GFMS GOLD SURVEY 2019
H1 UPDATE & OUTLOOK

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GLOBAL REVIEW AND OUTLOOK

- **The gold price broke through the $1,430/oz level in late June, trading at a six-year high, as the U.S. Fed re-opened the door for interest rate cuts on rising global economic and political uncertainties.**

There has been a positive change in the gold sentiment in 2019, particularly so in the second quarter, supported by renewed global economic and political uncertainties, an escalation of a trade dispute between the United States and China and, importantly, a shift in the mood among the world's key central banks towards looser monetary policy. Indeed, the ECB extended its pledge to keep interest rates at record lows until the middle of 2020 and signalled a possibility of a fresh stimulus and even rate cuts if the economic slowdown and weak inflation persist. Likewise, the U.S. Fed expressed its openness to easing, with growing market expectations that the rate cut will take place at the next FOMC meeting at the end of July. The gold price recorded a strong rally in June, appreciating by 9% since end-May and hovering around a six-year high by the end of the second quarter. That said, when compared on a year-on-year basis, it was down by 1% in the first half of the year due to a relatively strong performance in the first quarter of 2018.

Looking at professional investor activity, CFTC figures demonstrate some interesting shifts in the gold sentiment; net managed money positions switched from two consecutive weeks of net shorts in the second half of April to a net long of 714 tonnes by the end of June. The outright longs went from 285 tonnes in late April to 795 tonnes at end-June, the highest level since September 2017, while the outright short plunged by 85% during this period to just 54 tonnes, a level last seen in February 2018. There is therefore plenty of scope for long liquidation, which leaves gold in a vulnerable position if the Fed fails to deliver a rate cut and adheres to a "wait-and-see" mode for a longer period. ETP investors have also been warming up to gold, adding 32 and 69 tonnes of gold to their holdings in the first and second quarters respectively, representing a net dollar inflow of $4.2bn for the six-month period. Meanwhile, **retail investment**, which is the sum of physical bar investment and all coin fabrication,

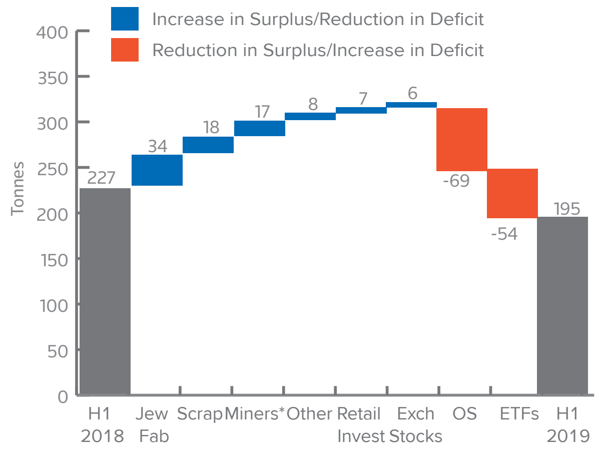
WORLD GOLD SUPPLY AND DEMAND

(tonnes)	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	YoY %
Supply										
Mine production	808	846	850	768	815	865	885	818	829	2%
Scrap	304	297	286	303	286	307	293	306	302	2%
Net Hedging Supply	-5	7	-25	57	-40	-38	29	-25	-4	-89%
Total Supply	**1,107**	**1,150**	**1,110**	**1,129**	**1,061**	**1,133**	**1,207**	**1,098**	**1,136**	**7%**
Demand										
Jewellery Consumption	517	455	591	466	469	442	527	454	460	-2%
Jewellery Fabrication*	551	537	584	533	506	533	556	508	497	-2%
Industrial Fabrication	94	95	96	96	98	99	97	94	92	-6%
...of which Electronics	69	69	70	71	73	73	72	69	68	-6%
...of which Dental & Medical	7	8	7	7	7	7	7	7	6	-8%
...of which Other Industrial	18	19	18	19	18	19	18	18	17	-6%
Net Official Sector	85	117	92	85	106	185	155	152	108	2%
Retail Investment	240	225	307	265	245	268	317	265	238	-3%
...of which Bars	176	159	237	199	179	186	233	193	171	-4%
...of which Coins	64	66	70	66	66	82	84	72	67	2%
Physical Demand	**970**	**975**	**1,080**	**979**	**955**	**1,085**	**1,126**	**1,019**	**935**	**-2%**
Physical Surplus/Deficit	**137**	**175**	**31**	**150**	**107**	**48**	**81**	**80**	**192**	**80%**
ETP Inventory Build	42	24	8	28	19	-100	110	32	69	269%
Exchange Inventory Build	-13	3	15	-4	-14	-8	4	-11	-13	-6%
Net Balance	**107**	**148**	**9**	**126**	**101**	**156**	**-34**	**59**	**136**	**34%**
Gold Price (London PM, US$/oz)	**1,256.6**	**1,277.9**	**1,275.4**	**1,329.3**	**1,306.0**	**1,213.2**	**1,226.3**	**1,303.8**	**1,309.4**	**0.3%**

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

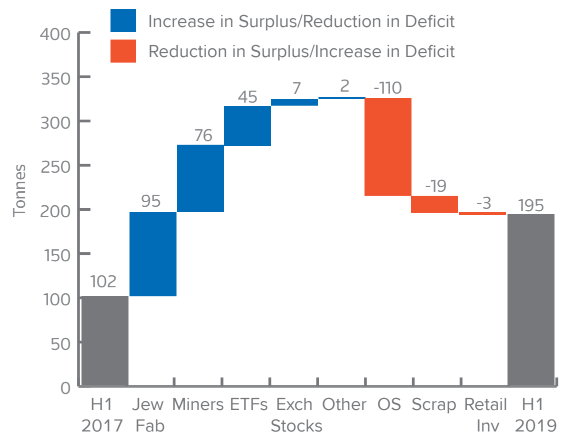
Totals may not add due to independent rounding. Net producer hedging is the change in the physical market impact of mining companies' gold loans, forwards and options positions.

H1 2019 BALANCE COMPARED TO H1 2018



Source: GFMS, Refinitiv *Sum of production and hedging

H1 2019 BALANCE COMPARED TO H1 2017



Source: GFMS, Refinitiv *Sum of production and hedging

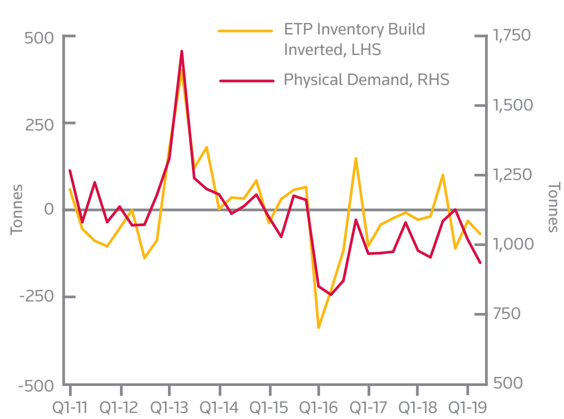
slipped by 1% year-on-year in the first half, with a drop in bar demand offsetting higher coin offtake. **Physical bar investment** dropped by 4% to 364 tonnes. It is interesting to note that demand in China and India, which together account for 40% of the global total, remained stable in the first half of the year. In the case of China, a strong start to the year was followed by months of moribund demand due to a remarkable performance in the domestic stock market. India, on the other hand, saw lower offtake in the first quarter, before sales improved in the second quarter on rising marriage and festival demand. Excluding these two countries, gold bar demand in the rest of the world fell by 6%. Strong equity markets performance and the gold price rally, particularly in May-June, saw European investors liquidating some of their gold assets to lock in profits, most prominently in Germany and Switzerland, which combined represent 15% of global bar demand. **Coin fabrication** rose by 4% to 98 tonnes, led by strong gains in Africa and Asia, partly offset by weaker demand in Europe and North America. Demand for medals & imitation coins jumped by 11% to 41 tonnes, driven by strong offtake in India.

Jewellery fabrication slipped by 3% in the first six months, with losses recorded by all the major regions, with the exception of South America. Chinese offtake was down by 5% as the economic uncertainty put pressure on consumer spending, while this was partially offset by a 2% rise in Indian jewellery demand. Jewellery demand in Europe posted the largest drop of 13%, as long-term structural factors, along with slowing economic growth and higher gold prices weighed on consumption. **Central bank purchases** rose by 39% to 260 tonnes in the first two quarters; Russia remained the largest single buyer of gold for the fourth year in a row, while China reported an increase of 64 tonnes in official gold holdings since January, compared to zero in the same period last year.

OUTLOOK

We expect gold to average $1,350/oz in 2019, with a possibility to test and move beyond $1,500/oz later in the year, particularly should we see further escalation of global economic concerns and major central banks reverting to monetary policy easing. That said, if the Fed fails to deliver a rate cut at the July FOMC meeting and leaves its policy unchanged for a longer period, there could be a swift change to a stronger dollar and a sharp drop in the gold price, particularly given the current speculative positioning. While economic uncertainty may hurt gold demand in China, a convincing recovery in the gold price will likely attract investors. Meanwhile, Indian gold consumption will depend on the current monsoon progression, although elevated gold prices may keep demand in check.

