricter environmental restrictions imposed by the government.

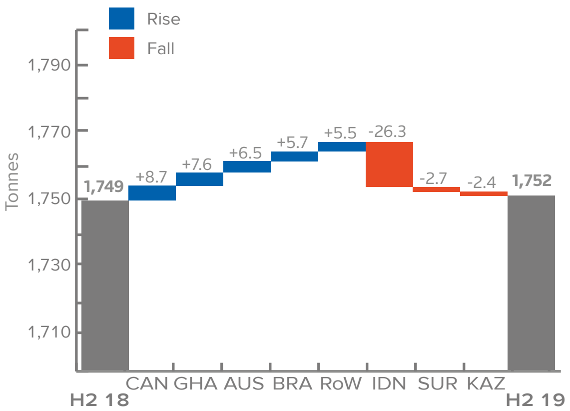
Several companies took advantage of the improved sentiment towards gold, announcing significant capital expenditure increases, both in exploration assets and on the enhancement of current operations. It's important to note that the intensive M&A activity throughout the year broke 2010's record on aggregated deal size, surpassing USD $30 billion.

GLOBAL GOLD PRODUCTION




Source: GFMS, Refinitiv

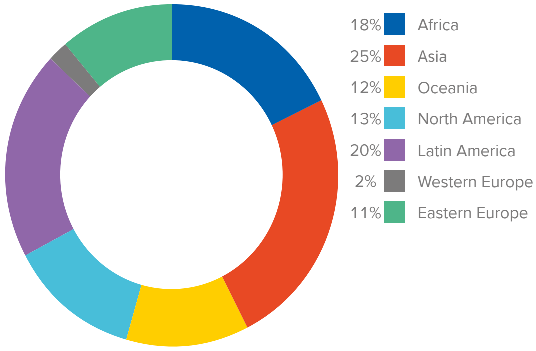
YEAR-ON-YEAR PRODUCTION VARIANCE




Source: GFMS, Refinitiv

At a regional level, Africa posted 5%, or 15 tonnes increase in gold output, compared to the second half of 2018. While half of this surge was realised in Ghana, Zimbabwe, Ivory Coast and Mali also reported strong results. South Africa, on the other hand, posted a minor decrease in its production. Even though higher efficiencies in some of the most mature mines, and the streaming from new projects resulted in a sluggish recovery on the country's gold production during the first nine months of 2019, intensified electrical supply disruptions during the last quarter of the year wiped out these positive results. Further loses were realised in the Democratic Republic of Congo and Tanzania, mainly due to lower grades.

