GFMS GOLD SURVEY Q4 UPDATE & OUTLOOK

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Global review and outlook

- Activity in the professional investment sector gained traction in the final quarter of the year (Q4), with a short covering rally in net managed money positons pushing up net short positions into net long positions for the first time since July, while ETF inflows reached their highest levels since June.
- Official sector purchases rose to their highest quarterly level this century, following renewed purchases from further Emerging Market (EM) countries, while both the retail investment and jewellery sectors recorded a weakening in global physical demand.

Investor appetite across the **investment** sector grew over Q4, picking up speed as end-year approached. Net managed money positions on COMEX were boosted in Q4, with total net positions coming out of the red in mid-December following a short covering rally (which resulted in gross short positions falling to their lowest level since June 2018 in December), pushing up total net long positions to 76 tonnes by end-year (a rise of 317 tonnes over the three month period). At the ETF level, interest again was renewed from the previous quarter, recording inflows of 114 tonnes, taking total ETF holdings to 2,321 tonnes, its highest level since 26th June 2018. This pickup in demand on a year-on-year basis is even more evident, with total inflows an impressive 106 tonnes higher than the same period a year ago, with the value of total inflows at $12 Bn. Meanwhile, LBMA clearing figures recorded a boost to activity over the period (please note LBMA has not reported December statistics), with the total number of average daily transfers (based on October and November data only) rising by 15% year-on-year, despite the total quantity and value of gold falling by 5% and 10% respectively (with average gold prices falling 5% over the October -November period). Meanwhile volumes on the LME averaged 8.2 tonnes daily over the quarter, a fall of more than half compared to volumes in Q4 2017.

Fundamental **retail investment** (coin and bar demand) declined over Q4, falling by 3% to total 296 tonnes, its highest level since Q4 2017. A strong U.S. dollar and improving outlook for the U.S. economy resulted in North American demand slipping by a significant 19%, driven mainly by weakness stemming from the United States, which recorded a decline of 28% year-on-year.

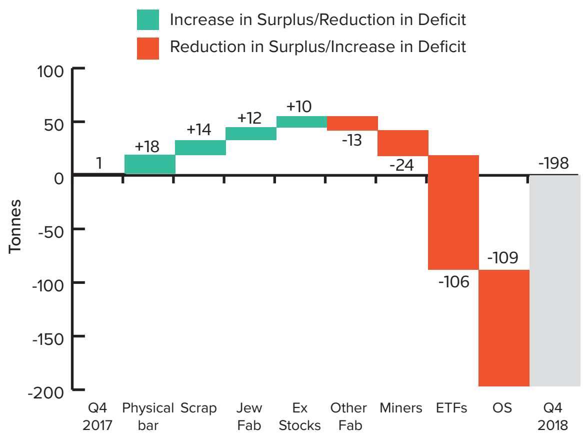
WORLD GOLD SUPPLY AND DEMAND

(tonnes)	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	YoY %
Supply										
Mine production	844	751	801	842	832	764	807	851	821	-1%
Scrap	291	322	304	297	286	316	312	308	299	5%
Net Hedging Supply	-36	-17	-5	7	-25	57	-40	-38	-39	n/a
Total Supply	**1,099**	**1,057**	**1,100**	**1,146**	**1,092**	**1,138**	**1,080**	**1,121**	**1,082**	**-1%**
Demand										
Jewellery Consumption	606	464	513	452	587	466	473	442	562	-4%
Jewellery Fabrication*	550	547	550	536	582	531	505	531	570	-2%
Industrial Fabrication	94	94	94	95	96	97	98	100	99	4%
...of which Electronics	69	69	69	69	70	71	73	74	74	5%
...of which Dental & Medical	7	7	7	8	7	7	7	7	7	-5%
...of which Other Industrial	18	18	18	19	18	19	18	19	19	1%
Net Official Sector	91	72	85	117	86	85	106	185	196	127%
Retail Investment	351	257	238	222	305	263	241	263	296	-3%
...of which Bars	255	199	176	159	237	199	177	182	220	-7%
...of which Coins	96	59	62	64	68	64	64	81	77	13%
Physical Demand	**1,086**	**971**	**966**	**971**	**1,069**	**975**	**951**	**1,079**	**1,162**	**9%**
Physical Surplus/Deficit	**13**	**86**	**134**	**176**	**23**	**163**	**129**	**41**	**-80**	**n/a**
ETF Inventory Build	-148	103	42	24	8	29	22	-105	114	1371%
Exchange Inventory Build	-45	-5	-13	3	15	-6	-15	-5	4	-72%
Net Balance	**205**	**-13**	**105**	**149**	**1**	**140**	**122**	**151**	**-198**	**n/a**
Gold Price (London PM, US$/oz)	**1,221.6**	**1,219.5**	**1,256.6**	**1,277.9**	**1,275.4**	**1,329.3**	**1,306.0**	**1,213.2**	**1,226.3**	**-4%**

Source: GFMS, Refinitiv *Jewellery Fabrication is used in the collation of the Physical Surplus / Deficit and Net Balance

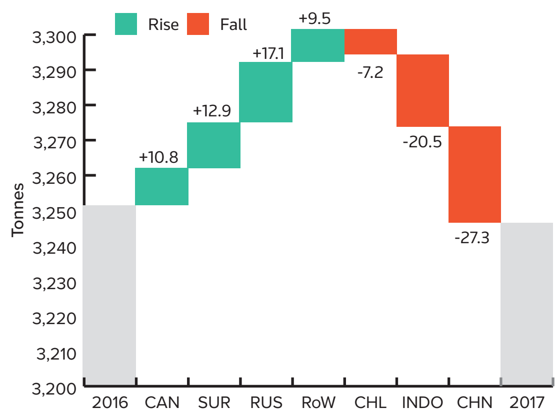
Totals may not add due to independent rounding. Net producer hedging is the change in the physical market impact of mining companies' gold loans, forwards and options positions.

Q4 2018 balance compared to Q4 2017



Source: GFMS, Refinitiv * Sum of production and hedging.

2018 balance compared to 2017



Source: GFMS, Thomson Reuters

Meanwhile, lacklustre demand across South America and Asia over the period additionally lent support to weak figures, with each region declining by 44% and 8% respectively. Softness in Indian demand which fell by 31% year-on-year was likely in light of volatile gold-denominated price moves, in addition to average prices over the quarter rising by 7% year-on-year to Rs.31,207/10 grammes. Chinese demand which has largely suffered over the year, continued to remain weak falling by 12%. Local premia average 5.84 yuan over the period, a substantial 33% lower than the same period a year ago (although it is worth noting that local premia began to increase in December rising to its highest level since May 2018). Europe and Africa were the only two regions to record an increase in retail investment, with African demand jumping by an impressive 48% on the back of strong coin demand, while European demand was boosted by concerns over internal politics across the Eurozone, weakening trade and increasing protectionism policies, with demand rising by 10% to 80 tonnes, its highest level since Q4 2016.

Both **jewellery consumption** and **fabrication** suffered over Q4 globally, falling by 3% and 2% retrospectively. Weakness across Europe following turbulent internal politics and cooling trade resulted in consumption across the region falling by 14%, while fabrication descended by 7%, largely driven by weakness in the United Kingdom which recorded its lowest level of production this century. Elsewhere, while North American fabrication and consumption jumped by an impressive 17% and 13% in light of a rising dollar and improving economy, weakness in Asian demand (which totals more than 80% of total global jewellery fabrication and consumption), recorded declines of 2% and 5% retrospectively following a slowdown in economic performance.

The **Official Sector** in the final quarter of the year recorded its largest net purchases this century of 196 tonnes, bringing total estimated net purchases for the year to 571 tonnes, the largest quarterly net purchases in our records. A shift in central bank behaviour, in which further EM countries are seeking to build their gold reserves, has resulted in some countries reporting their first transaction in 2018 since the turn of the century. China, which has not reported a change in its gold holdings since October 2016, reported for the first time in December a ten tonne increase in its holdings, with weakness in the Asian equity market driven by trade tensions with the U.S. a key influencer.

Outlook

We expect gold prices to continue to benefit from continued economic uncertainty and a slowdown in the U.S economy. As we approach the end of the economic growth cycle demand for defensive assets is likely to pick up as concerns deepen about the widening U.S. budget deficit and as the tariff-driven trade war starts to damage the country's economy. Gold rallies are more likely to be sustained if investor demand is resilient and broad-based. The scope for rising inflation, the interest rate-hiking trajectory nearing the end of its cycle and a stock-market correction could reignite interest in gold and drive the dollar lower. While ETF and bar and coin demand is expected to see a return to growth, physical markets are likely to be subdued due to the higher price level. We therefore forecast gold to average $1,292 oz in 2019.

China

- Chinese gold demand from the jewellery sector fell moderately on an annual basis in the final quarter of 2018, to reach an estimated 181 tonnes.
- Similar to 2017, investment demand picked up in December as the market felt the gold price was bottoming, but retail demand still fell 12% year-on-year in the fourth quarter, to an estimated 64 tonnes.

Contrary to our initial expectations, China's **jewellery fabrication** volume increased on an annual basis in 2018, but the upswing has been losing steam in the second half of the year, due to a softening economy. We estimate that 181.4 tonnes of gold was used to fabricate jewellery, a 1% year-on-year decline in the fourth quarter. The reason for the increased volume was partly due to the market's preference for a return to pure gold items last year, especially those with 999.9 Au purity. Pure gold pieces with retro designs became a market hit in 2018.

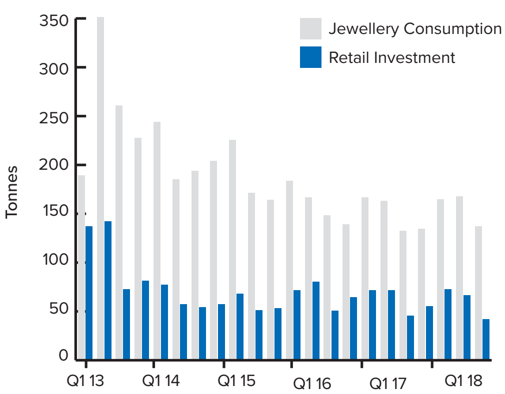
In 2018, there has been a polarisation in the jewellery fabrication industry. Orders received by the bigger players increased (implying an increase of their market share), while order books of many small and medium sized fabricators actually fell by 30%+ on an annual basis. There were some retailers who previously diversified the source of their purchases, deciding to increase their quality standard and thus concentrating on sourcing from fewer suppliers, and from bigger players who can assure higher quality.