QUARTERLY PHYSICAL DEMAND & ETP BUILD INVERTED



Source: GFMS, Refinitiv

CHINA

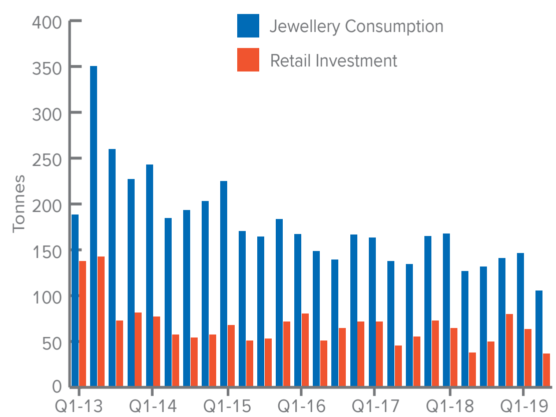
- **Gold demand from the jewellery sector fell by 4.7% year-on-year in the first half of 2019, to a total of 335 tonnes, due to the slowdown of the Chinese economy which has impacted consumer sentiment.**
- **On the other hand, investment demand remained stable, with retail investment demand dipping 1.6% on an annual basis in the first six months of 2019, to 101 tonnes.**

While on first glance it appears the Chinese gold market was relatively stable in the first half of 2019 with jewellery fabrication volumes only falling 5% to 335 tonnes, we need to caution that jewellery consumption fell by a steep 14.5% during the same period. Chinese retail consumption in general (not just within the jewellery segment) has deteriorated rapidly in the last nine months, and it has certainly affected the consumption of gold jewellery. The slowing of the domestic economy and manufacturing activities, rising unemployment rate and the gloomy outlook hindered by trade disputes with the United States, all forced consumers to tighten their purses. Even sales of high end luxury items like diamonds, which have managed to defy gravity in the past, are not immune to the economic slowdown this time around. However, the fabrication volume still managed to stay at relatively high levels compared to consumption because fabricators have been busy switching their product lines. In the last nine months, fabricators have been expanding both the 3D Hard Gold product lines (big jewellery pieces but hollow and thus use less fine gold) and the new 5G Gold (99.99% in gold purity but the hardness is similar to 18-carat gold pieces).

However, while the supply chain is bullish on the market potential for 5G Gold and are keen to grab a piece of the market share pie, the product quality of these items can vary significantly among fabricators, with the purity of some products not up to the required standard (and thus they are actually carat gold rather than pure gold), and we think that this may lead to buyers' remorse in the future. In addition, we have heard that wholesalers and retailers have been slow in making payments, because their businesses are also strapped by lower sales and reduced cash flows. We caution that any failure to honour payments by a medium sized player could possibly set off another round of industry consolidation throughout the supply chain.

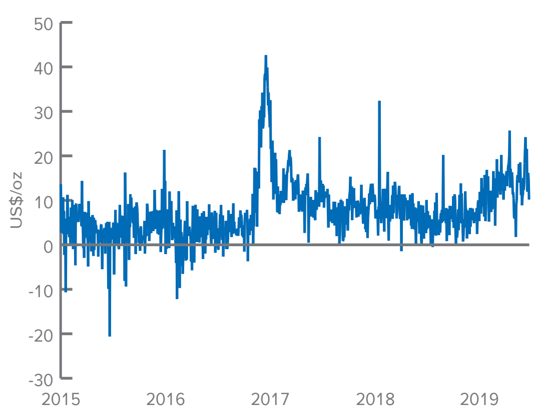
The Chinese community had high hopes on the gold price entering into 2019, and thus sales of gold bars in January were very strong. However, the disappointing price performance in gold, especially when compared to the outstanding return provided by the domestic stock market (The Shanghai SE A share index rose 24% in the first quarter this year, compared to 0.01% drop in the domestic gold price), gold was 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 did investors begin looking back to gold bars as an alternative investment.

CHINA JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Refinitiv

SGE GOLD PREMIA



Source: GFMS, Refinitiv

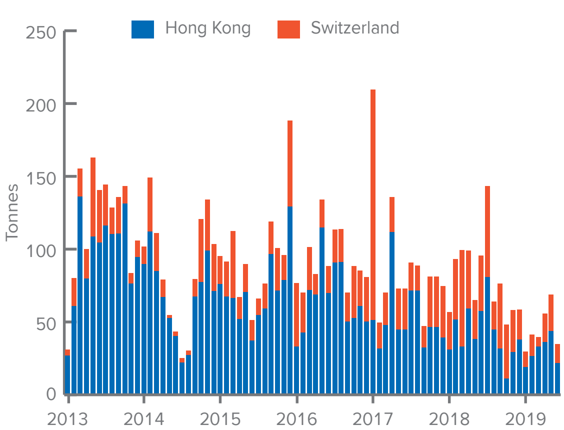
China's gold ETFs held a total of 41 tonnes of gold by the end of the first quarter this year, down from 44 tonnes recorded at the end of the 2018. Meanwhile, earlier this year four Chinese financial institutions filed applications to the authorities, to get permission to introduce (four) new gold ETF funds, where at least 90% of the funds would hold assets directly tying it to the Shanghai Gold (SHAU) contract.

Chinese gold scrap increased by 10.3% in the first half of 2019, the fastest growing pace since 2015. The increase in the gold price, the crash of the domestic stock market which led to liquidation of gold for cash, and an expansion of scrap collection channels all contributed to the increase in scrap flows. The traditional channels for people to turn their gold to cash, in order of market share, includes scrap collectors on the streets, banks and jewellery stores, which combined already make up over 90% of total scrap collections. However in recent years, a new channel has emerged that allows people to order a pickup of old gold from their homes through a click on their mobile phone applications (app). The expansion of the scrap collection through online channels have also increased scrap volumes (though not by much because it is still at early stages), with most of the participants using this channel aged between 20-50 years. Moreover, we are aware of a company that is planning to introduce a new scrap collection machine that will be placed on the streets like a vending machine. People can deposit their old gold items into the machine and it will immediately analyse the gold purity and weight, and then facilitate a cash payment within ten minutes.

Turning to imports, and after importing 1,259 tonnes of gold in 2018, which was 15% or 170 tonnes more compared to 2017, China imported just 357 tonnes in the first four months of 2019, a 23% drop or 110 tonnes less compared to the corresponding period last year. Import volumes in May were even lower. The low import volume so far this year does highlight a somewhat fishy situation in that despite China's softening spending sentiment, demand for gold has not fallen at a rate in line with the drop in import volumes, and indeed the Chinese gold premium was on an uptrend before retreating in July. A reasonable speculation to draw is that the People's Bank of China (PBOC) has been discouraging Chinese banks from importing gold, with the aim to limit the outflow of the yuan. The PBOC is serious about protecting the yuan exchange rate from falling over 7 against the U.S. dollar, after currency weakness was stimulated by a series of trade disputes and negotiations with the United States slightly more than a year ago.

In May, China imported 22 tonnes of gold through the Hong Kong hub, compared to 58 tonnes in the corresponding period in 2018. It was also the lowest monthly import volume so far in 2019. Imports from Switzerland fell 47% from April, to just 13 tonnes in May. Combined, China imported slightly less than 36 tonnes of gold from Hong Kong and Switzerland in May, the lowest monthly shipments since December 2018.

GOLD IMPORTS FROM HONG KONG & SWITZERLAND



Source: GFMS, Refinitiv

CHINA MARKET OUTLOOK

We expect gold consumption in China will further contract as the domestic economy does not look like it will improve significantly in the short term. The wild card depends on investment demand. Initially the Chinese investment banks were eagerly promoting gold as an investment vehicle in June, only the enthusiasm vanished after it failed to break above $1,438/oz twice, and many who relied on purely technical analysis turned bearish on the gold price and thought gold would fall back in to a bear market. However, if the gold price can break above the resistance in a convincing fashion, it will certainly lure investors back into gold.