H2 2019 PRODUCTION BY REGION

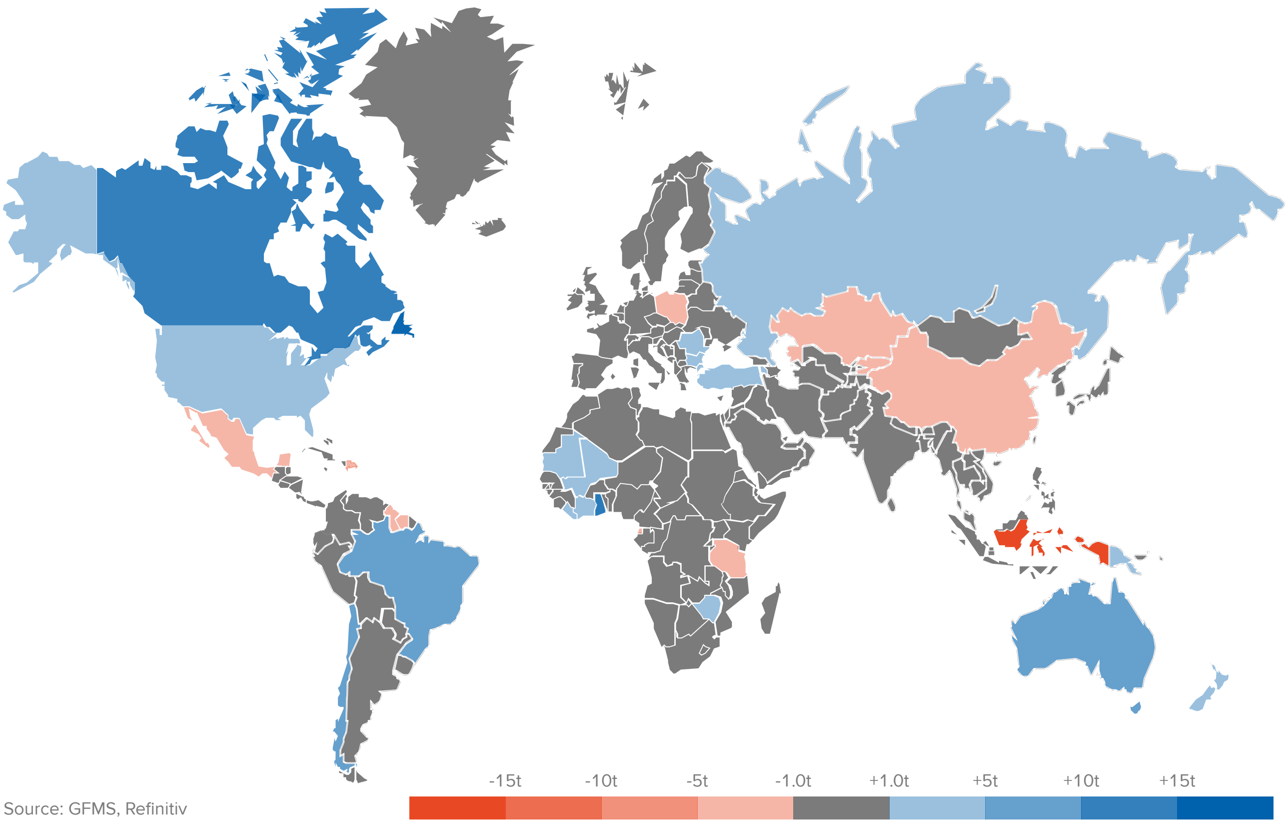



Source: GFMS, Refinitiv

Elsewhere, Europe and Latin America realised minor gains in their production, while North America posted gains of 12 tonnes compared to H2 2018. Partially offsetting these increases, Asia posted a 7% decrease in its gold output, compared to the same period last year. While Indonesia accounted for more than three quarters of this contraction, China, Kazakhstan and Kyrgyzstan realised a combined 6 tonnes decrease during this period. Total production for the Asian continent was 430 tonnes during the second half of 2019.

Turning to mining costs, our preliminary findings indicate Total Cash Costs (TCC) rose by approximately 5% to $743/oz, while All-In Sustaining Costs (AISC) grew by 6% to $977/oz, compared to the second half of 2018. Russia remains the lowest-cost producing country, while currency depreciation played an important role in lowering costs in Latin America. On the other hand, costs increased in Australia, where rising capital expenditures and higher stripping ratio at some major operations offset the positive effect of historical-high gold prices (in Australian dollars), had on costs. Canada and the Unites States also posted an increase in their costs structure, mainly due to increasing capital expenditure.

MINE PRODUCTION WINNERS AND LOSERS, H2 2019 VERSUS H2 2018

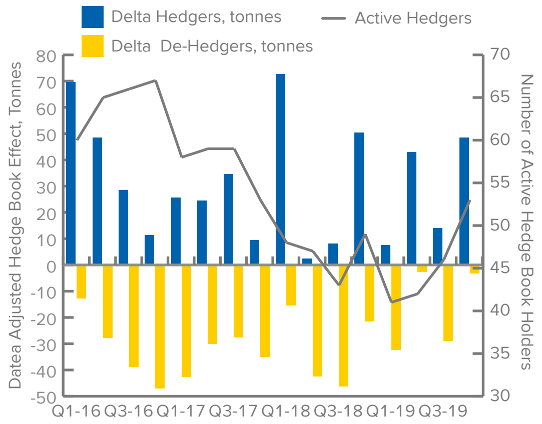



Source: GFMS, Refinitiv

## PRODUCER HEDGING

The global producer hedge book on a delta-adjusted basis remained stagnant during the second half of 2019, compared to the first half, totalling 265 tonnes, but represents a 21% increase compared to H2 2018. Hedging activity ramped up in the second half, where the preference remained inclined towards forward contracts over options. The net impact, however was relatively muted as 74 tonnes matured and 50 tonnes were delivered during the July to December period alone, as most companies renewed their positions, comprising an increasing percentage of their future production up to 2021.

ACTIVE HEDGE BOOK HOLDERS



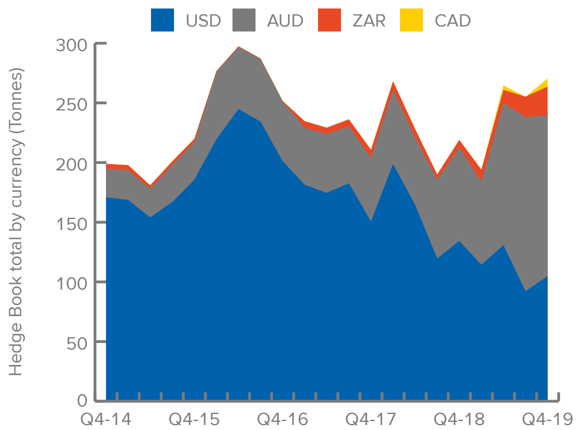

Source: GFMS, Refinitiv

The number of active companies also increased considerably, rising from 42 to 53, 36 of which increased their hedge position. While PJSC Polyus remains the main de-hedger, some companies such as Regis Resources took the decision to aim for full market exposure, planning to deliver into their hedges at an increasing rate each quarter.