A segment where we have witnessed high growth in the last few years, the non-pure gold segment (the 18-carat and 22-carat market), finally slowed down notably in the second half of 2018 as this market is rapidly becoming saturated, situtation that we predicted might occur in earlier reports. In the last two years, a substantial number of jewellery retailers purchased non-pure gold pieces to fill up their showcases because the lower inventory cost could lessen the financial burden and improve cashflow. However, as the majority of the Chinese population are farmers, this particular segment still prefers pure gold as they think it offers more value. After recording moderate growth in the first half of 2018, wholesalers began to have difficulty moving their carat gold inventories without offering discounts in the third quarter. By the fourth quarter, many industry participants complained that demand for the carat gold actually shrank. The decline in the carat segment is also due to the emergence of the '3D Hard Gold' segment.

The 3D Hard Gold was the bright spot in China's jewellery industry in 2018, with fabrication demand estimated to have grown by 30% throughout the full year. The 3D Hard Gold is relying on an electroplating technique, which enables fabricators to make jewellery pieces that look big but are light in weight due to its hollow nature. In China's wedding culture, relatives and families purchase and gift the bride with all sorts of gold jewellery including gold bracelets and necklaces that are heavily weighted. However with the emergence of 3D Hard Gold, a similar piece now only contains approximately a third to less than half of the gold that a traditional piece would contain. The price tag is cheaper for consumers, and the margin is also higher for retailers.

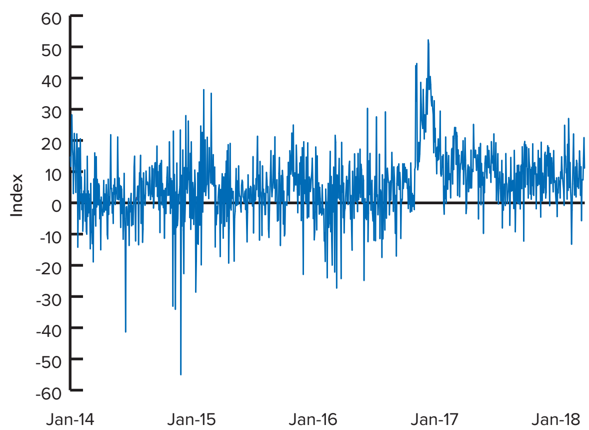
On the other hand, things are less rosy on the **investment** side, as the Chinese gold market just finished another dull year in 2018. The fluctuation of the yuan currency since 2017 has stabilised the Chinese gold price, but less price volatility ironically transforms to

China jewellery consumption & retail investment



Source: GFMS, Thomson Reuters

Chinese price premium investment



Source: GFMS, Thomson Reuters

less trading opportunities. Similar to 2017, demand for investment bars began to pick up in December 2018, after the U.S. stock market crashed and the Federal Reserve sent out signals of being less aggressive in rate hikes in 2019. However, it was again a little too late and too little to make a material difference for the full year.

In the first eleven months of 2018, mainland China imported a total of 1,223 tonnes of gold through Hong Kong, Switzerland, UK, Australia and Singapore, a 19% year-on-year increase, or 197 tonnes more than the same period in 2017. The huge increase in imports was due to large volume being shipped from the UK in 2018. In the first eleven months in 2018, China imported a total of 143 tonnes of gold from the UK, compared to only 10.7 tonnes throughout 2017. The increase of imports from the UK has already made up over 50% of the annual growth last year. However, according to government statistics, shipping volume from the UK suddenly dried up to zero in October, and just slightly over 300 kilogrammes in November.

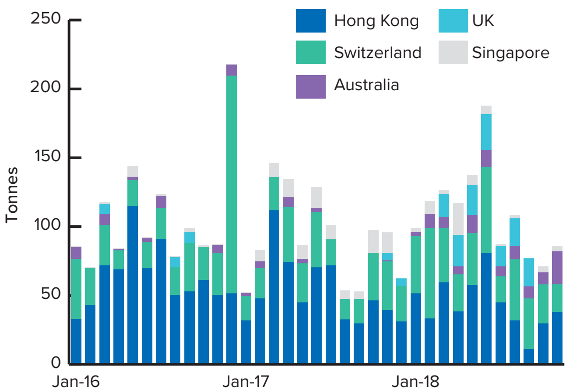
While gold imports increased in 2018, we have not seen the domestic demand rise in sync. However, anecdotal evidence suggests that significant volumes of gold, while less than the previous year, has been re-exported from the mainland back to Hong Kong through unofficial channels and sold at a discount to the market there. According to those involved in this trade, these flows were largely the result of capital flight.

China market outlook

While demand for gold from the jewellery sector (which makes up over 60% of the country's gold consumption) has increased in 2018, we think it could possibly be just a one-year wonder, an anomaly rather than a turnaround of the trend that saw the country's fabrication volume peak in 2013 and has been declining ever since. There has been a capital crunch in the Chinese economy since 2018, with many capital strained enterprises either having filed for bankruptcy, or conducted massive layoffs for cost control since the second half of 2018. The problems of the Chinese economy are more than just the trade war and in fact have deeper roots. Therefore, we expect economic data from China will be considerably weaker, at least in the first half of 2019, and this will hinder consumption levels, including jewellery. We expect fabrication volume on the 3D Hard Gold will continue to grow at a high rate, which in turn will also drag down total gold consumption in 2019.

While initially we were much more optimistic on China's investment demand for gold in 2019, this assumption has become more cautious lately. Our initial take here was that the country's policies on the property market have been too inconsistent and many investors have outright given up any hope for a sharp rebound in the domestic equities market, and thus gold has become one of the most logical choices of investment for the Chinese community. The deteriorating domestic economy supports a sliding yuan (which we saw in 2018) and this should also help the gold price to perform in the local currency. Indeed, the Chinese has begun to heat up on gold investments in December 2018 and the following month as they believe a gold bull rally should re-emerge in 2019. However, as market expectation that a trade truce can be reached between the United States and China have increased the yuan has actually appreciated against the dollar, which has had a negative impact on the domestic gold price. The strength of the yuan will no doubt be an influencing factor on the country's investment demand in 2019.

Chinese gold imports



Source: GFMS, Refinitiv

QUARTERLY JEWELLERY CONSUMPTION

(tonnes)	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	YoY%
Europe										
Russian Federation	8.3	7.4	8.3	8.3	9.9	7.9	7.7	8.0	9.6	-3%
Turkey	8.7	8.7	11.0	10.4	9.3	10.2	9.7	6.4	7.2	-23%
United Kingdom	13.3	3.0	2.8	3.7	12.1	3.0	2.8	3.5	11.2	-8%
Italy	9.2	2.4	3.4	2.3	9.1	2.4	3.3	2.2	8.9	2%
Spain	2.5	1.5	1.8	1.7	2.5	1.6	1.9	1.7	2.5	1%
Germany	5.7	1.6	1.8	1.2	5.6	1.6	1.5	1.5	1.6	-72%
France	5.8	2.3	2.0	1.5	5.9	2.2	2.0	1.5	5.7	-4%
Europe Total	53.4	26.9	31.3	29.2	54.4	28.9	28.7	24.8	46.6	-14%
North America										
United States	54.5	21.5	29.5	34.1	36.9	22.3	32.2	37.9	41.5	12%
Canada	4.9	3.2	3.8	3.7	4.7	3.0	4.2	3.7	4.7	0%
Mexico	1.4	1.9	1.7	1.5	1.5	2.0	1.7	1.5	1.5	3%
North America Total	60.8	26.6	35.0	39.3	43.1	27.3	38.1	43.1	47.7	11%
Asia										
China	166.7	163.2	137.6	134.5	165.0	167.8	129.6	133.7	172.1	4%
India	195.6	113.6	185.4	133.9	190.8	111.5	145.8	120.3	161.5	-15%
Hong Kong	9.7	10.0	9.5	10.1	10.2	11.4	11.6	11.2	11.6	13%
S Korea	10.1	10.1	10.2	10.0	10.1	10.1	10.3	9.8	10.1	0%
Indonesia	10.5	9.9	7.2	7.6	11.5	10.3	11.4	10.6	12.7	11%
Iran	10.6	11.5	11.1	11.3	11.2	9.9	8.6	7.5	8.8	-21%
UAE	11.3	15.8	11.1	7.4	17.8	10.2	11.0	7.7	18.2	2%
Saudi Arabia	9.3	7.2	8.3	6.7	6.8	6.1	8.8	7.3	7.1	4%
Kuwait	5.0	6.0	6.0	5.0	5.6	7.4	6.6	5.8	6.0	6%
Bangladesh	5.3	5.3	4.9	5.4	4.2	5.7	6.2	5.3	3.9	-7%
Japan	4.7	5.2	4.4	4.8	4.8	4.7	4.2	5.1	4.4	-8%
Israel	5.1	4.9	5.0	5.0	5.0	5.0	5.1	5.0	5.1	2%
Viet nam	3.4	5.2	4.7	3.4	3.8	5.9	5.2	4.0	4.0	6%
Thailand	3.2	4.5	4.0	3.2	3.3	6.0	5.3	4.8	3.7	13%
Iraq	3.8	3.3	3.1	3.3	3.7	3.1	3.0	3.4	3.3	-12%
Pakistan	5.1	3.8	4.2	3.1	4.2	3.7	3.5	3.2	4.0	-5%
Jordan	3.7	2.9	3.5	3.4	3.7	2.7	2.2	2.9	3.0	-19%
Lebanon	3.0	2.5	2.6	2.4	2.8	2.4	2.5	2.5	2.3	-18%
Bahrain	2.1	2.4	2.2	2.5	2.3	2.4	2.3	2.3	2.6	13%
Singapore	2.7	1.9	2.3	1.9	2.5	2.0	2.4	2.2	2.7	6%
Malaysia	1.8	1.1	1.0	1.5	1.7	1.0	0.9	1.7	1.8	7%
Other Asia	8.0	6.5	6.0	5.8	6.5	6.9	6.0	5.9	6.3	-3%
Asia Total	480.4	396.4	434.0	372.0	477.5	396.0	392.2	362.0	455.1	5%
Africa Total	6.3	6.7	5.5	5.5	5.6	7.1	6.0	6.2	6.0	6%
South America										
Brazil	2.2	4.1	4.6	3.1	3.2	4.2	4.8	3.2	3.3	2%
Other South America	2.9	2.9	3.0	2.9	2.9	2.9	3.0	2.9	2.9	1%
South America Total	5.1	7.0	7.6	6.0	6.1	7.1	7.7	6.1	6.2	1%
World Total	606.0	463.6	513.4	451.9	586.7	466.4	472.7	442.2	561.6	-4%

Source: GFMS, Refinitiv


1 kg
1 kg
fine gold
999,9
CHI ESSAYEUR FONDEUR
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1kg
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India

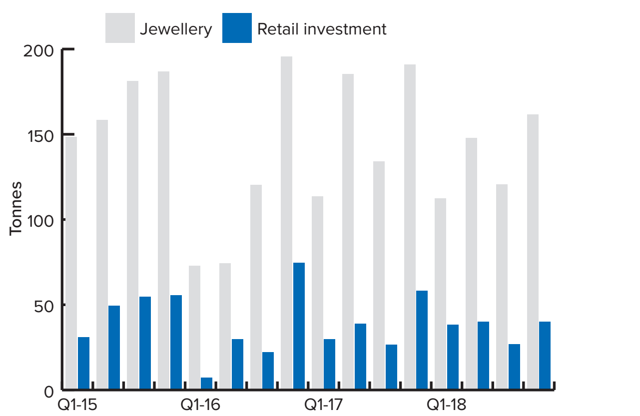
- India's gross domestic gold demand in Q4 2018 decreased by 19% year-on-year due to a higher gold price, less disposable cash in the hands of the farming community, and consumers' reluctance to buy gold jewellery beyond a small limit by 'cash'.
- India imported 175.4 tonnes of gold in Q4 2018, down from 229.8 tonnes in the same period last year. Of this, 119.8 tonnes remained available for the use in the domestic market.
- Jewellery demand contracted by 15% in Q4 from the 2017 level to reach 161.5 tonnes; however, fabrication demand remained lower by just 3.6% at 185 tonnes.
- Investment demand decreased by 31% year-on-year in Q4 to an estimated 40 tonnes. In 2018, gold remained most expensive in Q4.
- Scrap supply surged to 48 tonnes in Q4, 90% higher then for the same period in 2017.