QUARTERLY JEWELLERY CONSUMPTION

(tonnes)	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	YoY %
Europe										
Turkey	11.0	10.4	9.3	10.2	9.7	6.4	6.9	8.5	7.9	-19%
Russia	8.3	8.3	9.9	7.9	7.7	8.0	9.6	7.5	7.4	-3%
Italy	3.4	2.3	9.1	2.4	3.3	2.2	8.5	2.2	3.0	-10%
United Kingdom	2.8	3.7	12.1	3.0	2.8	3.5	11.2	2.9	2.7	-3%
France	2.0	1.5	5.9	2.2	2.0	1.5	5.7	2.1	1.9	-5%
Spain	1.8	1.7	2.5	1.6	1.7	1.7	2.5	1.6	1.7	-4%
Germany	1.8	1.2	5.6	1.6	1.7	1.3	5.7	1.4	1.5	-15%
Europe Total	**31.3**	**29.2**	**54.4**	**28.9**	**28.8**	**24.5**	**50.1**	**26.2**	**25.9**	**10%**
North America										
United States	29.4	34.0	36.6	20.8	31.9	39.2	40.9	23.2	26.8	-16%
Canada	3.8	3.7	4.7	3.0	4.2	3.7	4.7	3.6	4.1	-2%
Mexico	2.1	1.8	2.2	2.5	2.0	1.8	2.2	2.6	2.0	1%
North America Total	**35.4**	**39.5**	**43.5**	**26.3**	**38.1**	**44.8**	**47.7**	**29.3**	**32.9**	**-14%**
Asia										
India	185.4	133.9	190.8	111.5	145.8	120.3	161.5	120.7	168.6	16%
China	137.6	134.5	165.0	167.8	126.8	131.7	141.1	146.2	105.6	-17%
UAE	11.1	7.4	17.8	10.2	11.0	7.7	12.5	9.4	10.7	-3%
South Korea	10.2	10.0	10.1	10.1	10.3	9.8	10.0	11.0	11.2	9%
Hong Kong	9.5	10.1	10.2	11.4	11.6	11.2	9.8	11.2	10.8	-7%
Indonesia	7.2	7.6	11.5	10.3	8.8	8.8	12.6	10.8	9.3	6%
Iran	11.1	11.3	11.2	9.9	8.6	7.5	7.6	8.9	7.6	-12%
Saudi Arabia	10.5	8.8	8.9	7.6	9.8	9.4	8.6	8.1	9.3	-5%
Bangladesh	4.9	5.4	4.2	5.4	5.9	5.3	3.9	5.5	6.1	3%
Vietnam	4.7	3.4	3.8	6.1	5.5	4.5	4.6	6.5	5.6	1%
Kuwait	4.6	3.0	3.4	5.2	4.7	3.4	3.8	5.9	5.2	-6%
Israel	5.0	5.0	5.0	5.0	5.1	5.0	5.1	5.2	5.1	0%
Japan	4.4	4.8	4.8	4.7	4.2	5.1	4.5	4.8	4.3	2%
Thailand	4.0	3.2	3.3	4.8	4.1	3.6	3.1	4.7	3.8	-7%
Pakistan	4.2	3.1	4.2	3.7	3.5	2.9	3.4	3.3	3.3	-6%
Iraq	3.1	3.3	3.7	3.1	3.0	3.4	3.3	3.2	3.0	0%
Lebanon	2.6	2.4	2.8	2.4	2.5	2.5	2.3	2.3	2.3	-6%
Singapore	2.3	1.9	2.5	2.2	2.9	2.6	3.0	2.0	2.5	-14%
Jordan	3.5	3.4	3.7	2.6	2.7	2.6	3.4	2.6	2.6	-5%
Bahrain	2.2	2.5	2.3	2.5	2.4	2.7	2.7	2.6	2.3	-4%
Taiwan	1.2	0.9	1.4	1.4	1.2	0.9	1.3	1.3	1.2	-2%
Other Asia	6.8	7.4	7.7	7.1	6.3	7.8	7.7	6.5	6.0	-1%
Asia Total	**437.2**	**375.1**	**480.6**	**396.6**	**387.7**	**360.4**	**417.0**	**383.5**	**386.5**	**0%**
Africa Total	**5.5**	**5.5**	**5.6**	**7.1**	**6.0**	**6.10**	**6.0**	**7.7**	**6.5**	**9%**
South America										
Brazil	4.7	3.4	3.7	4.5	5.0	3.5	3.5	4.6	5.1	3%
Other South America	3.0	2.9	2.9	2.9	3.0	2.9	2.9	3.0	3.0	2%
South America Total	**7.7**	**6.2**	**6.6**	**7.4**	**7.9**	**6.4**	**6.4**	**7.5**	**8.1**	**2%**
World Total	**517.0**	**455.4**	**590.6**	**466.3**	**468.6**	**442.2**	**527.2**	**454.2**	**459.9**	**-2%**

Source: GFMS, Refinitiv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1 kg
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INDIA

- **Indian retail gold demand in H1 2019 increased 11% year-on-year, with Q2 posting a 14% rise.**
- **Jewellery consumption increased by 12%, while investment demand rose by 5% on an annual basis. Higher marriage days, together with heavy purchases during 'Akshaya Tritiya' resulted in the rise.**
- **India imported 427 tonnes of gold in H1, an increase of 17% from the same period last year.**

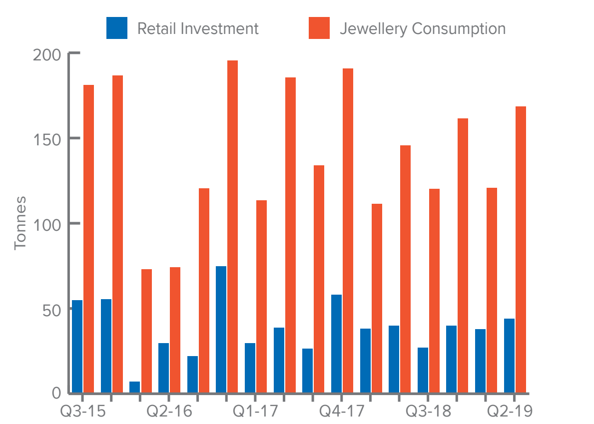
Indian gold demand in Q2 increased by 14% on rising marriage and festival demand, propelling H1 demand 11% higher year-on-year. Jewellery demand increased by 16% to 168 tonnes, while investment demand increased by 10% to 44 tonnes. While the average H1 gold price was 6% higher year-on-year, consumers bought in advance, both for marriage and investment purposes, anticipating the price would trend higher. This eventually did happen, and as a result demand came to a halt in the month of June. Nevertheless, the first half of this year remained the best six months since H1 2015. Total demand for the period stood at 371 tonnes. Of this, jewellery consumption attracted 289 tonnes, while investment demand was 82 tonnes.

Jewellery fabrication increased by 2% to 297 tonnes in H1, however, in Q2, it increased by 12% to 160 tonnes. Jewellers offloaded some of their holding stocks, and as a result the rise in fabrication demand was lower than the overall rise in the retail segment.

India imported 428 tonnes of gold in H1, a rise of 17% from the same period last year. Of this, net imports for domestic consumption stood at 279 tonnes, compared to 238 tonnes a year ago. While Indian refiners supplied the bulk of the gold into the market, supply from this source grew only 2% year-on-year. This reflects that the supply from refiners is nearing saturation point, understandably so because the supply from mines is limited. That paved the way for Indian banks to return to the business. Banks imported 123 tonnes of gold for domestic consumption in H1 compared to 85 tonnes in the corresponding period, a rise of 45%. It made sense for banks to bring more gold this time as the broad market remained in 'premium', which they lost to refiners last year on lower demand and a 'discounted' environment.

Scrap supply increased notably towards the end of the second quarter, a key thing to observe for the rest of the year. At present, the price is higher by 8% from the end of May. India did well on the jewellery export front too. We estimate that official (genuine) exports increased by 15% in the first half of the year to 28 tonnes. However, round-tripping continues and we estimate these flows to have increased by 30% from the corresponding period in 2018, to 88 tonnes.

INDIAN JEWELLERY CONSUMPTION & RETAIL INVESTMENT



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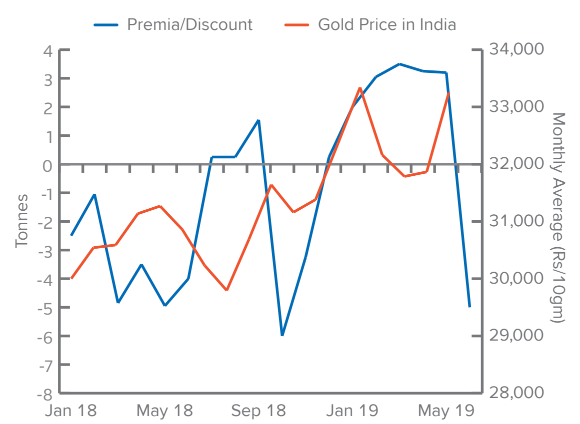
INDIAN GOLD PRICE



Source: GFMS, Refinitiv

Rise in Gold Import Duty.

The government of India, in its 2019-20 Union Budget, increased the import duty on gold by 2.5%, which has made the yellow metal costlier by around Rs.800/10gm (US$ 12) based on the price prevailing before the hike. With this hike in force, the import duty on refined gold is pegged at 12.5% while gold doré is charged at 11.85%. The government hiked duties not only on gold, but other commodities, like petrol and diesel as well. In our view the move is primarily intended to meet the fiscal target as revenue realisation has not occurred as expected. The rise in import duty on gold will add an additional $700 to $800 million will come to government's exchequer. The price of gold soared exponentially in India along with the rise in price of the international benchmark. The additional duty, however, has worsened things further as it provides a dividend to the unoffical trade, which is expected to rise as a result. But the government believes that they are in control to thwart the unofficial supply. So far this year, unofficial supply has indeed been muted, but that is because the general election took place in the second quarter which saw smugglers remain quieter than usual due to a heightened vigil by authorities. That might be the one factor behind the rise in official supply.

Monsoon on Target for Deficient in 2019.

The monsoon hit the Kerala coast one week late this year, and later cyclone 'Vyue' that lay centred over the Northeast in the Arabian Sea disrupted the progression of the monsoon as it took away the moisture. This resulted in the driest June month in recent years. In normal conditions, the monsoon generally covers the whole of India by end of June. This year, however, it covered just one third of the country (as per Indian Meteorological Department data) and has already disrupted the sowing progress. July is the most critical month to watch as historically any disruption in this month has resulted in severe drought conditions. India depends primarily on four months (June to September) of monsoon rain for its agriculture produce and the rural community is the largest buyer of gold. The effect of the monsoon on the demand of gold is primarily the mechanism of realisation from the agricultural produce.

INDIAN MARKET OUTLOOK

In a final outlook, keeping in mind the current rate in monsoon progression and with the persistent high price of gold, we remain cautious in our estimate for the last two quarters of this year. As per our analysis, the average H2 jewellery and investment demand in the last five years remained at around 330 tonnes and 89 tonnes respectively. We believe this year it may well fall short in both segments, at least by 8% for jewellery and 12% for retail investment from the five year average.