By mid-December 2019, hedging activity posted a substantial increase, as several companies made announcements to maintain or even increase their positions. Harmony Gold's hedge book, the second largest after GoldFields' (20 tonnes), stood at an estimated 18 tonnes, while Fresnillo expanded its hedge book up to 12 tonnes. Australian-based companies are continuing to increase their share in the global hedge book, which, based on our analysis, now represents half of the contracts worldwide. Among the main net-hedgers in the country, Westgold Resources increased its hedge book to over 6 tonnes, while Resolute continues to be an active net-hedger, with announcements of fresh positions in September and December 2019, and then once again on January 2020. At the end of December 2019, their book stood at 5 tonnes. Saracen Mineral Holdings was a special case this year, as it added 6 tonnes to its hedge book, which allowed the company to acquire over USD $400 million in debt, to partially fund the acquisition of 50% the stake in the Kalgoorlie Super Pit. The company now holds hedges surpassing 16 tonnes, with deliveries out to 2022.

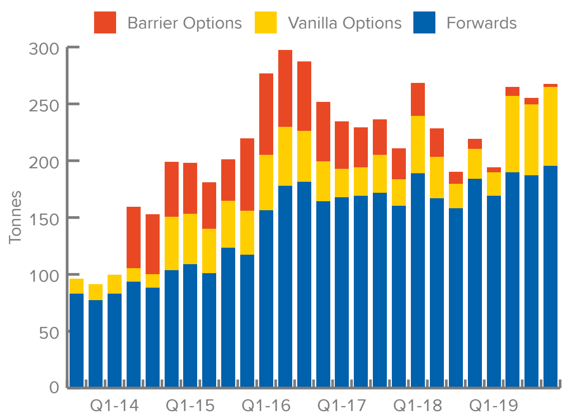
Currency depreciation and record gold prices in Australian dollars, Canadian dollars and Russian rouble acted as fuel for hedging activity during 2019, which focused mainly in forward contracts, which now account for 74% of the global hedge book (versus 72% in H1 2019). One important note is that the average length of contracts decreased considerably, usually less than 18 months, probably indicating gold miners are expecting gold price volatility to be a constant in the near future.

DELTA HEDGE-BOOK BY CURRENCY




Source: GFMS, Refinitiv

EVOLUTION OF THE GLOBAL DELTA-HEDGE BOOK




Source: GFMS, Refinitiv

REFINITIV

## OFFICIAL SECTOR

Net central bank activity slowed in the second half of the year, with net purchases falling by 26%, or 92 tonnes year-on-year, to a total of 268 tonnes. The slowdown came on the back of a strong rally seen in the gold price in the latter half of the year, with the price reaching multi-year highs in dollar terms and all-time highs in some other key currencies.

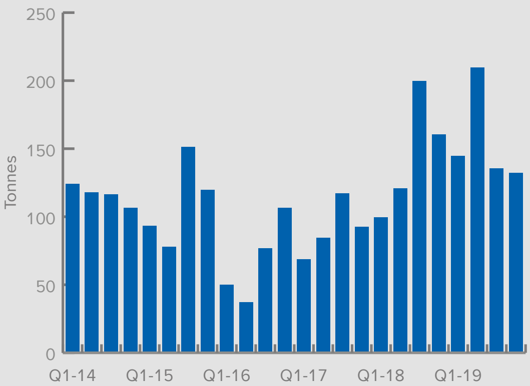
Total **gross purchases** are estimated at 296 tonnes for the second half, down by 22% or 83 tonnes from a year ago. The drop was largely driven by a slowdown in the level of buying from some of the traditional gold acquirers, including **Russia** and some other CIS countries, as well as lower holdings reported by **China**. While **Russia** remained a key contributor, adding 54 tonnes to its official gold holdings between July and November, it is important to note that the pace of buying slowed down this year, particularly in the latter half. Gold purchases averaged 11 tonnes per month over the five-month period compared to 16 tonnes in the first half of the year and 23 tonnes seen in 2018. As a result, **Turkey** overtook **Russia** as the largest acquirer of gold, with official gold holdings rising by an impressive 100 tonnes between July and November, which was up by 67% from the first-half volumes and represented a remarkable increase of 97% from the 2018 level of purchases. Meanwhile, the People's Bank of China reported a 22 tonne increase in gold holdings over the July to September period, with no changes in holdings reported in the final quarter. As a result, total second-half purchases were down by a sharp 71% from the volumes reported over the first six months.