Q4 2018 has emerged as one of the worst last quarter's for gold demand in recent years in India. Initial estimates suggest that net supply (import + scrap + unofficial) for domestic use was down by 23% to 192.8 tonnes and total demand (investment + Jewellery) was down by 19% compared to the same quarter in the previous year. In our Q3 report this year, we estimated that Q4 demand might remain around 205 to 215 tonnes if the price stayed consistently above Rs.30,500/10gm. Indeed, the average price in the quarter remained above Rs.31,000/10gm. In our initial review of the quarter, we estimate that total demand at 201.5 tonnes, was down by 19% on YoY basis. **Jewellery** demand contracted 15% to 161.5 tonnes, while **investment** demand retreated 31% over 2017 volumes to 40 tonnes.

The fourth quarter is normally augmented by festival demand followed by weddings. Thus, demand normally remains higher than any other quarter. However, due to the high price, consumers were compelled to buy less on both occasions, while investors remained absent. What we have generally observed in the Indian gold market is that consumers allocate a certain amount, carved out of the total budget of the wedding, for the purpose of gold jewellery. When the price is high, volume comes down and vice-a-versa. So, when the value of jewellery remains the same or higher, the volume does not increase much. It is often baffling to understand the demand of gold in Indian market in volume terms.

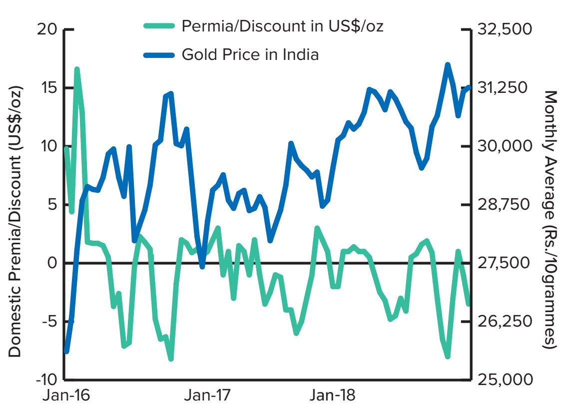
In Q4 the average price consistently stayed above Rs. 31,000/10 gm compared to Rs.29,000/10gm for most of the period in the same quarter the previous year. In fact, the price consistently depreciated from October to December in 2017, and December remained the best month for local consumption as the average price stayed below Rs.29,000/10gm. In 2018, the price did drop in November and remained relatively stable through to mid-December, and it was this period where the bulk of the buying took place. On a quarter on quarter basis, gold has remained expensive; rising by 6.8% over the previous quarter, while silver prices retreated by 3.3%. This factor

Indian jewellery consumption & retail investment



Source: GFMS, Refinitiv

Indian gold price



Source: Refinitiv, MCX, IBJA

created opportunity for investors to buy silver while selling gold in the market. Silver jewellery consumption also increased by 20% in Q4 based on our analysis, because it is more affordable and an alternative to gold jewellery in marriages in rural India, especially when the price is extremely high.

Households preferred to exchange old jewellery for new instead of purchasing new items for cash. While this is a normal behaviour in the Indian market, the rate of exchange was higher than in previous years. As a result of our extensive field research in various cities, we estimate that 70% of old gold was exchanged for new jewellery, while the rest of the old gold was sold directly in the market, either to scrap dealers or local refiners.

On the **supply** side, the share of doré against total net imports for domestic consumption continued to remain high in Q4 at 57% and the overall share for the full year is estimated at 55.2%. The net realisation of fine gold from doré remained at 68.1. tonnes in Q4, compared to 65.7 tonnes in the same period the previous year. It shows refiners have maintained their position in the market. Banks on the other hand supplied an estimated 41.6 tonnes of gold to the domestic market in Q4 2018, compared to 96.1 tonnes in the same period in 2017. This means the supply from banks was down by 57%. Nominated agencies have also imported 23% less this time than for the same period in 2017. The drop in imports is clearly mirroring the weaker demand in the market.

Total **scrap** supply is estimated to have come in around 48 tonnes in Q4, a rise of 90% from the same period in 2017. Anecdotal evidence shows that gold sold directly to scrap dealers or local refiners often returns to the market as a counterfeit Swiss bar. Local refiners have reportedly been stamping Swiss refinery hallmarks on bars at the request of traders, complete with fake serial numbers. This type of bar is mainly available in rural markets in northern India and are often 0.5 to 1% below the purity declared on the bar.

Indian market outlook

Our preliminary estimates suggest domestic jewellery demand for the full year of 2018, at 543.6 tonnes, fell by 13% from the previous year. Investment demand was down by 5% to 145.1 tonnes. Total Indian demand for 2018 was down by 11% to 694 tonnes. We believe demand will continue to suffer in the first quarter of 2019 as the price remains extremely high and at present the market remains in a decent discount with consumers prepared to wait to purchase gold jewellery. Marriage demand will remain until the end of February and early March, but that, in our view, will not be enough to offset weakness in the other segments of the market. As per our recent field survey experience, jewellers do not expect consumer demand to return unless the prices drop below Rs.29,000/10gm, which at the current level is looking very unlikely any time in the near future. Jewellers are sitting on decent inventory, and until demand improves dramatically, we estimate fresh imports will continue to suffer.

INDIA GOLD IMPORT ESTIMATES BY SOURCE PRODUCT

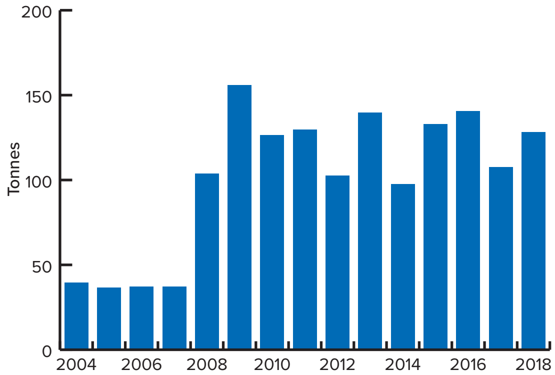
Imports (tonnes)	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Banks						
Duty paid	30.2	96.1	45.3	39.4	50.9	41.6
Duty free	10.9	12.5	7.9	9.8	11.5	9.7
Nominated agencies						
Duty paid	16.7	13.2	8.5	8.8	18.5	10.1
Duty free	39.9	7.4	2.7	1.0	1.3	1.5
Fine gold from doré	39.6	65.8	58.1	68.0	83.0	68.1
Direct import by exporters	1.5	34.8*	40.7	41.2	52.3	44.4
Total	**138.8**	**229.8**	**163.2**	**168.2**	**217.5**	**175.4**
Net import	**86.5**	**175.1**	**111.9**	**116.2**	**152.4**	**119.8**
Unofficial Imports	43.5	47.2	21.6	25.2	28.0	25.0
Average price (Rs/10 grammes)*	**29,113**	**29,452**	**30,352**	**31,081**	**30,101**	**31,221.5**
Average premia/(discount) in domestic in $/ounce **	(7)	0.6	(2)	(5)	0.5	(3.5)

Source: GFMS, Refinitiv; IBJA*, Various Sources

Bullion coin sales

International bullion gold coin sales jumped by 26% in the final quarter of the year, resulting in demand for 2018 as a whole to total just less than 130 tonnes, its highest annual level since 2016. The impressive rise in sales in Q4, which marks the third consecutive rise in quarterly sales (year-on-year), was a result of increased demand from the two largest markets for coins in 2018, Europe and Africa, which individually recorded sale increases of 38% and 53% respectively, with combined market share dominating 80% of the market. Despite the largest increase in sales in Q4 (in percentage terms) coming from our 'other Asia' region, which rose by 143% (market share for this sector is responsible for a mere 1.3% of demand).

Annual bullion coin sales

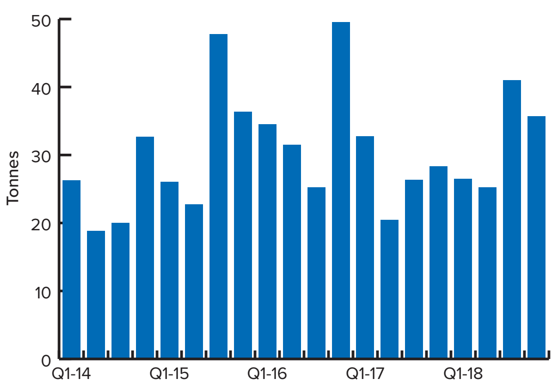


The impressive rise in **African** sales in the final quarter of the year (and indeed robust sales throughout the year), resulted in this region recording its highest quarterly level of sales in our records, despite the rand denominated gold price rising by 1.1% over the period. We believe the introduction of new sizes and extended ranges of the mint's most famous Kurgerrand gold coin and indeed the introduction of the second instalment of 'Celebrating South Africa' coin theme (in which 2018 marked the introduction of the Nelson Mandela Centaury coin), highly influenced purchases. Meanwhile in **Europe**, following weak demand in the first half of the year, demand soared in the final quarter with investor's turning to safe haven assets as concerns grew over the ongoing Sino-American tariff-driven trade war, Emerging Market (EM) turmoil, the upcoming Brexit deadline and indeed the looming slowdown in economic growth predicted for this year. While lower quarterly average gold prices in both euro (1.1%) and sterling (1.3%) over the period further boosted the yellow metals attraction.