INDIAN GOLD IMPORT ESTIMATES BY SOURCE PRODUCT

Imports (tonnes)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Banks						
Duty paid	45.3	39.4	50.9	42.9	32.0	91.0
Duty free	7.9	11.4	11.5	9.0	10.2	9.9
Nominated agencies						
Duty paid	8.5	14.4	18.5	11.2	2.5	19.1
Duty free	2.7	1.1	1.3	2.4	3.1	0.9
Fine gold from doré	58.1	72.7	83.0	67.5	58.9	75.1
Direct import by exporters	41.9	60.8	52.3	42.0*	62.8	62.3
Total	**164.4**	**199.8**	**217.5**	**175.4**	**169.5**	**258.3**
Net import	**111.9**	**126.5**	**152.4**	**121.6**	**93.4**	**185.2**
Unofficial Imports	21.6	25.2	35.0	38.0	15.0	20.0
Average price (Rs/10 grammes)*	**30,352**	**31,081**	**30,101**	**31,222**	**32,614**	**32,280**
Average premia/(discount) in domestic in $/ounce **	(2.8)	(4.15)	0.68	(3.0)	2.8	0.4

Source: GFMS, Refinitv; IBJA*, NCDEX**, Various Sources

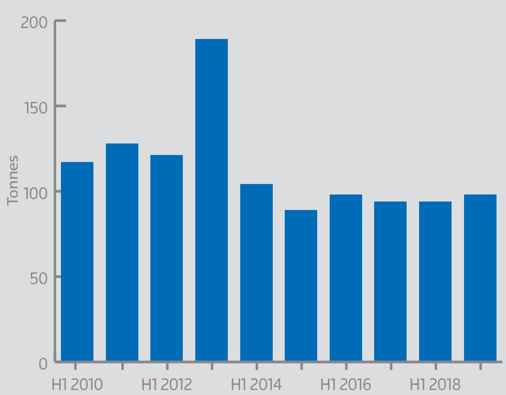
OFFICIAL COIN UPDATE

Official gold coin fabrication rose by 4 tonnes or 4% in H1 year-on-year, to 98 tonnes, its highest H1 level of fabrication since 2016. This impressive performance comes on the back of amplified demand last year over the Q2-Q4 periods where increased uncertainty in the financial markets, alongside slowing global growth encouraged demand for the safe haven asset. On a geographical basis, Africa recorded the largest increase in growth (in volume terms), with fabrication jumping by 8 tonnes or 25% to 38 tonnes, its highest H1 level on record. This increase in fabrication marks the fifth year of consecutive rises, in which Africa's market share has jumped from 13% to its current 39% over the period, marking **Africa** as the current largest regional fabricator. While the local currency appears to have had little effect on fabrication levels in the last few quarters, we believe the increase in coin range and size availability, including the particularly poignant 2019 kruggerand coin 'Celebrating South Africa – 25 years of Constitutional Democracy' has encourage purchases. Meanwhile, the second largest area of growth came from **Asia**, in which fabrication jumped by 2 tonnes or 13% to 19 tonnes, its highest H1 level since 2015. This result marks the second consecutive year of increased fabrication from the country, although its market share remains significantly lower than ten years ago, having fallen from 27% to just 19%.

Elsewhere, fabrication levels suffered over H1, with the largest decline coming from **Europe,** falling by 5 tonnes or 15% to 27 tonnes, its lowest level since 2016. This decline marks the second year of falling output over the H1 period. We believe fabrication levels have been limited given the uncertainty across the region, limiting consumer spending as the Brexit deadline looms in October and economic growth falters. Indeed, concerns for the regions welfare have raised market expectations that the ECB will have to go back to more accommodative monetary polices this year. Weakened fabrication levels were also recorded in **North America**, in which demand declined by one tonne or 5% to eleven tonnes, its lowest level on record. Over the last ten years, North American fabrication has dwindled with its current market share at just 12% from 32% in 2010. Despite last year's positive outlook for the economy, with a rallying dollar and four interest rate rises, the picture this year is rather different, with increased uncertainty for economic growth both globally and domestically being fuelled by ongoing trade tariff wars with China and indeed geopolitical tension with Iran. However, despite the Federal Reserve likely to have to reverse its position and cut rates this year, demand for coins appears not to have been influenced as of yet. Elsewhere, demand was also recorded to have fallen in the Oceania category, declining by 1 tonne or 16% to three tonnes.

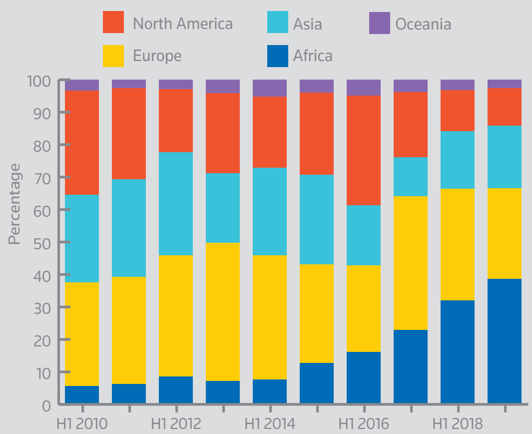
Looking to the remainder of the year, we believe that while threats to global growth, indeed both political and economic remain, it is highly likely that coin demand will remain elevated. While there is chance of a repeat performance of the end of last year, in which demand surged dramatically on the back of safe haven purchases, we believe moves made by central banks and indeed political relationships (the U.S. and China), alongside the unknown outcome for Brexit could further motivate sales. On a geographical basis, we forecast that Africa will continue to dominate the market for fabrication, particularly given that 2019 marks the 25th year of constitutional democracy in South Africa, while sales in Asia may further pick up, particularly given the fraught relationship with the United States damaging global trade.

H1 OFFICIAL COIN FABRICATION



Source: GFMS, Refinitiv

H1 OFFICIAL COIN FABRICATION MARKET SHARE



Source: GFMS, Refinitiv

UNITED STATES

- **Following a year of continuous increases in 2018, jewellery consumption slowed in H1 2019. Growth in electronic purchases, however, remained robust. Scrap returns rose, but not only for jewellery, on a rising price for gold allowing investors and scrap collectors alike to liquidate some of their gold positions.**

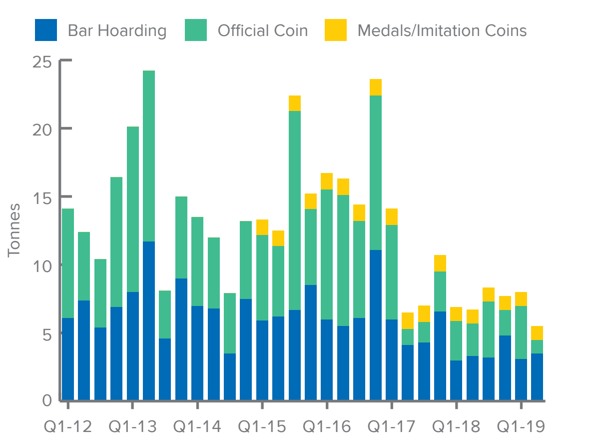
- **Retail investment came under further pressure in H1 this year, although bar demand and numismatic coins were moderately positive. However, bullion coin sales at the U.S. Mint had one of its weakest months on record in 2019 pushing the total for Q2 down considerably.**

Following a prolonged period of growth, the jewellery industry in the United States is finally showing signs of slowing. In fact, industry sales growth switched from positive in December 2018 to negative in January 2019 and has continued that trend year-to-date (ytd). Jewellers continued to face headwinds in H1 of this year, with store sales contracting $229 ml to an estimated $7.9 bn in Q2 this year. Electronic shopping, however, buckled the trend and continued to win in popularity increasing by another 15% in April. In regards to gold metal demand, we estimate consumption at the retail level was down 5% reaching almost 50 tonnes in H1.

Retail investment continued to struggle this year as well. We estimate bar and coin fabrication fell 1% in H1 this year to 13.5 tonnes. Both bullion & numismatic coins and bars account for approximately 50-50 in regards to investment demand. However, numerable differences have been recorded in regards to sales this year. We estimate that bars have made a small improvement of 5% in H1, which was countered by a drop in bullion coin sales of 9%. Indeed, bullion gold coin sales were particularly weak in Q2 recording just under 1 tonne in sales, which was the lowest level since the beginning of the millennium. Sales in both American Eagle's and Buffalo's were weak. Countering that development were sales in the numismatic category, which was almost exclusively led by American Eagle and Buffalo proof coins in the precious metals products category. Coin premiums for the American Eagle, for example, had doubled in H2 last year from as little as 1.5% to 3.0% over the July – September period, but stalled thereafter and have taken a steep dive back to the 1.5% area again this year.

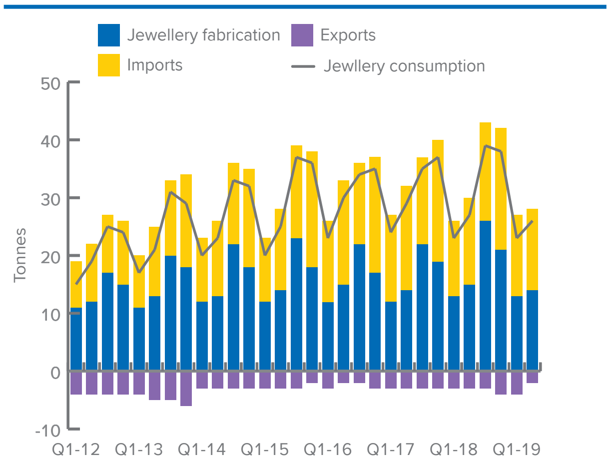
Much of the crash in coin premiums had to do with the rise in the gold price, particularly at the end of Q2 2019. From a low of $1,280/oz in the beginning of the year, the gold price advanced 12% or $152/oz to a high of $1,431/oz in June. Many investors, however, did not take this as an opportunity to buy physical precious metals, rather sold into a rising price trend. Bullion dealers therefore indicated that some buying was taking place, but the majority 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. Not all of this metal ends up as scrap, in fact the majority of coins and bars go to storage for resale at a later date. Nevertheless, jewellery and other scrap returns flourished in H1 of this year, pushing our U.S. gold scrap returns up 5% to 26.7 tonnes.