Elsewhere, while some other CIS countries continued to favour gold, elevated gold prices and challenging economic conditions seemed to have weighed on the level of buying activity in the latter half of the year. The final two quarters witnessed lower purchases by **Kazakhstan**, which dropped to just seven tonnes from 29 tonnes reported over the same period of 2018, while purchases by **Kyrgyz Republic** fell by 48% year-on-year to just over a tonne. Meanwhile, **India** reported an increase of 15 tonnes in its gold holdings in the second half, which more than halved the level of purchases witnessed over the same period of last year. **Mongolia** saw a drop in its gold purchases to just four tonnes in the second half of 2019 from nearly twelve tonnes a year earlier. On the contrary, the **UAE** and **Serbia** added nearly 14 and nine tonnes to its gold holdings, respectively.

**Gross sales** in the second half of the year increased by 49% year-on-year, but still remained low in the historical context, standing at 28 tonnes. The largest contributor was **Uzbekistan** who reported a drop of 18 tonnes in its gold holdings over the third quarter as part of the central bank's policy to diversify its international reserves away from gold to **U.S.** and Chinese sovereign debt. Other countries such as **Colombia** and unusually **Tajikistan** also sold gold over the same period at five and two tonnes, respectively.

Despite somewhat weaker activity in the second half, central bank net purchases for 2019 as a whole surpassed the previous year's level and are estimated at 623 tonnes, representing a 7% year-on-year increase and also the highest level of buying since 1964. Turkey was the largest buyer last year, adding 176 tonnes to its gold holdings, followed by **Russia**, **Poland** and **China**, who added 148 tonnes, 100 tonnes and 96 tonnes, respectively. On the sell side, key contributors were **Venezuela** who sold some of its gold reserves to cope with the struggling economy and **Uzbekistan** as part of its asset diversification strategy.

NET OFFICIAL SECTOR PURCHASES




Source: IMF; GFMS, Refinitiv

Looking ahead, we expect central banks to remain firmly on the buy side in 2020. Gross purchases will be driven by the prevailing economic and political uncertainty, highly accommodative monetary policy and negative real interest rates, as well as the ongoing desire among the emerging markets central banks to diversify their international reserves away from the U.S. dollar in favour of gold. This, along with limited gross sales, could see another year of strong central bank buying activity, with total net purchases surpassing the level seen over the last year.

# GERMANY

- **Following three years of year-on-year declines and a relatively weak first half of 2019, gold bar investment rebounded in the second half, supported by gold's improved price outlook and escalated economic and political tensions.**

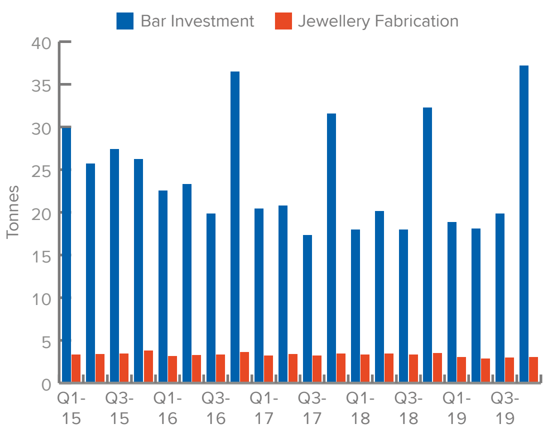
- **By contrast, jewellery demand in 2019 was hit by the economic slowdown and elevated gold prices, falling by an estimated 13% year-on-year.**

Gold bar investment remained weak in the first six months of the year and is estimated to have declined by 3% compared to the same period the previous year. This lacklustre performance was largely a reflection of gold's range-bound trading between January and May, as well as a risk-on mode dominating the investor community and steady gains in the German equity market over that period (Deutsche Boerse DAX Index hit a near one-year high by early July, appreciating by 19% since the beginning of 2019). Starting from July, there seemed to have been a shift in sentiment and a renewed interest in the precious metal, resulting in increased purchases of gold from private investors in the months to come. We estimate that physical bar investment jumped by 10% in the third quarter, entirely offsetting weak demand witnessed earlier in the year. This was largely driven by an improved gold price outlook, while growing expectations that gold's renewed uptrend will, in general, continue prompted investors to turn back to gold and increase purchases despite relatively high price levels at that time. To put this into context, the euro gold price had embarked upon a fresh rally at the end of May, with successive gains taking the price to an all-time high of over €1,400/oz at the start of September.

In addition, renewed worries over the economic slowdown and the global trade outlook, along with a shift in global monetary policy towards a more accommodative stance, prompted investors to turn to gold as a hedge against risk. Buying activity remained at a robust level in the months of October and November, particularly as some investors had seen a brief weakness in the gold price as a good bargain opportunity. We estimate that gold purchases in the final quarter of the year were up by 15% compared to same period of 2018. Despite a relatively quiet first half, gold bar investment for 2019 as a whole rose by 6% year-on-year, which marked the first year of growth in the past four years.