Surprisingly, given the economic and political landscape, the third largest market for gold bullion sales in Q4, **North America**, recorded a weakening in demand year-on-year, with sales declining by 20%. However, with the U.S. dollar continuing to hold onto its impressive rally (rising by 3% over the period and touching upon its highest level since June 2017 in November) and indeed the Federal Reserve's fourth instalment of rate rises (for 2018) occurring in December, investors were less tempted to turn to gold. Elsewhere, declines were recorded in **Japan** and our **'other'** region, with sales falling by 55% and 19% respectively.

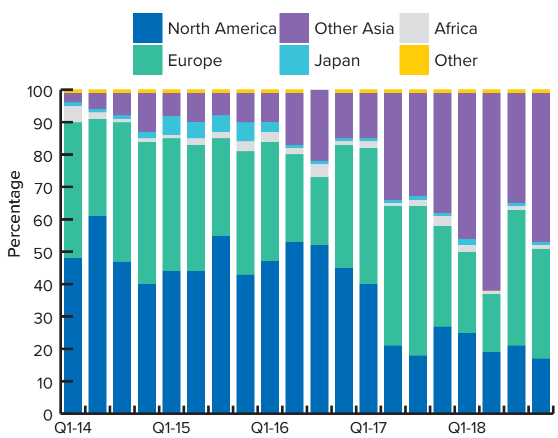
In 2019 given the backdrop of forecasted slower global growth and global political and economic uncertainty (in light of trade wars, EM currency weakness, stock market correction and indeed concerns over a widening U.S. budget), we forecast that gold (and to a lesser extend silver) will continue to appeal to investors as a physical asset this year.

Quarterly bullion coin sales



Source: GFMS, Refinitiv

Quarterly bullion coin sales by market share (%)



Source: GFMS, Refinitiv

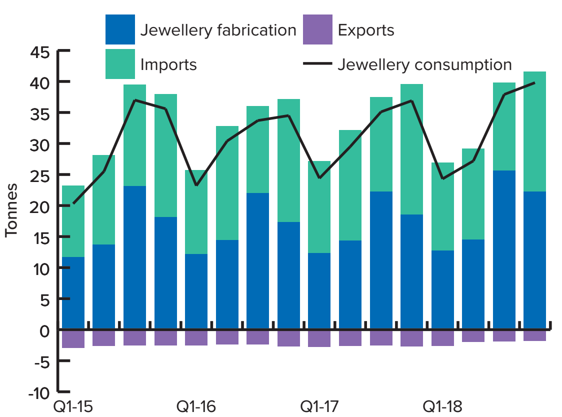
United States

- Retail investment fell by 28% to 7.8 tonnes in Q4 2018 driven by weak bar and coin demand. Bar consumption continued to contract and coin demand, good for solid growth in Q2 and Q3, also slipped in the final quarter.
- Jewellery consumption rose 12% to 42 tonnes in Q4. A robust underlying economic climate has stimulated consumer sentiment with the sector continuously outperforming general retail sales this year.

Jewellery fabrication in the United States has witnessed a strong year in 2018 rising another 13% to 21 tonnes in Q4. The jewellery sector in the United States performed better than the general retail market last year. Up until October, jewellery store sales were up 10% on an accumulative annual basis representing $25.6 bn, with only September recording an annual decline in sales. Extrapolating that to the full year we expect store sales to be up approximately 12% and an average 10% for the final quarter. As a result we expect gold **jewellery retail consumption** to rise by an estimated 12% to 42 tonnes in Q4. Sales from domestic suppliers turned out to be strong as gold jewellery imports contracted an estimated 8% year-on-year in Q4, representing half of US consumer demand. Gold consumption from the industrial applications increased as well. Gold used in electronics, which represents approximately 85% of **industrial demand**, rose an estimated 3.5% in Q4 to 16 tonnes. This was driven in part by robust shipments of printed circuit boards (PCB), which rose 9% over Jan-Sep compared to the same period in 2017. Sales growth slowed in November and as such we could well see lower gold demand from this segment filter through in H1 of this year. PC shipments fared less well in Q4 and declined 4% to 68.6 ml units. Growth was positive in Q2-Q3 but a shortage in central processing units (CPU's) created issues in the supply chain. Demand from **dentistry** and medical devises recorded a modest uptick in Q4 whereas gold uses in other **industrial & decorative** applications fell marginally.

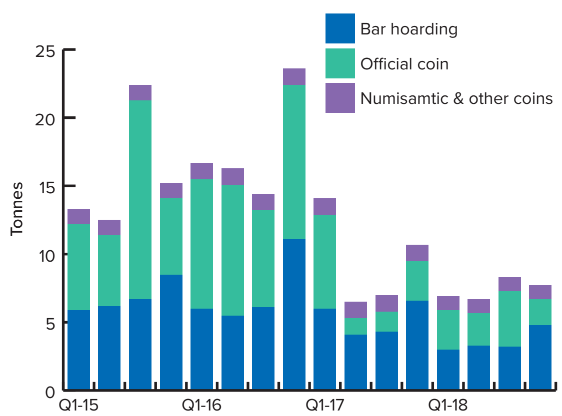
Following two quarters of exceptionally strong gold coin sales, **retail investment** (bullion coins, numismatic coins and bars) declined a considerable 28% to 7.8 tonnes in Q4. All three segments recorded losses in the final quarter of the year. Bullion coin fabrication at the US mint recorded healthy sales volumes in Q2 and Q3 of last year, but in the final quarter sales contracted by 34%. Particularly December last year was weak with sales falling 92% compared to the previous year with only the 1-ounce Eagle and Bufallo denominations leaving the counter. Gold coin sales we group under Numismatic, such as proof and uncirculated coins, good for a quarter of total coin fabrication from the US mint, contracted 18%, which could well be a reflection of no reported sales in the First Spouse category last year (Numismatic coin categories in 2017: commemoratives, precious metals products and first spouse). Bar demand, a good reflection of the underlying buying sentiment, also continued to disappoint, although improvements have been recorded. The recent tumult in the equity markets has raised investor attention looking for a hedge which could well have a positive effect on gold demand in Q1 of this year. Some major hedge fund managers have openly spoken about their intentions to accumulate (additional) gold holdings to their portfolios. If gold investment will find an increase in Q1 this year remains a bit uncertain. We certainly think it will be the case although equally strong signs have emerged for further risk on attitude and equity market strength following optimism of a favorable trade dispute outcome.

U.S. jewellery consumption & fabrication



Source: GFMS, Refinitiv

U.S. jewellery consumption & fabrication



Source: GFMS, Refinitiv

QUARTERLY RETAIL INVESTMENT

(tonnes)	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	YoY %
Europe										
Germany	36.8	20.7	21.0	17.6	31.8	19.5	21.6	20.5	36.9	16%
United Kingdom	5.3	4.9	5.6	3.1	4.5	4.0	11.0	17.0	7.5	65%
Switzerland	11.5	12.4	8.0	7.4	10.9	11.7	7.6	7.1	10.5	-4%
Austria	8.5	3.7	2.7	4.8	4.8	2.7	1.8	4.8	5.4	13%
Turkey	11.7	8.0	17.7	12.0	4.7	12.3	8.8	3.7	4.7	1%
Belgium	5.9	3.0	4.5	2.6	5.3	2.9	4.4	2.6	5.4	2%
Netherlands	1.9	1.1	0.9	1.0	1.8	1.1	0.8	1.0	1.9	2%
Spain	1.0	0.9	0.8	0.8	1.1	0.9	0.8	0.9	1.1	2%
Czech Republic	1.0	1.1	1.0	0.7	0.9	1.1	1.1	0.7	0.9	2%
Poland	0.9	0.9	1.0	0.8	0.8	0.9	0.9	0.8	0.8	-1%
Luxembourg	1.8	1.4	1.1	0.7	1.6	1.4	1.1	0.7	1.6	0%
Other	5.1	3.3	3.1	2.6	4.1	3.1	2.9	2.5	3.0	-27%
Europe Total	**91.3**	**61.4**	**67.2**	**54.2**	**72.3**	**61.6**	**62.9**	**62.3**	**79.7**	**10%**
North America										
United States	23.5	14.1	6.5	7.0	10.8	6.9	6.7	8.3	7.8	-28%
Canada	11.9	7.0	3.9	4.0	5.2	3.6	2.9	4.6	5.0	-3%
Mexico	0.1	0.5	0.3	0.4	0.3	0.6	0.2	0.3	0.3	0%
North America Total	**35.5**	**21.5**	**10.7**	**11.5**	**16.3**	**11.1**	**9.8**	**13.3**	**13.1**	**-19%**
Asia										
China	71.9	71.7	45.5	55.2	73.0	64.4	36.7	46.0	64.4	-12%
Thailand	17.1	19.5	17.0	21.0	23.7	22.5	18.5	24.5	18.3	-23%
India	74.7	29.6	38.7	26.5	58.2	38.2	40.0	26.9	40.0	-31%
Viet nam	12.2	9.0	9.4	8.8	9.2	11.7	11.3	13.1	13.3	45%
Iran	-1.2	4.7	6.3	6.7	6.0	9.4	15.4	18.6	16.8	182%
Japan	3.0	-2.4	0.8	-3.8	1.0	1.1	2.0	5.9	-0.3	-130%
S Korea	4.3	4.4	4.2	4.0	4.0	3.9	4.0	4.8	4.3	8%
Indonesia	3.6	3.7	3.5	3.1	2.4	2.4	2.9	4.3	3.3	38%
Singapore	2.2	1.7	1.8	1.9	2.1	2.3	2.4	2.4	2.6	27%
Saudi Arabia	2.6	2.8	2.2	2.0	2.3	2.3	2.2	2.3	2.0	-13%
Pakistan	3.8	2.1	3.2	2.1	2.3	1.9	1.5	2.0	2.4	2%
Malaysia	1.3	1.1	1.4	1.7	1.5	1.2	1.5	1.9	1.8	20%
Kuwait	1.3	1.2	1.5	1.3	1.5	1.7	1.5	1.8	1.5	0%
Taiwan	1.5	1.6	1.5	1.5	1.5	1.6	1.5	1.5	1.5	0%
UAE	2.9	1.5	1.7	1.9	3.8	1.3	2.3	2.0	3.9	2%
Hong Kong	0.5	0.7	0.5	0.5	0.5	0.5	0.5	0.4	0.6	12%
Cambodia	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.5	0.6	9%
Lebanon	0.6	0.6	0.5	0.4	0.4	0.5	0.4	0.4	0.5	13%
Other Asia	2.7	2.2	2.3	2.0	2.3	2.3	1.9	2.1	2.2	-5%
Asia Total	**205.6**	**156.3**	**142.5**	**137.4**	**196.2**	**169.7**	**147.0**	**161.5**	**179.6**	**-8%**
Oceania Total	**7.9**	**6.1**	**4.6**	**5.5**	**5.9**	**5.3**	**4.0**	**6.5**	**3.6**	**-39%**
Africa										
South Africa	12.7	10.5	11.2	12.7	12.9	13.9	16.4	18.3	19.3	49%
Egypt	-2.5	0.9	0.7	0.7	0.7	0.6	0.6	0.7	0.8	16%
Africa Total	**10.1**	**11.4**	**11.9**	**13.4**	**13.6**	**14.5**	**17.0**	**19.1**	**20.1**	**48%**
South America Total	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**-44%**
World Total	**351.0**	**257.2**	**237.6**	**222.5**	**304.9**	**262.7**	**241.3**	**263.1**	**296.4**	**-3%**