U.S. RETAIL PHYSICAL INVESTMENT



Source: GFMS, Refinitiv

U.S. JEWELLERY CONSUMPTION



Source: GFMS, Refinitiv

QUARTERLY RETAIL INVESTMENT

(tonnes)	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	YoY %
Europe										
Germany	23.3	19.9	34.1	20.9	23.1	20.9	35.2	21.8	21.0	-9%
United Kingdom	5.6	3.1	4.5	4.0	11.0	17.0	7.5	6.1	13.8	25%
Switzerland	8.0	7.4	10.9	11.7	7.6	7.1	10.5	11.2	7.0	-8%
Turkey	17.7	12.0	4.7	12.3	8.8	3.7	7.6	8.8	4.7	-47%
Belgium	4.5	2.6	5.3	2.9	4.4	2.6	5.4	2.9	4.2	-5%
Austria	2.7	4.8	4.8	2.7	1.8	4.8	5.4	1.9	1.8	2%
Czech Republic	1.0	0.7	0.9	1.1	1.1	0.7	0.9	1.1	1.0	-5%
Luxembourg	1.1	0.7	1.6	1.4	1.1	0.7	1.6	1.4	1.0	-3%
Poland	1.0	0.8	0.8	0.9	0.9	0.8	0.8	0.9	0.9	-5%
Netherlands	0.9	1.0	1.8	1.1	0.8	1.0	1.9	1.2	0.8	-6%
Spain	0.8	0.8	1.1	0.9	0.8	0.9	1.1	0.9	0.7	-6%
Other	3.1	2.6	4.1	3.3	3.1	2.7	3.4	2.1	1.7	-44%
Europe Total	**69.5**	**56.5**	**74.6**	**63.2**	**64.6**	**63.0**	**81.3**	**60.3**	**58.8**	**-9%**
North America										
United States	6.5	7.0	10.8	6.9	6.7	8.3	7.8	8.0	5.4	-19%
Canada	3.9	4.0	5.2	3.6	2.9	4.6	5.0	3.9	2.5	-15%
Mexico	0.3	0.4	0.3	0.6	0.2	0.3	0.3	0.6	0.2	1%
North America Total	**10.7**	**11.5**	**16.3**	**11.1**	**9.8**	**13.3**	**13.1**	**12.5**	**8.1**	**-18%**
Asia										
India	38.7	26.5	58.2	38.2	40.0	26.9	40.0	38.0	44.0	10%
China	45.5	55.2	73.0	64.4	37.8	49.9	79.9	63.8	36.8	-3%
Thailand	17.0	21.0	23.7	22.5	18.5	24.5	17.3	17.5	15.5	-16%
Iran	6.3	6.7	6.0	9.4	15.4	17.9	17.4	14.7	15.5	1%
Vietnam	9.4	8.8	9.2	11.7	11.3	14.1	15.3	12.2	10.5	-7%
South Korea	4.2	4.0	4.0	3.9	4.0	5.2	4.6	7.4	7.6	90%
Indonesia	3.5	3.1	2.4	2.4	2.9	4.3	3.5	3.4	3.0	3%
UAE	1.7	1.9	3.8	1.3	2.1	1.9	3.7	1.3	2.0	-4%
Singapore	1.8	1.9	2.1	2.5	2.5	2.3	2.2	2.1	1.9	-24%
Saudi Arabia	2.2	2.0	2.3	2.3	2.2	2.3	2.0	2.1	1.9	-14%
Pakistan	3.2	2.1	2.3	2.2	1.9	2.1	2.3	2.0	1.8	-5%
Taiwan	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.6	1.5	-4%
Kuwait	1.5	1.3	1.5	1.7	1.5	1.8	1.5	1.5	1.2	-20%
Malaysia	1.4	1.7	1.5	1.2	1.5	1.9	1.5	1.3	1.2	-17%
Cambodia	0.6	0.5	0.6	0.6	0.6	0.5	0.6	0.6	0.5	-9%
Hong Kong	0.5	0.5	0.5	0.5	0.5	0.4	0.6	0.5	0.4	-11%
Lebanon	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.4	0.4	-13%
Japan	0.8	(3.8)	1.0	1.1	2.0	5.9	(0.3)	(4.3)	(2.1)	-208%
Other Asia	2.3	2.0	2.3	2.2	2.1	2.2	2.1	2.2	2.2	5%
Asia Total	**142.5**	**137.4**	**196.2**	**170.1**	**148.6**	**166.1**	**196.1**	**168.3**	**145.8**	**-2%**
Oceania Total	**4.6**	**5.5**	**5.9**	**5.3**	**4.0**	**6.5**	**6.5**	**4.5**	**4.2**	**6%**
Africa										
South Africa	11.2	12.7	12.9	13.9	16.4	18.3	19.3	18.0	19.8	21%
Egypt	0.7	0.7	0.7	0.6	0.6	0.7	0.9	0.9	0.7	17%
Africa Total	**11.9**	**13.4**	**13.6**	**14.5**	**17.0**	**19.1**	**20.2**	**18.8**	**20.6**	**21%**
South America Total	**0.6**	**-0.6**	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.5**	**-3%**
World Total	**239.9**	**224.8**	**307.2**	**264.7**	**244.5**	**268.3**	**317.5**	**264.7**	**238.0**	**-3%**

Source: GFMS, Refinitiv

MINE SUPPLY

- **Global mine production rose by 51 tonnes or 7% year-on-year in the first quarter of 2019. The largest increase was posted in Oceania and Europe, which increased their combined production by 28 tonnes. The biggest losses were reported in Indonesia and Burkina Faso, mainly following lower grades and lower throughput at Grasberg mine, while the transition to underground mine continues. We estimate production in Q2 will reach 829 tonnes, representing a 2% rise from last year.**

- **Average Total Cash Costs dropped by 1% in Q1 2019 to $667/oz, while average All-In-Sustaining-Costs (AISC) decreased by 3% year-on-year to $868/oz.**

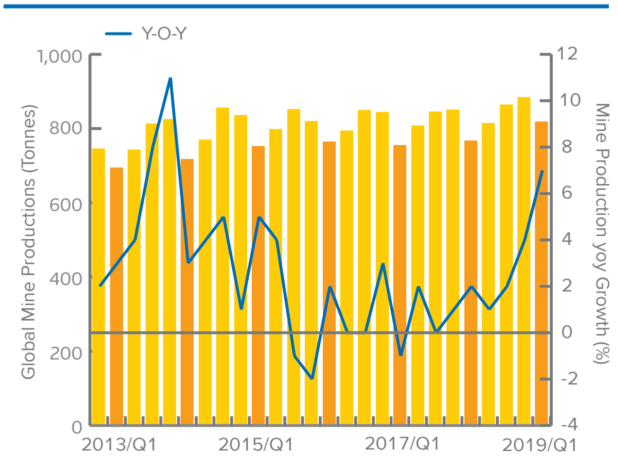
- **The global producer hedge book contracted by 25 tonnes on a delta-adjusted basis. Most of the hedging activity remains being represented by Australian-based companies, which are trying to secure high gold prices in local currency, after the depreciation of the Australian dollar. According to our estimations, 30 companies took a net de-hedging position, while only ten increased the size of their hedge book.**

MINE PRODUCTION

Global mine production rose by 7% in the first quarter of 2019, the largest year-on-year increase since the end of 2013. Mine supply is experiencing a growth momentum, where according to our estimates, during the last six years only three quarterly periods posted year-on-year losses, while average growth was 3%. Asia, the largest producing region, responsible for over a quarter of total global output, was the only region that reported losses, as production dropped by a modest 2 tonnes, following a significant output decrease at Indonesia's Grasberg mine, where the transition to underground mining is severely impacting throughput. Production dropped from 0.59 Moz (18 tonnes) in Q1 2018 to 0.16 Moz (5 tonnes) this quarter. We estimate output will recover slightly after the transition to the Grasberg Block Cave (GBC) is complete, during Q3. Also in Indonesia, further losses were posted at the Batu Hijau mine, as a result of lower grades, in addition to reduced operations during a week after a fatal accident occurred at the end of March.

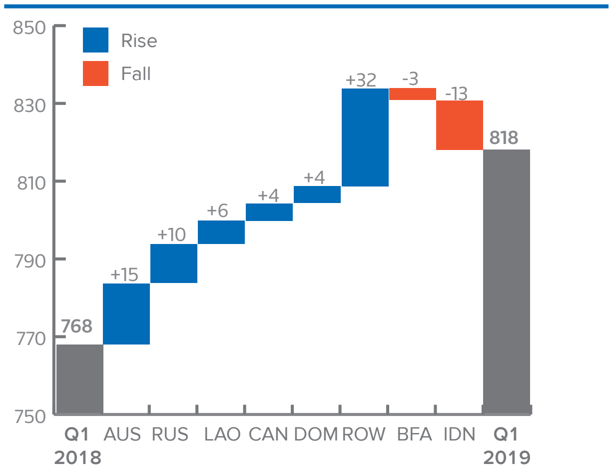
On the other hand, a 5% year-on-year production increase was posted in Barrick's Pueblo Viejo, where improved operational efficiencies improvements allowed for increased ore throughput. After the merger with Randgold and the fulfilment of the Nevada Joint Venture with Newmont, Barrick is making changes to its operational strategy, focusing on improving efficiency, while evaluating divesting some of its non-core assets. The company realised a total production of 1.37 Moz (43 tonnes) for the quarter, a 30% increase from Q1 2018, while maintaining its guidance production for 2019 between 5.1 to 5.6 Moz (158 to 174 tonnes). Recently rebranded, Newmont-Goldcorp's attributable gold output increased by nearly 2% on Q1 2019, totalling 1.23 Moz (38 tonnes), therefore becoming the world's second largest producer during this period. The main production gains were posted at its Subika Underground, part of the Ahafo mine, after a full quarter of operation,

GLOBAL GOLD PRODUCTION



Source: GFMS, Refinitiv

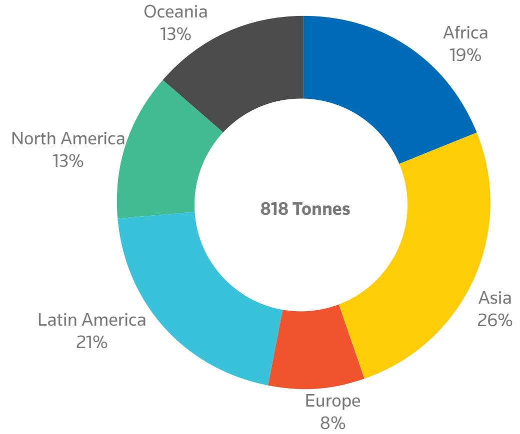
YEAR-ON-YEAR PRODUCTION VARIANCE



Source: GFMS, Refinitiv

and at the Merian and Yanacocha mines, after higher grades and higher recoveries were realised. Partially offsetting these increases, production dropped at Boddington, due to lower ore grades, while a failure in the East wall of the Kalgoorlie mine led to higher strip ratio and lower grades, pushing gold production down by a staggering 38%, while considerably increasing costs.