Meanwhile, gold jewellery demand came under significant pressure, with our estimates showing offtake in the second half of the year down by 12% year-on-year and down by 13% for 2019 as a whole. Elevated gold prices hindered exports and local demand, particularly so in the third quarter when the gold price in euro terms hit an all-time high. Furthermore, challenging economic conditions and the ongoing trend of changing consumer habits away from luxury jewellery towards other consumer goods such as technology and life experiences were among other reasons behind the drop. Fabrication of 18-carat and 14-carat gold jewellery were affected the most and there seems to have been a shift in production, gradually moving away from white gold to platinum jewellery due to the latter's notable discount to gold this year; a trend that is expected to continue and possibly strengthen in the coming year should the gold price continue its upward trend.

GERMAN JEWELLERY FABRICATION & BAR INVESTMENT




Source: GFMS, Refinitiv

## GERMAN MARKET OUTLOOK

**We expect gold jewellery demand to remain weak this year given the prevailing economic conditions and our forecast for the gold price, which is expected to hit a higher annual average. On the other hand, these same conditions should remain supportive for gold investment and, as such, we expect gold retail investment to rise further in 2020.**

## INDUSTRIAL DEMAND UPDATE

Gold used in industrial and dental applications declined by 1.5% year-on-year in the fourth quarter of 2019, to an estimated 88 tonnes, as continuous weakness in all major segments dragged consumption lower. On an annual basis, industrial demand eased 2% to 382 tonnes. The drop can partially be attributed to the parlous state of the global economy, where apart from the United States where three rate cuts last year have supported modest economic growth, economies elsewhere such as Europe, Japan and China have slowed.

The single largest impact last year to industrial demand was the weakness across the electronics sector. The manufacturing activity globally had been hurt as tit-for-tat tariffs between Washington and Beijing fostered uncertainty, which in turn led to lower stock inventories across the supply chain.

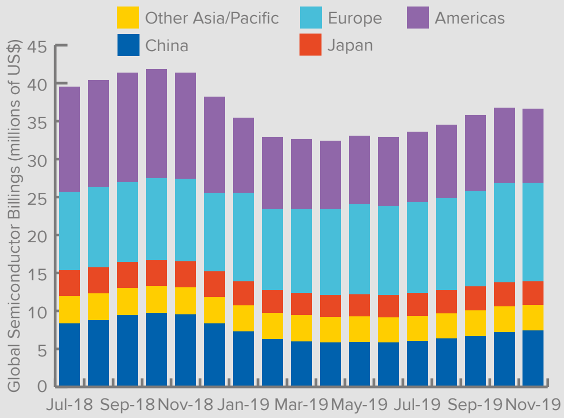
Apart from the sluggish macro conditions and the impact of the drawn out trade negotiations, gold used in the industrial sectors continued to suffer from the ongoing thrifting and substitution away to cheaper alternatives, especially in the electronics sector where rising demand in the industry in recent years had failed to usher in the higher offtake of gold, while the dental segment had suffered from a more severe and secular loss. The elevated gold price in the third quarter, rising by 5% during the period, was another negative influence on gold demand is this sector.

Demand in Q4 for gold in the electronics sector retreated by 1% year-on-year, or 2% for the full year, stemming largely from the ongoing weakness in semi-conductor demand; a casualty of the weak economic footing and the trade war. The other industrial and decorative (OID) segment retreated by 4% from the corresponding period in 2018, with a slowdown in the LED sector and a moribund Chinese auto sector contributing to the weakness. Gold demand in dental applications slipped 3% in 2019, with substitution to cheaper metal alloys and more recently ceramics, as a more affordable and aesthetic option, leading gold demand to a new record low.

Looking at the electronic sectors overall, weakness had been seen in all regions. According to the latest statistics released by the Semiconductor Industry Association (SIA), worldwide sales of semiconductors fell by almost 11% in November and were 13% lower year-to-date (to end-November) than the corresponding period in 2018. While semiconductor demand was poor last year and looks set for a weak start in 2020, there has been some reason for optimism, with strong demand emerging from the wireless sector. This has been fuelled by the rapid acceleration of 5G infrastructure deployment, the increasing demand for advanced safety features in automotive, and growth in internet connected devices.