Source: GFMS, Refinitiv

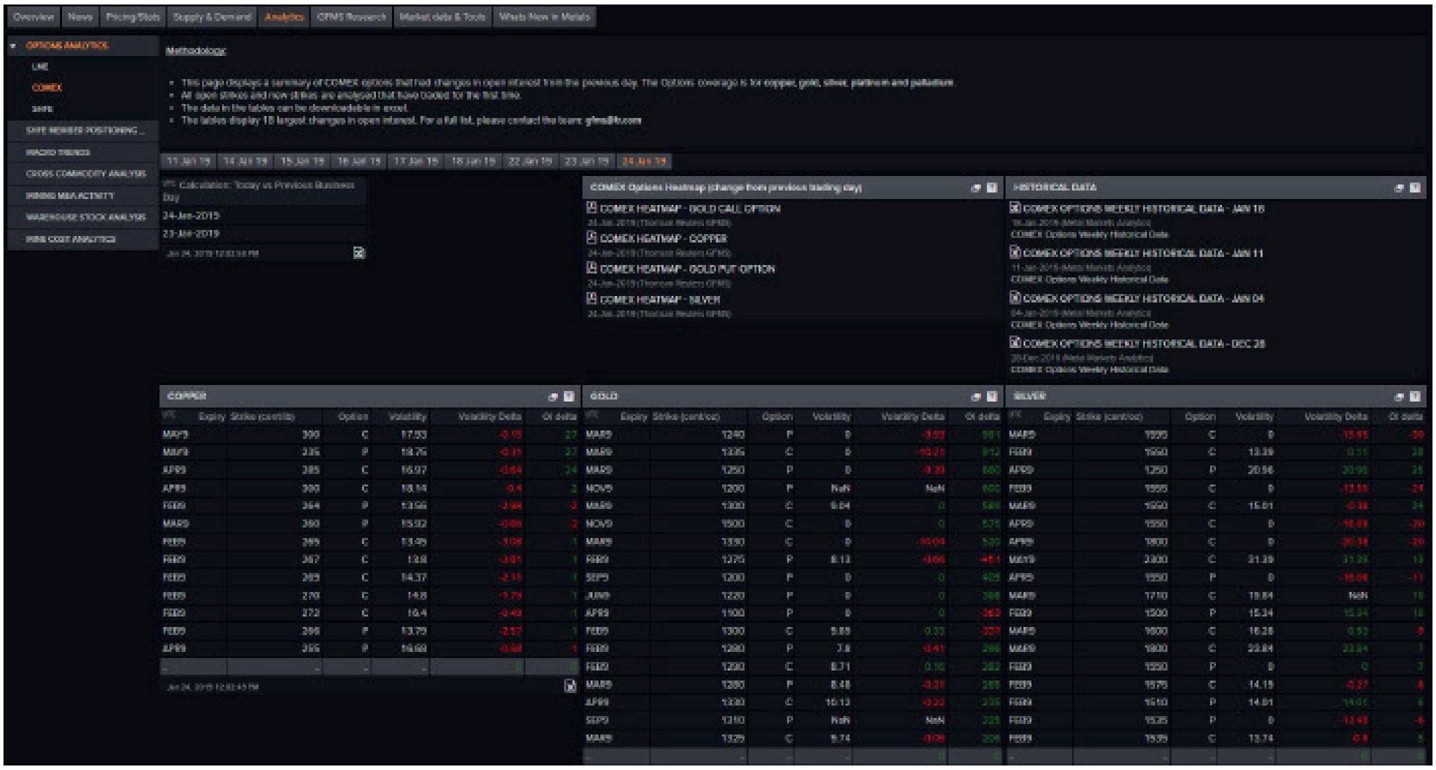
Exchange Analytics:

LME, SGX, COMEX and SHFE now on Eikon

Refinitiv Metals Research & Forecasts recently launched new reports for LME, SGX and COMEX options and Shanghai Futures Exchange (SHFE) futures.

Published daily on Eikon the 15+ reports cover: LME options for copper, zinc, nickel, aluminium, lead and tin; COMEX options for copper, gold, silver, platinum and palladium; SGX iron ore options and SHFE future contracts for copper, zinc, lead, aluminium and nickel.

The options analytics reports display a summary of options showing the change in open interest from the previous trading day. All open strikes and new strikes are included. Data is in table form and downloadable in Excel but we also use heat maps, enabling users to quickly identify key trades.



REFINITIV™

DATA IS JUST
THE BEGINNING

Mine supply

- Global mine production increased by 27 tonnes, or by 1.2% year-on-year in the first nine months of 2018. On the winner's side, Indonesia's stellar performance was chiefly explained by higher grades, with a related 32.4% increase in output, followed by Australia (+8.3%) and Canada (+9.6%). On the other hand, the largest decreases were posted in China, South Africa and the United States, with a combined fall of 56.7 tonnes.
- Average Total Cash year-on-year costs rose by 7.7% in Q3 2018 to $722/oz, while the average All-In-Sustaining-Costs (AISC) increased only 4.5% year-on-year to $924/oz. The highest costs rise was observed in Australia, where TCC and AISC climbed by 17.3% and 23.2% respectively compared to Q3 2017.
- The global producer hedge book contracted by 38.0 t on a delta-adjusted basis. Overall, nine companies increased the size of their hedge book (+8.1 tonnes), while 34 saw net decreases in their hedge position (-46.2 tonnes).

Mine production

Global mine supply in the first nine months of 2018 reached a total of 2,422 tonnes, exceeding the production from the same period last year by 31 tonnes. One of the best performances this quarter was recorded in **Indonesia**, mainly due to the development of the open pit's final phase of the Grasberg mine, which includes high grade gold and copper orebodies. Grasberg is currently (Q1 2019) transitioning to underground mining, which will then reduce its production considerably.

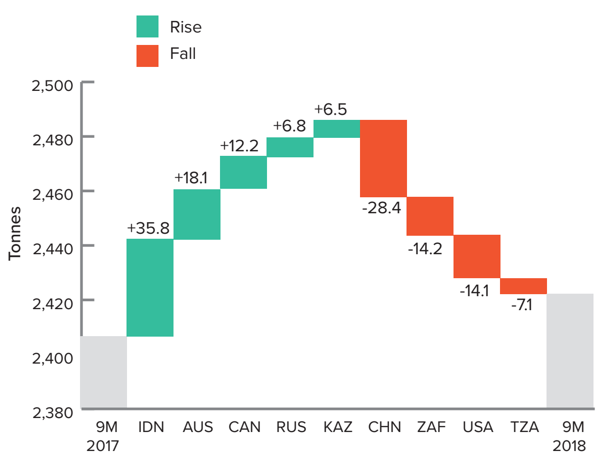
Australia produced a total of 235.5 tonnes during the first nine months of 2018, 8.3% higher than the same period of 2017, consolidating four years of continuous growth. Higher grades from Tanami boosted production 14% from 11.9 tonnes in 2017 to an estimated 13.6 tonnes for the end of 2018, while Newcrest's Telfer mine increased its output 18% to a total production of 12.8 tonnes. **Canada** is currently enjoying a recovery in its gold production for three continuous years, mainly because of the improvements on mining efficiency from current operations such as Musselwhite, Red Lake and Kirkland Lake. These latest enhancements have increased Canada's output by 10% over the same period of 2017.

On the other hand, **Chinese** mine production has been profoundly affected by tightening environmental regulations, triggering an output drop of 28.4 tonnes (a decrease of 9.1% year-on-year over the period). And even though production in the country has been gradually declining since 2015, it still produces 44.4% more than the second largest gold producer. **South Africa's** high cost structure and work stoppages continue to impact production. Most effected mines include Kloof, Masimong, Beatrix, Elandsrand and Target with an average decrease in output of 5%. The one notable exception was at Tshepong where production jumped from 6.8 tonnes in 2017 to 9.0 tonnes at the end of the quarter. Production in the United States decreased by 5% year-on-year caused by lower grades and higher mining costs in Barrick's Nevada complex and Newmont's Long Canyon and Cripple Creek mines.

Mine production outlook

For the year as a whole, we expect mine production to increase 1.2% by 38.1 tonnes compared to last year. While new projects in Canada, Argentina and Ghana are expected to start commercial production in the first months of 2019, tighter governmental regulations and environmental policies are having an increasing negative effect in Asian and South American mine production. Smaller and artisan mines, are particularly sensitive to these new regulations. In addition, we also estimate China's decreasing production tendency to continue in the following quarter.

Year-on-year variance - 9m 2018 vs 9m 2018



Source: GFMS, Refinitiv * Sum of production and hedging.

Production costs

Total Cash Costs (TCCs) net of by-product credits rose year-on-year in Q3 2018 from $670/oz to $722/oz. The highest net change was posted in Australia, where diesel costs pushed costs higher by 17.3%. Average All-In-Sustaining-Costs (AISC) worldwide registered another year-on-year net increase, rising 4.5% to $924/oz.

One of the biggest reported increases in costs was at Acacia Mining's Buyanhulu mine which produced 78% less than Q3 2017. Problems with the transition to the underground mine forced the mine to process low-grade stockpiles and as a result AISC increased 46% to $1,018/oz.

Elsewhere, Goldfields operations suffered a 7.8% year-on-year increase in Total Cash Costs, from $906/oz to $977/oz while AISC rose by 11.2%, from $1,025/oz to $1,140/oz. Lower production in the South Deep mine was the main driver for the company's cost performance but this was partially offset by lower costs at the Damang mine.

B2Gold operations had a good performance, being one of the few companies able to reduce costs, from TCC of $563/oz to $504/oz, representing a 10% decrease and an AISC reduction of 19%, from $921/oz to $749/oz. The Fekola mine, in Mali, produced 242,000 ounces of gold in its first full-year of production with TCC of $383/oz and AISC of 607/oz.