GOLD PRODUCTION BY REGION - Q1 2019

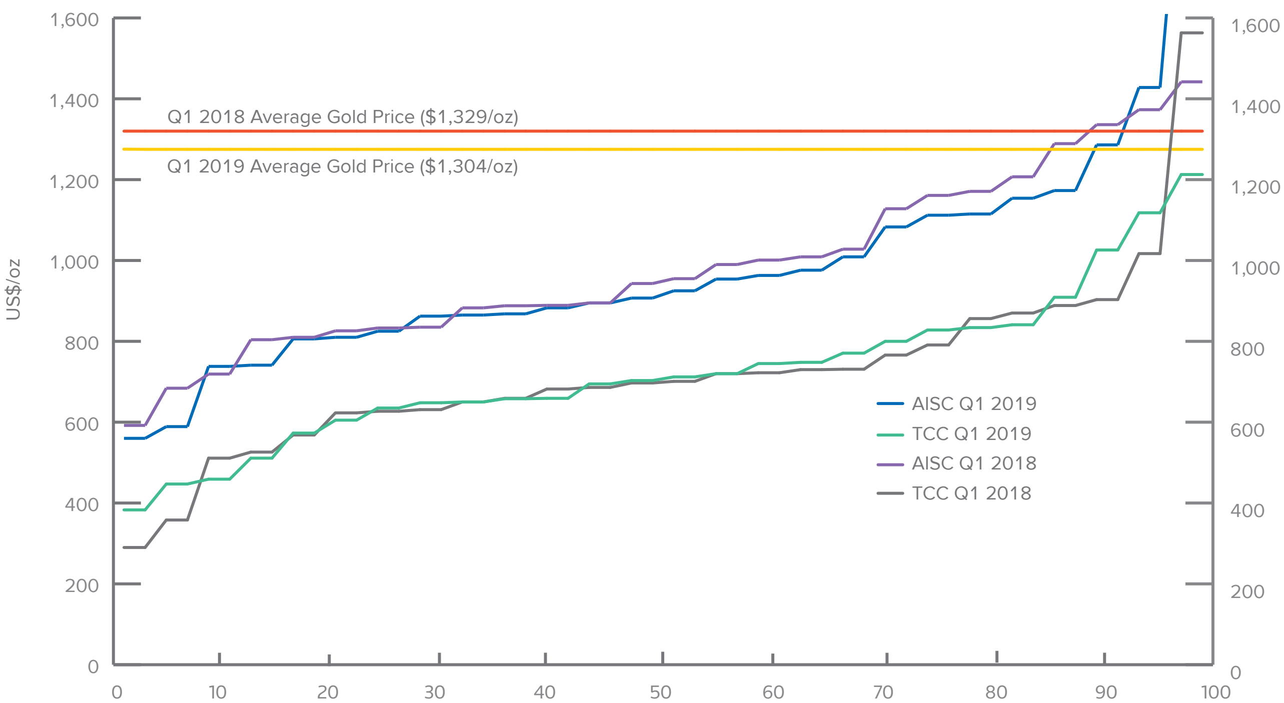


Source: GFMS, Refinitiv

At a country level, Australia realised production of 2.60 Moz (81 tonnes) during the first quarter of 2019, representing an 8% increase from the same period last year, the largest year-on-year production globally. The output growth was driven by strong results posted by Newcrest, where increased mill throughput and recovery at its Cadia Hill and Telfer mines pushed production up by 8% to 0.62 Moz (19 tonnes), in addition to a record-high production at Kirkland Lake Gold's Fosterville mine, where output nearly doubled compared to 2018, as an effect of increasing throughput, improved recovery rates and better grades, which soared from 16.8 g/t to 29.0 g/t. Further gains were posted in Russia, the world's fourth largest gold producer, as a result of Polyus' Natalka mine ramp-up, which operation started in H2 2018. The Russian-based company has increased its capital expenditures considerably over the last two years, with the objective of improving efficiency in its key assets, resulting in lower costs and higher gold output. We anticipate total output for H1 2019 will reach 5.29 Moz (1,647 tonnes), representing a 4% increase from the same period last year. On an annual basis, we expect production to rise 2%, totalling 109.39 Moz (3,403 tonnes) at the end of 2019, as we project production growth in Oceania, Africa and North America, offsetting losses in Asia, mainly in Indonesia.

Turning to mining costs, the majority of the top producers posted positive results, mainly driven by increasing production and optimization of processes. At a global level, Total Cash Costs (TCC) dropped by 1% to $667/oz, while All-in Sustaining Costs (AISC) decreased by 3% to $868/oz. According to our estimations, 8% of the mines in our database are sub-economical. South Africa, the world's highest costs country, improved its costs-efficiency by 2%, mainly due to better efficiency and lesser disruptions than previous quarters. South America, on the other hand, remains the most cost-efficient region, with average TCC and AISC of $628/oz and $828/oz, respectively.

GLOBAL TOTAL CASH AND ALL-IN SUSTAINING COST CURVES

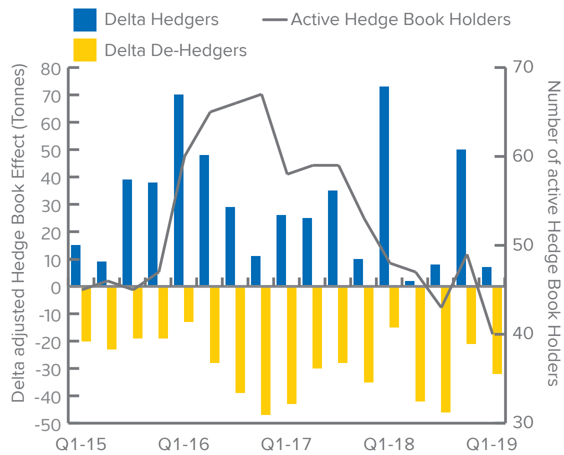


Source: GFMS, Refinitiv

PRODUCER HEDGING

Lower global economic growth expectations, increasing tensions between the U.S. and Iran, rumours surrounding further rate cuts by the U.S. Federal Reserve and the ongoing trade war amongst the two largest economies are fueling an optimistic scenario for gold prices. In this environment, gold miners are resilient to expand their hedge book in order to avoid capping the upside earning potential.

ACTIVE HEDGE BOOK HOLDERS



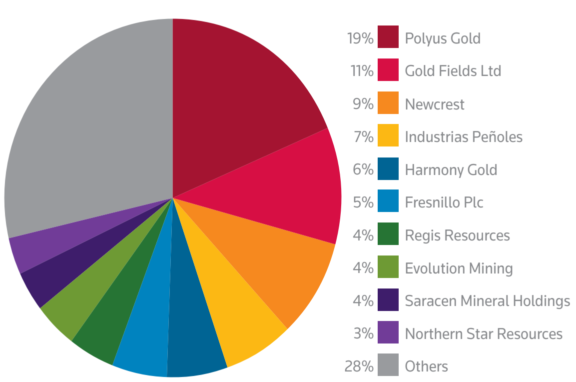
Source: GFMS, Refinitiv

The delta-adjusted hedge book contracted by 0.8 Moz (25 tonnes) during Q1 2019, representing a 12% decrease compared to Q4 2018. As a result, the hedge book stood at a total of 6.24 Moz (194 tonnes) at the end of March. Our records show that during the last quarter 30 companies took a net de-hedging position, while only 10 were net-hedgers. Amongst the last group, the largest hedger was Gold Fields, after increasing its options and forwards contracts by 0.12 Moz (3.6 tonnes), mainly at its Australian-based operations. The company holds the second largest nominal hedge book, totalling 1.06 Moz (32.9 tonnes). Other net-hedgers include Harmony Gold and Resolute Mining, with a combined 0.08 Moz (2.6 tonnes). Hedging activity remains strong mainly in Australia where the Aussie dollar has depreciated around 12% since January 2018, pushing companies to secure the favourable gold prices in the local currency. According to our estimations, over 45% of the total hedge book is represented by Australian-based miners, having increased considerably over the last few years.

Turning to the net de-hedgers, Russian-based Polyus Gold has remained at the top for two consecutive years, as it continues to exercise its barrier options, which are part of the Strategic Price Protection Programme signed in Q1 2014. Polyus holds the largest nominal hedge book, which adds up to 1.89 Moz (58.6 tonnes), representing 19% of the global total. Further de-hedging activity was posted during the last quarter by Fresnillo plc, as over 0.17 Moz (5 tonnes) of options matured during this period, while Newcrest delivered 0.12 Moz (3.6 tonnes). The Australian company hedged a portion of Telfer's production until 2023, locking-in near record-high gold prices back in 2016.