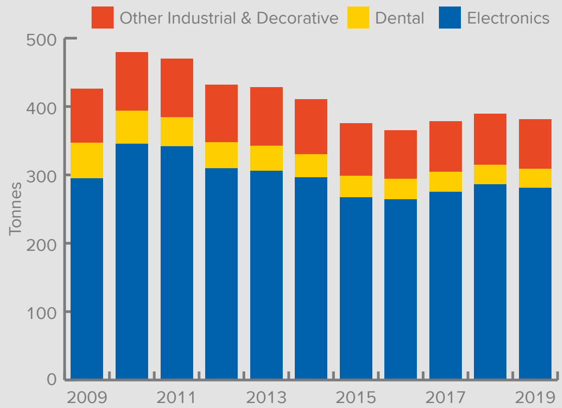
Looking briefly at individual markets and for the full year, a modest drop in Asia was driven by falls in major bonding wire producing countries such as Japan, South Korea and China, while the weak state of the economy explains the softness across European markets, with demand retreating 4% in 2019, dipping a similar amount in Q4 last year.

### GLOBAL SEMICONDUCTOR BILLINGS




Source: Semiconductor industry Association

### GLOBAL INDUSTRIAL DEMAND




Source: GFMS, Refinitiv

# THAILAND

- **Thailand bullion exports surged in H2 as investors take profits.**

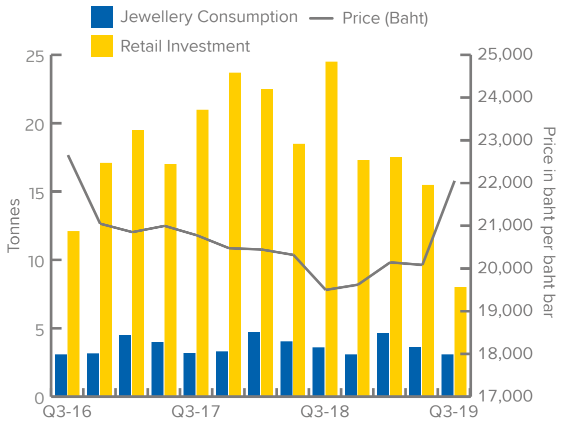
Gold consumption in Thailand struggled for most of the second half of 2019, with higher prices and weaker economic growth impacting consumer spending. There was a notable uptick in demand through November as gold prices eased from the September highs, with investors looking to replace earlier liquidated stocks and jewellery inventories replenished across the supply chain. However, for much of the second half demand was largely absent as higher prices kept many consumers out of the market, with most of the retail activity dominated by consumers rushing to sell their old gold items and investment products to take advantage of the near record levels. The high level of consumer selling, combined with the low level of demand for fresh gold, is reflected in the precipitous drop in gold bullion imports in Q3, falling 70% on annual comparison. Meanwhile, exports surged during the quarter as a result of the excess stock in the market, exceeding 72 tonnes for the period, compared to just over 21 tonnes in 2018 for the corresponding months.

Jewellery demand in the second half of 2019 recorded a sizeable decline, falling 16% year-on-year, with elevated prices keeping many potential buyers on the side lines. In early September the domestic price pushed through 23,000 baht per baht bar for the first time since August 2016 and this placed a significant drag on retail activity. While jewellery demand may have softened, the retail outlets across Chinatown in Bangkok were pumping as consumers rushed to offload old jewellery and investment products to capitalise on the multi-year price level. Many investors who had purchased gold at higher levels and had been holding on to paper losses were finally able to sell out, and in most instances, book a decent profit.

Bullion imports in the third quarter were just 34 tonnes, 70% below the level recorded for the same months in 2018, with year-to-date (to end-November) imports 47% lower than in the previous year. Meanwhile, the wave of liquidations and heightened scrap flows saw bullion exports surge 237% year-on-year to over 72 tonnes in Q3, averaging 24 tonnes for the period, compared to average monthly outflows of just 13 tonnes in the H1 this year. Having retreated in recent months, bullion exports to end-November, at over 164 tonnes, were still 67% higher than in 2018, with Switzerland, Australia and Singapore representing the largest markets.

In September the domestic price broke through 23,000 baht per baht bar level for the first time in three years and this had a significant impact on both jewellery and investment bar demand. The high level of liquidation drove net retail investment to just 5 tonnes in Q3, 80% below the level seen in the year prior, while jewellery consumption for the three-month period was 14% weaker year-on-year. Consumer demand in October remained underwhelming as the price traded in a channel offering little to investors and was too high for many consumers wishing to replenish jewellery items. The price fall in November reinvigorated the market temporarily but an uptick in gold price in December all but snuffed out this modest recovery.

### THAILAND INVESTMENT AND JEWELLERY FABRICATION




Source: GFMS, Refinitiv

### THAILAND MARKET OUTLOOK

**The expectation among Thai investors broadly is that gold will track higher in 2020 due to the much published macroeconomic and geopolitical factors, but with gold surging recently and then pulling back, there may be some trepidation about entering the market again, fearing they may be caught holding gold at the higher price level. While the volatility in the market may be good for the physical investment market, the jewellery segment remains weak with the higher prices dampening consumer interest for now.**

## PHYSICAL HOLDINGS IN GOLD ETPS REACH HISTORICAL HIGH

Investors piled their money into gold ETPs in 2019 as the Federal Reserve not only placed a halt on rising interest rates, but in fact cut rates three times during the year. Based on our preliminary estimated data, total holdings in global gold ETPs increased to over 2,700 tonnes by the end of 2019, an increment of close to 400 tonnes for the full year.