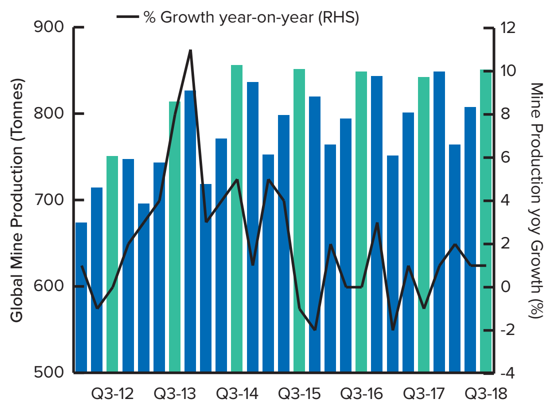
Goldcorp's Cerro Negro mine in Argentina was favored by the ramp-up in its operation as well as the devaluation of the Argentine peso, achieving a TCC reduction of 10% from $510/oz to $459/oz while AISC dropped 26% from $712/oz to $520/oz. The Porcupine mine, also operated by or owned by Goldcorp, closed its Dome Underground high cost operation at the end of 2017, reducing gold output by 0.45 tonnes compared to Q3 2017 whereas TCC dropped by 1% and AISC rose 1.8%. Combined costs for the group saw TCC rise from $483/oz to $683/oz and AISC to increase from $827/oz to $999/oz.

Barrick's TCC increased from $546/oz to $587/oz, while AISC posted a gain of 1.7% from $772/oz to $785/oz. In the case of Alamos Gold, lower mining rates at Young-Davidson and higher costs at El Chanate and Island Gold due to more complex mining conditions pushed the company's TCC from $720/oz to $817/oz, representing a 13.4% increase, while the AISC rose from $884/oz to $1,048/oz.

AngloGold Ashanti reported good cost performance, mainly assisted by weaker currencies in Brazil, Argentina, Australia and South Africa. The company reduced its TCC from $807/oz to $722/oz and AISC fell a 14% from $1071/oz to $920/oz. One of the biggest declines in unit costs was reported at Mponeng, South Africa, where higher grades and improved mining practices pushed gold output up by 25%, reducing AISC to $977/oz from $1,227/oz. On the other hand, engineering problems and lower metallurgical recovery in Sunrise Dam in Australia caused its TCC rise to $1,013/oz compared to $922/oz during Q3 2017.

We estimate production costs will continue to increase in 2019 as new mine openings won't be able to completely offset lower grades in current operations. We anticipate TCC worldwide will average $754/oz at the end of 2019, while AISC will increase 5.2% to $878/oz.

Global gold production



Source: GFMS, Refinitiv

COST OF PRODUCTION AND GRADES

(US$/oz)		Q3 2017	Q3 2018
North America	Total cash costs	661	717
	All-in Sustaining costs	846	882
	Processed grade, g/t	1.60	1.62
South America	Total cash costs	658	636
	All-in Sustaining costs	866	819
	Processed grade, g/t	1.44	1.38
Australia	Total cash costs	620	727
	All-in Sustaining costs	810	998
	Processed grade, g/t	1.63	1.65
South Africa	Total cash costs	998	967
	All-in Sustaining costs	1,184	1,169
	Processed grade, g/t	1.60	1.61
Other	Total cash costs	610	691
	All-in Sustaining costs	865	885
	Processed grade, g/t	1.96	1.98
World	Total cash costs	670	722
	All-in Sustaining costs	884	924
	Processed grade, g/t	1.67	1.66

Source: GFMS, Refinitiv

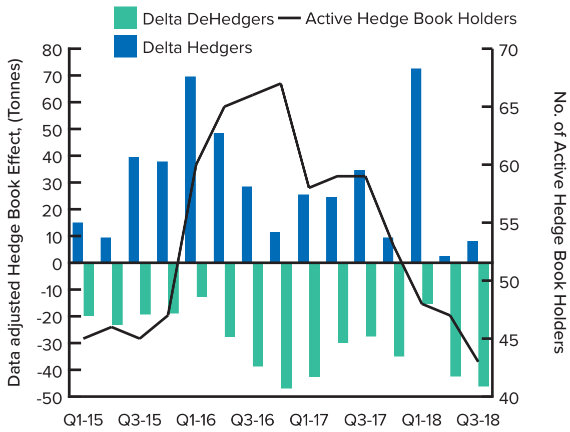
Producer hedging

The global producer hedge book contracted by 38.0 tonnes on a delta-adjusted basis during the third quarter of 2018, representing a 17% decrease on the hedge book total, the second largest reduction since Q4 2010. As a result, the hedge book stood at a total of 191.2 tonnes at end-September. US Federal Reserve aggressive stance put an enormous pressure over currencies as the Canadian dollar, South African rand, and Australian dollar, pushing companies to favor currency hedging over gold.

Overall, nine companies increased their hedging position, while 34 companies decreased the size of their hedge book. The main net de-hedger was PJSC Polyus, as the company exercised 14.3 tonnes of barrier options, while upholding the same type of instruments for 78.4 tonnes, representing 30% of the total corporate hedge book. Gold Fields Ltd and Fresnillo Plc were the second and third net de-hedgers after the maturity of 11.0 tonnes and 4.1 tonnes, respectively.

On the net-hedgers side, Harmony Gold has active contracts for 15.1 tonnes, with quarterly deliveries until Q1 2021. During the third quarter the company topped-up it's hedging program by 20% of its total production over a period of 24 months, representing a net-hedging of 4.5 tonnes. Considering that the rand/US$ exchange rate dropped 7.1% compared to the same period of 2017, Harmony opened several currency hedges to protect itself from the rand's volatility. Teranga Gold has around 50% of it's Sabodala mine production hedged for the next five quarters at an average gold price of $1,340 per ounce, totalling 5.8 tonnes. Australian companies Resolute Mining and Independence Group signed new contracts for 35,000 and 36,000 ounces, respectively.

Active hedge book holders



Source: GFMS, Refinitiv

COMPOSITION OF THE DELTA-ADJUSTED HEDGE BOOK

(tonnes, end-period)

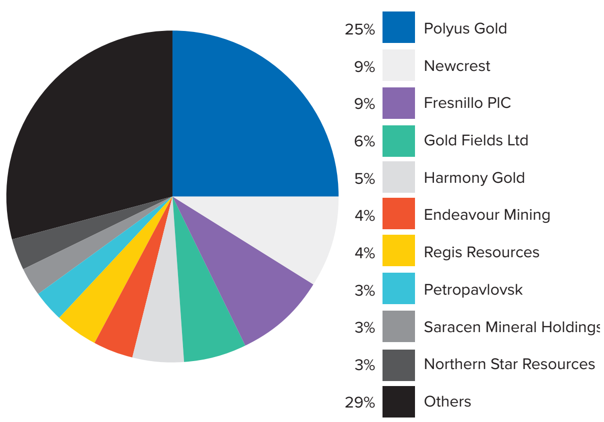
	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	QoQ
Forward Sales	172	160	189	167	158	-5%
Options	64	50	79	61	32	-48%
Total	**236**	**211**	**268**	**228**	**190**	**-17%**

Source: GFMS, Refinitiv

Hedging outlook

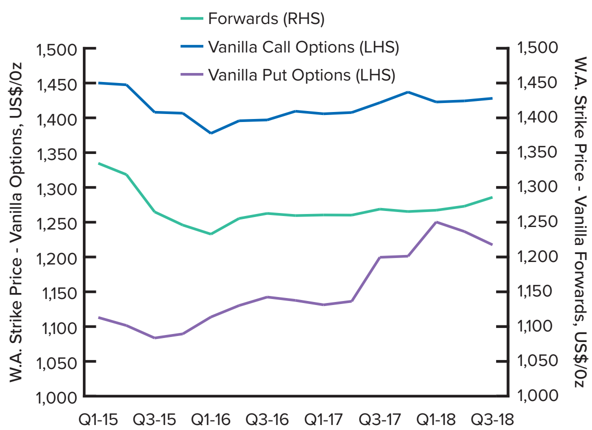
We estimate the de-hedging trend will continue during the next months, pushing the hedge book to a projected total of 210 tonnes by the end of 2019, a reduction of 50 tonnes from December 2018.

Corporate hedge books (by # of contracts)



Source: GFMS, Refinitiv

Historical weighted average strike prices



Source: GFMS, Refinitiv

European demand - investors seeks safe havens as jewellery suffer

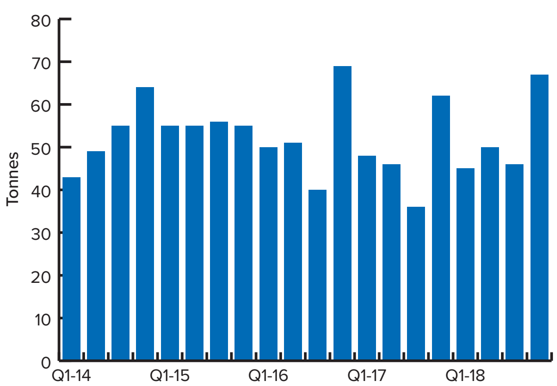
The final quarter of the year (Q4) showed a varied performance for gold demand across Europe with jewellery and scrap segments of the market recording weakness, while gold as an investment case (or safe haven as more appropriate in this instance) benefited. Concerns across Europe over cooling global trade, rising global protectionism policies and turbulent internal politics, along with disappointing growth and inflation data for Eurozone over Q4, resulted in investors turning to the safety of gold. It is important to note however, that while expectations towards interest rate rises in the Eurozone this year have firmly been pushed towards the latter half of the year, in December 2018, the ECB went ahead in ending its 2.6 trillion euro bond-buying program.

Investment demand (only physical gold bars, exculding coins and medals) across Europe jumped by 8% year-on-year and 46% quarter-on-quarter in Q4, with total investment amounting to 67 tonnes for the period. Unsurprisingly, the United Kingdom recorded the largest increase in gold investment jumping by 103%, as concerns in Q4 grew over the looming deadline for Brexit, while the pound continued to weaken, slipping by 2%. Elsewhere across Europe, large increases in investment were recorded in France, Germany, Austria and Italy, each jumping by 18%, 12%, 6% and 4% respectively. Recent riots in France over President Emmanuel Macron's decision to raise taxes on fuel and living costs, political instability in Italy as new Italian economic reform caused tensions to rise between the government and the EU over budgetary rules, in addition to the negative impact from new emission testing on Germany's economy, contributed as key factors in the rise. Meanwhile, Turkey recorded negative investment demand, falling by 25%, as despite the lira tumbling over Q4; it is considerably stronger than it was this time last year.