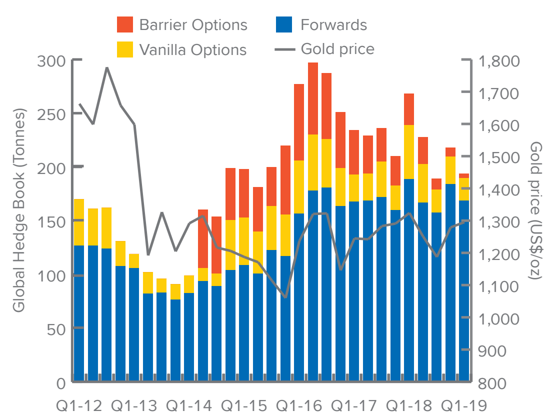
The delivery schedule for the rest of the year is 2.38 Moz (74 tonnes), of which around 0.87 Moz (27 tonnes) are due to mature during the second quarter of 2019. Even though some gold producers have already decided to increase their hedge books, the bulk of contracts during the recent months are relatively modest compared to historical data. We estimate hedging will continue to contract during the next few months, only recovering in Q4 as several Australian and Russian companies' will reach a low hedge ratio, possibly triggering new hedges.

TOP 10 NOMINAL HEDGE BOOK HOLDERS



Source: GFMS, Refinitiv

EVOLUTION OF THE GLOBAL DELTA-HEDGE BOOK



Source: GFMS, Refinitiv

OFFICIAL SECTOR

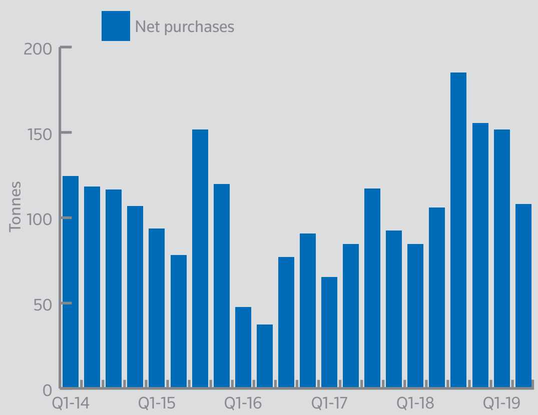
Net central bank holdings in the first half (H1) of the year increased by 36% or 69 tonnes year-on-year to 260 tonnes, the highest H1 level of purchasing since H1 2012. This impressive performance comes on the back of slowing global economic growth and heightened uncertainty in the financial markets, led by unresolved and escalating trade tariff talks between Washington and China, vagueness over the outcome for Brexit and rising geopolitical tensions between Iran and the United States.

Total **gross purchases** in H1 increased by 44% or 97 tonnes year-on-year to 317 tonnes, the highest H1 level of purchasing on record. While in the second quarter (Q2) we recorded a 139 tonne increase in purchasing, it was in Q1 that 178 tonnes of gold was purchased, marking the highest level of Q1 buying on record. **Russia** remained the largest single acquirer of gold for a fourth year in a row over the period, while marking a 13th consecutive year of purchasing over H1. Remaining and fresh Western sanctions on the country, in conjunction with volatile movements in the oil price and a weakening rouble encouraged the central bank to continue its multi-year purchase of gold in order to diversify its assets. In addition, other CIS countries such as **Kazakhstan** and **Kyrgyzstan** similarly continued to acquire gold, with holdings jumping by 20 tonnes and 2 tonnes respectively. Meanwhile, the People's Bank of China reported a 64 tonne increase in gold holdings since January, compared to zero in the same period last year. **China**, while not always reporting its gold holdings, has been steadily increasing the percentage of gold it owns against foreign exchange reserves, which stand at a significantly lower level (2.4%) compared to most European countries (60%-80%). This is particularly poignant when considering the U.S. holds the single largest quantity of gold to reserves at around 75%.

Elsewhere, further Emerging Market (EM) countries sought after gold with **India**, **Ecuador, Turkey**, **Argentina** and **Colombia** buying 18, eleven, ten, seven and six tonnes of gold respectively. India, which took fourth place as the largest acquirer of gold in H1, demonstrates the shift in attitude taken by more EM central banks towards gold, with the country more than doubling its level of gold purchases in H1 last year, having previously not bought gold in this period since turn of the century. As mentioned above, higher trade tariffs and slowing global growth continues to place these countries under strain. A smaller purchase of one tonne was recorded for **Serbia**. Gross sales for gold in H1 totalled 57 tonnes, an almost 90% or 28 tonnes increase year-on-year. While sales remain low on a historic basis, with countries such as **Germany** and the **Czech Republic** buying small quantities of gold (particularly in the beginning of the year as part of their coin programmes), buying two tonnes and one tonne respectively in H1. Other countries such as **Mongolia** and unusually **Tajikistan** also sold gold in the first half of the year at three tonnes and two tonnes respectively. Meanwhile, the largest contributor to the inflated sales levels comes from **Venezuela**. Despite the country not officially reporting a change in holdings since July 2018, a reported 44 tonnes of gold has been sold from the central bank by 'President' Maduro, in order to gain liquidity for the long suffering country, as U.S. sanctions have limited the country from participating in gold swap deals and indeed in the repatriation of gold from vaults such as the Bank of England.

Given the backdrop of uncertainty both politically and economically around the globe, central banks have been left to choose between cutting rates and turning to more accommodative monetary policies. Indeed, market expectations are for the United States Federal Reserve to cut rates two or three times this year (the first time since the financial crisis), while both the European Central Bank and the Bank of Japan are expected to loosen their monetary polices. Therefore, we forecast that gross central bank purchases will continue to expand, while gross sales levels remain limited. We forecast that Russia will continue to dominate purchases, while China will continue to expand its inadequate holdings of gold, particularly if trade tariff talks remain unresolved. Elsewhere, further EM countries are likely to want to increase their reliance of gold in times of uncertainty.

NET OFFICIAL SECTOR PURCHASES



Source: GFMS, Refinitiv

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SWITZERLAND

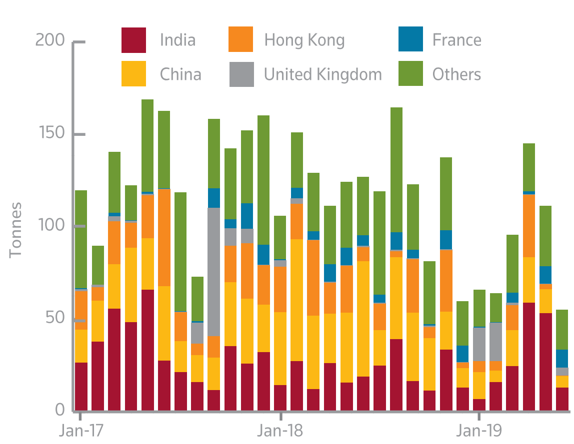
- **Jewellery fabrication continued to recover in 2019, thanks to buoyant demand from the watch industry and the high-end segment, although offtake weakened in the second quarter at higher gold prices.**
- **Gold bullion exports declined by 29% in the first half of the year, largely due to lower shipments to China, while India regained its position as the largest export destination for Swiss gold.**

Swiss gold jewellery fabrication, which is dominated by the watch industry and luxury brands, has performed relatively well so far in 2019, up by 7% year-on-year in the first half, marking the second successive year of growth. That said, the growth rate for the six-month period was substantially slower compared to 21% recorded over the same period in 2018 and 15% for the last year as a whole. Our quarterly analysis reveals that the first three months recorded a strong uptick in offtake, as the watch industry continued to recover, along with buoyant performance from high-end jewellery. According to the Swiss watch hallmarking data, the number of gold watches hallmarked rose by 34% year-on-year in the first three months. On the contrary, the second quarter saw jewellery fabrication decline, as demand and exports were hit by a strong rally in the gold price, which took the price in Swiss franc terms to a six-year high towards the end of June. Watch hallmarking data recorded a 23% year-on-year drop that month, with the total number of units for the second quarter rising by a mere 1%.

Similar to other countries in Europe, Germany most prominently, gold investment demand in Switzerland remained weak this year, with physical bar investment dropping by 6% in the first six months. This was a function of a prevailing risk-on mode among the investor community and a remarkable rally in the Swiss equity market to fresh highs. In addition, gold's breakthrough performance, especially in the second quarter, after a period of somewhat rangebound trading over the past couple of years, prompted investors to liquidate part of their assets to lock in profits. It is also worth adding that given the perceived status of the Swiss franc as a safe haven asset, domestic gold physical bar investment remains somewhat limited and the bulk of refined gold is, indeed, exported abroad.

Swiss gold bullion exports declined by 29% in the first half of the year, to 510 tonnes. The bulk of the drop was attributed to China, where demand for Swiss gold slumped by 69% to just 84 tonnes, the lowest half-yearly volume since 2012. This was likely a reflection of not only weak demand, from both the jewellery sector and retail investment, but also the PBOC's efforts to discourage gold imports and outflows of the yuan in order to protect the domestic currency from further weakness. As a result, India overtook China's place as the largest export destination for Swiss gold, accounting for more than a third of total exports, with deliveries rising by 50% in the first six months. The surge was driven by stronger jewellery consumption and investment demand. In addition, with the broad gold market staying at a premium and an unofficial supply remaining muted this year, it is not surprising to see a rise in official supply. Deliveries to the UK surged by 430%, attributed to London's status as a terminal market, particularly at a time of weak demand from China. On the other hand, Switzerland **imported** 942 tonnes of gold bars in the first half, down by 13% year-on-year, with Argentina and the UK being the biggest contributors to the fall.