All four quarters recorded net inflows in 2019, with the most notable increase in the second and the third quarters. Indeed, the 231 tonnes increase in physical gold holdings in the third quarter was the highest level of inflows since the second quarter of 2016, when fresh net purchases reached 232 tonnes.

The sudden surge of inflows in the second quarter (primarily May and June), which was three times more than the incremental volume recorded in the first quarter, was the result of the market anticipating a change in interest rate policy from the United States. The dynamic increase of inflows in the third quarter, especially in August, was the result of market recognition that the Fed had not finished cutting rates. Once the market suspected that the Fed would likely hold interest rates steady in November and December, the purchasing of gold ETPs quickly dried up.

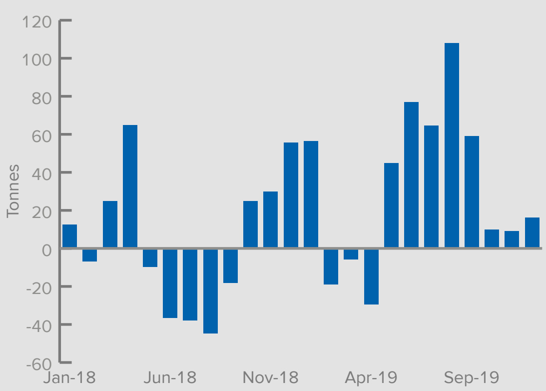
Facing BREXIT and economic uncertainties, Europeans have been the most active participant in the ETP market. Physical holdings of European domiciled ETPs increased by 18% last year, as the strong momentum was able to last until the end of the year.

By comparison, both North American and Asian gold ETPs began to lose some momentum in the final quarter, as a small amount of outflows were recorded in ETPs domiciled in these two regions. This demonstrated that while Europeans have their own issues to worry about and thus they wanted to buy gold as a hedge against internal risks, investors in other regions view gold as a good bet against falling U.S. interest rates. Their interest in gold took a backseat when the Fed decided to hold interest rates steady in November and December.

Indeed, with the 11-year bull market in the U.S. equities, interest in gold was becoming less and less popular within the North American population. While the SPDR Gold ETF remains the largest ETP globally, its importance has been shrinking over the years, with its market share of the total ETP universe by tonnage dropping from 70% at the end of 2006 (just before the Global Financial Crisis) to only 33% by the end of 2019. Total tonnage in the SPDR Gold ETF has also lost 34% compared to its peak reached at the end of 2012. The debt and economic crisis in European countries in the last decade have also prompted more physical demand and thus have created more ETP listings in Europe.

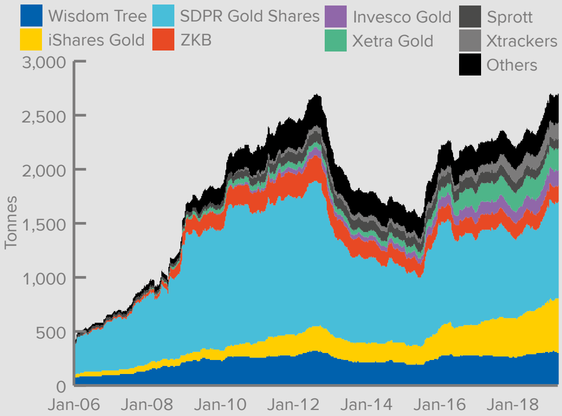
Looking ahead to 2020, North American investors actually took advantage of the Soleimani's killing and escalated conflict in the Middle East by taking profits in gold, as there were modest outflows from the SPDR Gold ETF. On the other hand, the market currently believes the chance that the Fed will increase rates by the June 2020 Fed meeting has been slowly rising. We think the market's judgement on the interest rate will be proven wrong, and we are expecting further rate cuts in 2020. If our expectation turns out to be correct, investors will certainly be buying gold again.