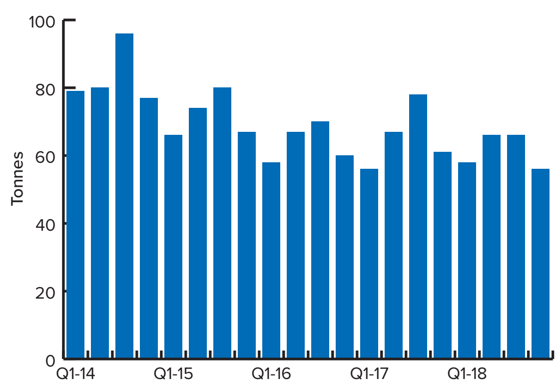
Turning to **jewellery** demand, Europe recorded a decline of 7% year-on-year, with total demand falling to its lowest level since Q1 2016. While a handful of countries such Switzerland and Greece recorded a pick-up in jewellery demand, the majority of European countries recorded weak results with the United Kingdom, Turkey and France leading the way with declines of 38%, 15% and 6% respectively. Disappointing UK hallmarking figures represented the dramatic decline in fabrication in the country, with total demand falling to its lowest level this century. Meanwhile, in France and Turkey, social turmoil and a weak economy (retrospectively) lead to poor consumer sentiment. In the scrap market, weak gold prices across the region resulted in total scrap levels declining by 32% to record their weakest level since Q4 2017.

As we enter 2019, we forecast that investment demand will remain robust across Europe, with investors seeking the safety of gold as a safe haven asset in light of internal political instability (particularly the outcome of Brexit and its possible contagion across the Eurozone block), while a slowing economic outlook for the globe and ongoing trade tensions negatively impact local currency and demand prospects. Jewellery demand, which is largely seen as a luxury, rather than a form of investment in the West, is likely to remain weak, as disposable incomes are challenged and caution in the markets is established.

European investment



European jewellery fabrication



Source: GFMS, Refinitiv

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Malaysia

- The removal of the Goods and Services Tax helps boost Malaysian gold consumption but jewellery exports slip.

The Malaysian Government led by Prime Minister Mahathir Mohamad announced on 30th May this year that the country's Goods and Services Tax (GST) would be abolished. This produced a "tax holiday" from the 1st June until the reintroduction of the Sales and Services Tax (SST) on the 1st September. Mahathir repealed the unpopular GST that was introduced on 1st April 2015 and applied to 60% of the Consumer Price Index bracket of goods. Abolishing the six percent GST fulfilled a key election promise made by the incoming government. While many retailers had hoped for a stronger recovery gold demand did pick up following the removal of the GST with consumption in the third quarter jumping 13% year-on-year.

While the new tax regime known as Sales and Service Tax (SST) has been introduced across a myriad of industries the precious metals markets have remained tax free after being given an exemption. There is no longer a tax applied to gold bars or jewellery sold in Malaysia, providing a boon to the local industry after the market struggled following the introduction of the GST back in 2015. **Jewellery consumption** in the first half of 2018 remained weak as consumers waited on the government to honour their election promise of removing the tax but once the GST was lifted demand rebounded.

Retailers reported an increase in turnover in early June but there was no surge in offtake, as many had hoped, as the higher gold price at the time dampened consumers' appetite. As gold tracked lower in the third quarter demand did pick up, especially for **investment** bars and higher purity jewellery when gold in local terms fell below 155 ringgit per gramme in August, the first time since April 2016. Demand for 22-carat, and to a lesser extent 24-carat items, boosted overall demand as bargain hunters emerged and gift purchasing ahead of Hari Raya Aidilfitri was stronger than in previous years. While higher purity plain jewellery sold well diamond and gemset designs were slow moving, a reflection perhaps of the more cautious approach on discretionary spending by the middle classes.

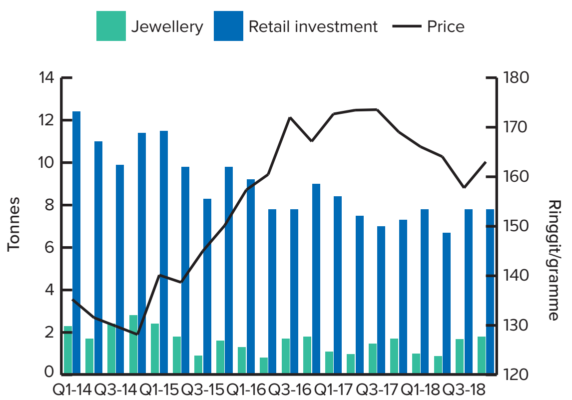
Malaysian gold **jewellery fabrication** is heavily focused on the export trade, with domestic consumption accounting for less than 15% of total production volumes. Most exports are plain gold chain and are destined for the Middle East (chiefly Dubai) and to a lesser extent Singapore and Hong Kong. This year has been difficult for many of the larger exporters as demand in the UAE has fallen sharply following the introduction of a Value Added Tax (VAT) at the start of the year. Weaker consumption in India and broadly across the GCC has meant orders from the Dubai based wholesalers have been smaller and less frequent. A number of fabricators reported during a recent research visit that their exports to Dubai were down 30-40% when compared to the previous year. Shipments to Singapore have also retreated as these goods are mainly re-exported to India on arrival, while flows to Hong Kong have remained broadly stable this year.

Given that the export sector is reeling many fabricators are redirecting their efforts back to the domestic market in an attempt to maintain production levels, but it is a competitive space and local tastes are quite different from the product they typically export.

Malaysia market outlook

While the second half recovery in domestic consumption did boost the full year figure it failed to exceed the level recorded in 2017. We expect both jewellery consumption and investment demand to rise marginally this year while jewellery fabrication is set for another double digit decline as exports demand remains weak.

Malaysia jewellery consumption and retail investment



Source: GFMS, Refinitiv

Indonesia

- A weak currency and tax evasion boosts Indonesian domestic gold demand.

Indonesian gold demand looks set to increase in 2018 despite the average gold price in local terms rising by 7% over the corresponding period in 2017. A weaker currency last year has seen consumers shift to gold as a means of protecting assets, not just through the increase in investment products (bars and coins), but also by purchasing gold jewellery and ornaments. Like many economies in the region Indonesia's currency has continued to weaken as it struggles with capital outflows and weaker exports. The rupiah fell 6% last year and was one of the worst performing currency among emerging Asian markets, after the Indian rupee. Indonesia's gross domestic product (GDP) grew 5.17% in the third quarter from a year ago, slowing down from the 5.27% year-on-year increase in the previous quarter. The slowdown in growth was due to negative contributions from foreign trade and a weaker contribution from household spending. The central bank has been attempting to support its currency by raising its interest rate four times since May, with the most recent in August, and has been tapping its foreign cash reserves to buy up the rupiah.

As a result of the currency weakness the average local gold price, at 579,570 rupiah per gramme, remained 7% higher than for the same period the previous year. Despite gold prices trading at these elevated levels, both **jewellery** and **retail investment** demand have remained robust and delivered solid gains in 2018. For the first three quarters of this year, retail investment, which includes small bar and coins, was marginally weaker overall but demand in Q4 picked up sharply, rising almost 38% year-on-year and this trend has continued into the fourth quarter. Jewellery consumption in the final quarter of 2018 was 11% stronger then in 2017 for the same period, with a 24% year-on-year increase for the full year.

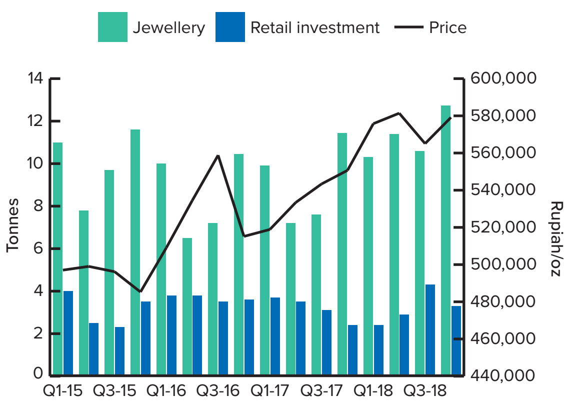
Stronger gold demand during a period of record gold prices may appear slightly counter intuitive but there are two main reasons for this. Firstly, consumers are buying gold as a means of protecting against further currency weakness. They are buying gold or U.S dollars as they can easily be sold back when the need arises or should the currency begin to strengthen. Those in the urban centres are doing this by purchasing small investment bars (5-100 grammes, for example), while rural residents are predominately purchasing gold jewellery as a means of protecting their cash assets. This is occurring even in the low carat segment (7-10 carat) which now dominates the Indonesian market. Consumers can easily return jewellery purchased from a retailer with only minimal losses. Typically gold is sold back with the original labour charge removed and at a slight discount to the prevailing gold price.

The second reason that drove gold demand last year was the ongoing crackdown by the Indonesian government on tax evasion. Indonesia completed one of the world's most successful tax amnesties in 2017 and while many took the opportunity to disclose prior revenues at a reduced penalty rate many still continue to hide their wealth from the government. The majority of Indonesia's more than 250 million people do not pay tax and many are not even familiar with the concept of paying. Only 38 million are registered taxpayers, including corporations, and less than a third submit tax returns. Rather than companies or individuals holding cash in back accounts, which may come under scrutiny by tax authorities, they are choosing instead to purchase gold and hide their assets from prying eyes.

Indonesia market outlook

These two factors combined are expected to support gold consumption in the coming months, and as a result, we expect Indonesian gold consumption to enjoy further gains in 2019. Demand trends will be heavily influenced by movements in the local currency and at this stage it looks likely the Indonesian economy will remain under pressure and the rupiah is likely to suffer as a result. We expect under this scenario gold offtake to be well supported.

Indonesia investment and jewellery consumption



South Korea

- South Korea's jewellery consumption remained at 10.1 tonnes in the fourth quarter last year, on par to the level achieved the year before.
- The country's investment in gold increased by 7.5% year-on-year during the quarter. The moderate growth in percentage terms was due to a low base recorded in the final quarter of 2017, as buying actually fell from the third quarter as gold prices tracked higher.

The economic growth of South Korea continued to lose steam as local consumer sentiment deteriorated. Fortunately the semiconductor sector picked up the slack in 2018, as the country's export of industrial parts and materials hit a record high due to strong demand from the global semiconductor industry as well as for fuel cells. As a result, industrial demand for gold continued to increase in the fourth quarter, up by 7% year-on-year, but retreated by more than 2% from the previous quarter, indicating a slow down in the global market.

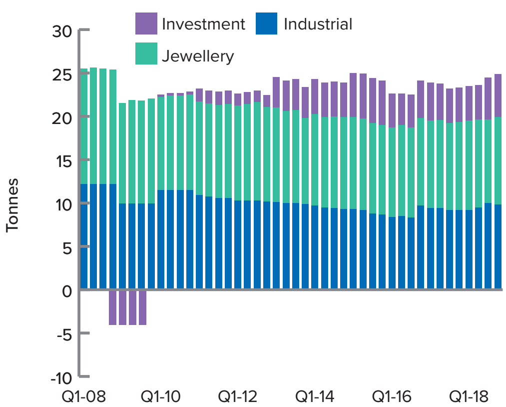
Meanwhile, gold demand from the **jewellery** sector remained at 10.1 tonnes in the fourth quarter, after a subpar performance in the third. While total demand from this sector remained at similar levels to the year before, the trend is pointing downwards as consumer sentiment has been waning. Consumers have become very sensitive to prices, and are now tending to buy smaller pieces, with the average price tag value continuing to decrease. Sales of the luxury brands from overseas continued to do well, however.

After strong demand for **investment** gold bars in the third quarter, investment demand dried up in the following months, falling by over 10% quarter-over-quarter. The surge of demand in the third quarter was boosted by advance purchases as a result of the price drop, and hence an inevitable slow down in the fourth. Last but not least, the increase in the gold price in December has also held back potential purchases, as investors were waiting for a price retreat before buying.

South Korea market outlook

Overall, Korea's country demand for gold increased modestly in 2018, with increased demand for gold from the industrial sector as well as for investment purposes more than offsetting the loss from the jewellery sector. However, we are not optimistic about the country's outlook on gold consumption in 2019, fearing that the consumer sentiment will continue to deteriorate in 2019. After supporting Korea's economy in 2018, even the domestic semiconductor industry looks shaky now as the amount of exports of semiconductors fell by 8.3% in December 2018, and the value of export in the first ten days in January 2019 plunged 27.2% year-on-year. The Korea Development Institute (KDI) said the domestic economy continued to show regression, mostly due to the slumping domestic consumption. The Hyundai Research Institute has recently predicted that the South Korean economy will grow at 2.5% in 2019, much lower than the central bank's prediction of 2.8%, and is predicting that the domestic economy will reach its lowest point sometime in the second half of 2019. Under President Moon Jae-in, South Korea has raised taxes and the minimum wage, hoping to kick start the economy. However the progress has been negative so far, as the increased costs for corporations have eaten into their already razor-thin margins, and because of this they have been reluctant to hire. As a result, we expect the gold consumption from the industrial and the jewellery sectors will decline in 2019, with the investment sector being the wild card.

South Korea gold demand



Source: GFMS, Refinitiv

Official sector

- Net central bank holdings rose to their highest level this decade in the fourth quarter (Q4), with total net purchases of 196 tonnes.

Net official sector purchases in 2018 have increased by an impressive 571 tonnes, marking the highest level of net purchases this decade. Following significant net purchasing throughout the year (in which the last three quarter of 2018 all recorded triple figure (in tonnes) increases), the final quarter of the year, which recorded a jump of 72% (year-on-year) to 195 tonnes, marks the single largest quarter of purchasing in our records. As we have witnessed for several years now, central bank purchases have been dominated by a handful of countries, namely Russia and Kazakhstan (which individually recorded in Q4 their 47th and 29th consecutive monthly gross purchase of gold). However, the elevated level of purchasing which has occurred over the last two quarters (with Q3 purchases at 185 tonnes), is a result of a shift in central bank behaviour from further Emerging Market (EM) countries, some of which have recorded muted or zero transactions (prior to H2) over this century.

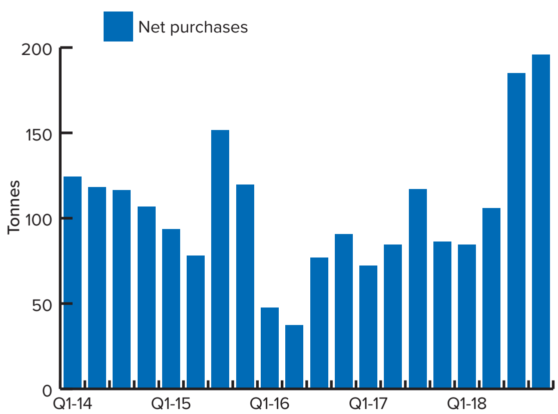
Total **gross purchases** for Q4 amounted to 204 tonnes, marking the highest level of net buying since Q4 2009. **Russia** continued to be the largest single acquirer of gold for the seventh consecutive year, with purchases rising to 66 tonnes for the quarter, and total year-to-date purchases rising to 264 tonnes, marking the highest annual purchase from the country in our records. Following a tumble in crude oil prices (which sank 34% to reach their lowest level since August 2017 in December) and a weakening rouble (which slipped 6% over the period), the central bank has continued to favour gold, particularly as a tool to diversify away from U.S. dollars in light of current European Union and U.S. sanctions. Meanwhile, other CIS countries similarly recorded purchases over Q4 with **Kazakhstan, Tajikistan** and **Kyrgyzstan** recording purchases of ten tonnes, three tonnes and one tonne respectively.

The second largest acquirer of gold over the period was **Hungary,** which purchased 28 tonnes. This purchase marked the countries first transaction since January 2017 and was likely influenced by the sudden drop in gold-denominated prices which fell to their lowest level in just over a year. Elsewhere, both **Poland** and **India** purchased gold for first time this century in 2018, with Q4 purchases of 12 tonnes each. A further notable acquisition came from **China,** which announced in December a purchase of 10 tonnes, this is the first time the People's Bank of China have reported a change in their holdings since October 2016. Other smaller purchases of two tonnes came from **Mongolia** and **Argentina**, while one tonne purchases came from **Malaysia** and **Egypt**. Gross sales on the other hand remained limited in Q4 at nine tonnes, with the only substantial sale occurring from **Turkey** at six tonnes (opposing the prior six month period of net purchasing), as the lira managed to stabilise itself and rebound over the quarter by 14% (having previously tumbled over the majority of 2018) in light of foreign currency debts issues (largely build on U.S. dollar) and indeed the country's strained relationships with both the United States and Germany.

Market outlook

We forecast that net official purchases, will continue to remain robust for the year to come, particularly in the first half of the year, while gross sales levels (which have remained far below 2010 levels over the last seven years), are expected to remain weak. Gross purchases are likely to remain dominated by Russia, particularly in light of the threat of fresh sanctions from the West and a weakened rouble, while other emerging markets suffering from trade disputes and rising yields will seek to diversify away from the U.S. dollar where possible. China is expected to continue buildings its gold reserves from its current low base (of which gold only marks 2.4% of its foreign exchange reserves compared to most European countries which hold 60%-80%).

Official sector net purchases



Source: GFMS, Refinitiv

Vietnam

- A sharp rise in unofficial flows suggests Vietnam gold demand on the rise.

The Vietnam gold market remains closed to official gold bullion imports with the State Bank of Vietnam (SBV) introducing Decree No.24 in 2012 which delivered the Government a monopoly on gold bullion production and import and export of the metal. Since then domestic demand has been largely serviced by unofficial or smuggled bullion flows with the volumes of this parallel trade often a good proxy for local consumption trends.

The most common route for metal flowing into Vietnam is via Cambodia which in recent years has become a significant gold market in its own right as it is now the major conduit for its neighbour. Singapore is the major source of supply for the shipments to Cambodia while Thailand also emerged as a significant source in 2018. Last year bullion flows from Singapore to Cambodia to end-November topped 90 tonnes, a 123% jump over 2017 volumes. In addition, a further 37 tonnes was delivered via Thailand in just the first nine months according to customs data, more than doubling the previous year. Cambodian gold consumption, while rising as the economy has strengthened, is still a relative minnow in a very large pond. The vast bulk of these metal flows are destined for its larger neighbour.

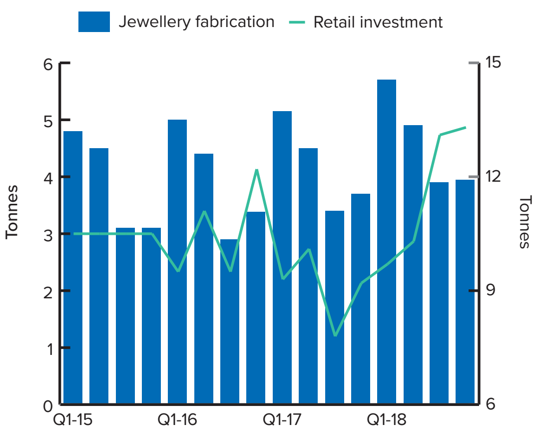
Having just returned from research visit to the region and after spending time in Vietnam the expected increase in demand as a result of the addition imports was not clearly apparent. **Jewellery** demand has certainly been strong in 2018 and looks set for a decent annual increase, helped higher by a rapid expansion of several prominent local retailers, but mainly as a result of strong demand for 24-carat rings and medallions, which are purchased as a quasi investment option. With limited access to locally produced gold bars (Saigon Jewellery Company (SJC) consumers wishing to buy gold as a hedge against a weaker currency or higher inflation have been turning to this higher purity jewellery. This gold jewellery is often sold encapsulated in hard plastic like a small gold bar and attracts a third of the premium of the locally traded SJC bars. Our analysis suggests jewellery consumption in Q4 increased 6% year-on-year with full year growth more than 11% stronger.

Retail investment on the other hand is harder to quantify. Gold bar sales through official channels such as jewellery retailers and domestic banks slowed considerably last year as a lack of access, due to the tight government control, and higher premiums have limited consumption. If this was how we measured overall demand then consumption in Vietnam would have fallen sharply last year. However the high level of unofficial flows into Vietnam last year suggests investment demand actually remains elevated. While offtake of the tightly governed SJC bars has been tempered by this lack of availability, demand for foreign branded kilo bars, or parts thereof, (kilo bars are often cut and sold in portions) has risen dramatically. Domestic SJC bars are sold at a hefty premium while this smuggled material is much cheaper to purchase. The local price in Vietnam often trades at near $30-50/oz premium to the international price so even if there is a small smugglers fee built into the price, the foreign gold bar is often more affordable. Anecdotal evidence suggests consumers are still purchasing gold (in large volumes) as a means of protecting themselves against further currency devaluation and inflation. We estimate that investment demand in Vietnam jumped 45% in Q4 year-on-year and remains 36% stronger in 2018 on a year-on-year comparison.

Vietnam market outlook

We expect jewellery consumption to continue to expand into 2019 as investment driven purchases help augment the rapidly expanding retail sector. The tight government control of the gold market will place a cap on retail investment, but with a strong underlying demand present the unofficial sector is expected to flourish. With this in mind we expect to see significant gold bullion flow to Cambodia once again.

Vietnam jewellery consumption & retail Investment



Source: GFMS, Refinitiv

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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.

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