### GOLD ETPS MONTHLY FLOWS




Source: GFMS, Refinitiv

### PHYSICAL GOLD HOLDINGS IN GLOBAL ETPS




Source: GFMS, Refinitiv

REFINITIV

# INDONESIA

- **Severe flooding in Jakarta is set to impact Indonesian gold consumption in Q1.**

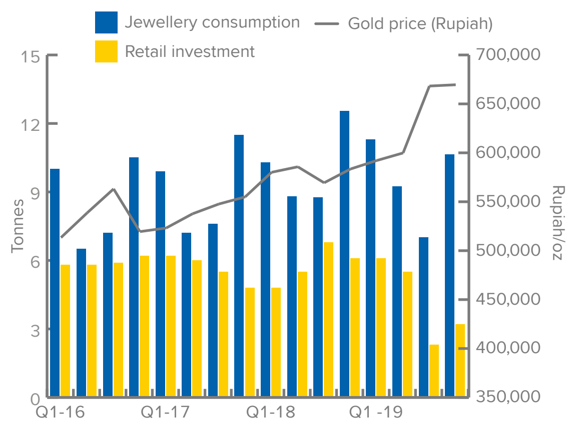
Having suffered a year of high gold prices in 2019 that dragged down domestic consumption, Indonesian gold fabricators have been dealing with another blow in early 2020, as severe flooding in Jakarta recently has had a significant impact on demand as the capital serves as a major distribution hub for the west of the country.

Based on our field research, Indonesian jewellery consumption slipped 5% in 2019, following a 12% decline in the previous year. Demand in the first half held up surprisingly well, delivering a healthy 8% gain, boosted in the main by strong sales ahead of the important gift giving period of Ramadan. Last year the religious festival fell mainly in May and coincided with a dip in the gold price in late April to around 575,000 rupiah per gramme, a level not seen since December the previous year. The lower price level encouraged inventory building across the supply chain, boosting domestic fabrication, while consumers were eager to purchase gold at the lower price level, buying both jewellery and investment products.

Post Ramadan the landscape was very different, with demand retreating quite sharply in the third and fourth quarters as gold prices trended higher. There was a clear lack of consumer interest for jewellery items as prices in local terms breached 700,000 rupiah per gramme in late August, for the first time in history. Investors took the opportunity to liquidate investment products while scrap flows were also acutely higher. The material decline in consumption flowed through to jewellery fabrication as orders from across the supply chain dried up, leaving many to reduce output during this period. Demand in the final quarter of the year was slow, but a slightly weaker gold price encouraged some restocking across the supply chain. A trade exhibition in Surabaya during October generated healthy sales for the larger of the domestic fabricators, with many suggesting sales volumes at the event were the strongest for several years. However, this uptick in activity fell away thereafter as gold prices rallied.

Having struggled through the second half of the year, local fabricators were hoping for a strong start to 2020. However, severe flooding in Jakarta and surrounding suburbs at the start of the year - the heaviest rains in decades, claimed almost 70 lives and forced more than 400,000 people to seek refuge, forcing demand in the region to come to a standstill. Jakarta is the largest market in West Java, and indeed across the entire archipelago, and serves as a distribution hub for wholesalers servicing Java and Sumatra. With the city in gridlock both retail and wholesale markets essentially shut down as consumers could not access the outlets and for a large part were dealing with more substantive issues.

INDONESIA INVESTMENT AND JEWELLERY CONSUMPTION




Source: GFMS, Refinitiv

## INDONESIA MARKET OUTLOOK

**While the worst of the flood waters have now largely dissipated, and the clean-up work has begun, the impact on the Jakarta gold market will take longer to fully recover as spending on non-essential items (like jewellery) is likely to remain weak as the region rebuilds after the damage. In addition to the flood impact, the elevated gold price, currently close to 675,000 rupiah per gramme having hit an all-time high of almost 720,000 rupiah per gramme in the first week of January, will remain an anchor on consumption this year. If gold should continue to trade around the current price level this quarter, it will be hard to see how the domestic market can recover and make up the losses caused by the flooding in the capital city, with market participants suggesting they are anticipating heavy losses, despite being only three weeks into the new year.**

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## UNITS USED

| | |
|---|---|
| **troy ounce (oz)** = | 31.1035 grammes |
| **tonne** = | 1 metric tonne, 32,151 troy ounces |
| **carat** = | gold purity in parts per 24 |

- Unless otherwise stated, U.S. dollar prices and their equivalents are for the LBMA Gold Price PM.
- Unless otherwise stated, all statistics on gold supply and demand are expressed in terms of fine gold content.
- Throughout the tables, totals may not add due to independent rounding.

## ACKNOWLEDGEMENTS

The estimates shown in the GFMS Gold Survey and its quarterly updates for the main components of mine production, scrap, fabrication and investment demand are calculated on the basis of a detailed supply/demand analysis for each of the markets listed in the main tables. In the vast majority of cases, the information used in these analyses has been derived from visits to the countries concerned and discussions with local traders, producers, refiners, fabricators and central bankers. Although we also make use of public domain data where this is relevant, it is the information provided by our contacts which ultimately makes this GFMS Gold Survey unique. We are grateful to all of them.


50 g
fine gold
999,9
CHI
ESSAYEUR
FONDEUR
GOLD
TANAKA TOKYO
MELTERS
Tanaka
Kikinzoku
50g
9999