SWISS GOLD BULLION EXPORTS



Source: GFMS, Refinitiv; Swiss Impex

SWITZERLAND MARKET OUTLOOK

The watch industry and the high-end jewellery sector will continue to remain resilient, while higher gold prices could further hinder sales for the mid-range segment, dragging lower the overall jewellery fabrication number. Meanwhile, we may well see more profit taking from investors should the gold price move sharply higher in the coming months.

THAILAND

- **Gold demand in Thailand eased as higher prices stimulated retail activity.**

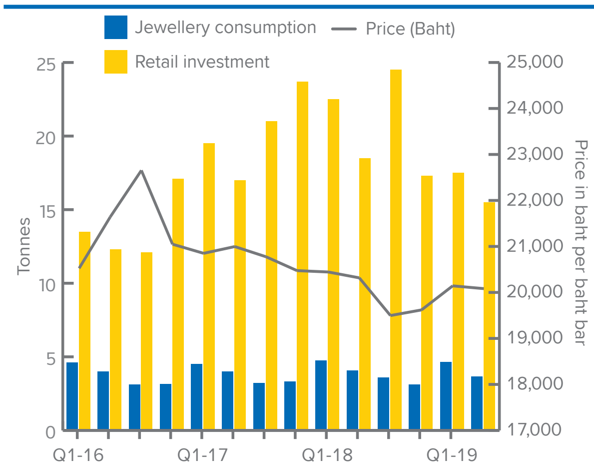
Having surged in the third quarter, Thailand gold consumption retreated in the final months of 2018 as higher gold prices dampened investor interest in the yellow metal. This weakness carried over into 2019, with demand for the most part impacted by elevated gold prices. The local price had bottomed at below 19,000 per baht bar in August, the first time gold in domestic terms had been below this level since January 2016, but by the start of the year the price was again trading above 20,000 per baht. This price level was not sufficiently high enough for investors to take profits, but was also too high for many speculative investors to enter the market; so many potential buyers stood at the side lines and waited for better trading conditions.

Demand in the first quarter was moderately weaker, with jewellery consumption down 2% on the previous year for the same period but retail investment demand, where the bulk of overall offtake resides, fell by more than 22% to just over 17 tonnes based on our analysis, due primarily to the higher price level. This trend carried over into the second quarter, with the range bound price doing little to stimulate activity. Indeed, jewellery offtake was 7% lower while investment demand retreated 16% on a year-on-year basis. Customs data backs up our research findings that the market was soft in those early months with bullion imports in the first quarter more than 50% below the previous year for the same period. Bullion flows did pick up in April as the price retraced briefly below the psychological level of 20,000 baht per baht bar (15.16 grammes), jumping to 18 tonnes, 65% higher year-on-year, but this was short lived as the bullion flows eased again in May to just 11 tonnes, a third lower than last year. By the end of May bullion imports at around 64 tonnes, remained 35% below the level recorded in 2018 for the same period.

Investment demand picked up quite strongly in June as gold started to trend higher. This was in reaction to the U.S. Federal Reserve announcement that there will likely be a rate cut in 2019, and as early as July, with the expectation of potentially higher prices encouraging investors back into the market. While demand picked up, so too did the level of liquidation as investors took profits. Many investors who had purchased gold at higher levels and had been holding onto to paper losses were finally able to sell out, and in most instances, book a profit as gold in local terms pushed through 21,000 per baht, a level not seen since September 2017.

With gold at a multi-year high in the local market, there was a notable surge in liquidations and scrap flows in June. Not just from investors offloading 4,9s and 965 purity investment bars, but also from those consumers selling back old jewellery. When the customs data becomes available for June, it is likely to show as sharp decline in bullion imports, but also a significant uptick in outflows as this excess gold was redirected to refineries in Switzerland, Singapore, and Hong Kong. With gold trading in a relatively narrow range up until the June price breakout, it was not surprising that bullion exports to the end of May, at 37 tonnes, were almost 20% below the levels recorded in 2018 for the same period.

THAILAND INVESTMENT AND JEWELLERY FABRICATION



Source: GFMS, Refinitiv

THAILAND MARKET OUTLOOK

The expectation among Thai investors broadly is that gold will track higher in 2019 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 physical investment demand, the jewellery segment remains weak, with the higher prices dampening consumer interest for now.

JAPAN

- **Japanese gold scrap exports declined in H1 2019, while retail investment shifted back into net dis-investment. In contrast, jewellery consumption was slightly stronger on a year-on-year basis.**

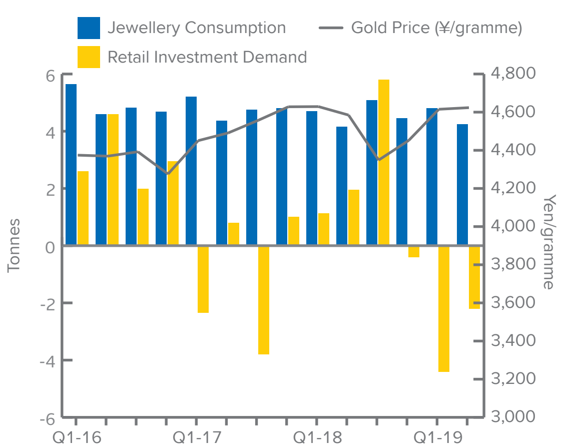
The Japanese government ramped up its efforts last year in an attempt to reduce the amount of smuggled gold entering the country. Based on the latest customs figures it would appear they are having some success with bullion outflows from Japan for the first five months of 2019 down by almost 30% from the corresponding period last year. Total gold scrap volumes in Japan jumped more than 16% to a record high 73 tonnes in 2017 (and for a large part in 2016) due to the unofficial flows of gold bullion entering Japan illegally. This gold is smuggled into the country to avoid the 8% consumption tax payable on gold transactions and sold, often at a slight discount, into the supply chain. Gold smuggling cases have risen sharply since the Japanese consumption tax rose to 8% percent from 5% in April 2014.

In the second half of 2018 the amount of gold being exported from the country started to decline, a sign that the government intervention was having an impact. While there have been notable changes at entry points into the country, like the introduction of metal detectors, there have also been increased penalties for those involved in this illegal trade. The greatest impact on scrap flows followed government intervention in June last year after it was reported that the finance minister met the heads of several of the largest trading firms requesting that they refrain from purchasing foreign branded bars without full point of origin documentation. This had an immediate impact as those at the top of the pyramid removed themselves from purchasing this material. In 2018, Japanese gold bullion outflows reached 128 tonnes, a 30% year-on-year drop. Following the government intervention flows dropped significantly, with exports in August falling to just four tonnes from over 14 the month prior and averaging almost 13 tonnes per month in the first seven months of the year, but outflows did creep up towards year-end reaching over nine tonnes in December.

Turning to this year, the monthly exports have jumped up above ten tonnes on occasion; hitting almost 15 tonnes in March, but on a year-on- year basis to end-May, shipments at 47 tonnes remain 28% below the corresponding period in 2018. However, with gold in yen terms recently pushing through 4,900 yen per gramme, and not too far below the all time high, the incentive to smuggle gold into the country has never been higher. It would appear the government approach has been successful to date but based on our experience when one door closes on the smugglers they will eventually find another route and method. The government also plans to raise the consumption tax levy to 10% in October this year and this will only encourage more of this activity, so any success the Japanese government is enjoying currently may unfortunately be short lived.

Looking to demand, jewellery consumption in H1 was 2% stronger year-on-year while retail investment slipped back into net dis-investment of over 6 tonnes for the period, with heavy selling in June impacting net demand.

JAPAN JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Refinitiv

JAPAN MARKET OUTLOOK

Jewellery fabrication in H1, and most notably in Q2, picked up quite strongly due largely to stock building across the supply chain. This was a function of forward purchasing ahead of higher prices and the rise in consumption tax later this year. If prices do indeed track higher, then jewellery consumption is likely to suffer in the second half of the year. The profit taking seen in June is likely to carry over for the remainder of the year if the yen price continues to trade at elevated levels and scrap flows should rise as a result, with smuggling flows increasingly hard to negate.

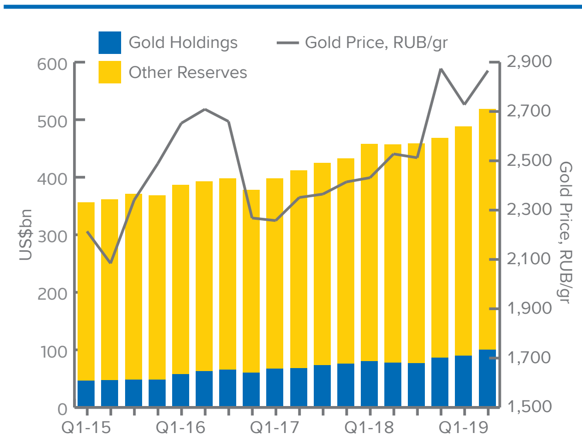
RUSSIA

- **Jewellery fabrication remained weak year-to-date, falling by an average of 4% in the first half, with a higher gold rouble price and a stagnation in real disposable incomes resulting in lower consumption.**
- **Central bank's purchases totalled 77 tonnes in the January-May period, marking the fourteenth consecutive year of purchases, although the pace of buying seems to have slowed compared to 2018.**

Russia's jewellery market has gone through difficult times over the last decade or so; and despite a brief interval of a recovery in the aftermath of the 2008 crisis and early signs of stabilisation over the past two years, fabrication volumes have remained far below levels when the industry was at its peak. Jewellery fabrication has been weak so far this year, down by an estimated 4% in the first six months, due to lacklustre local demand and rising competition from abroad. Indeed, in recent years, local jewellery fabricators have been struggling to compete with the cheap jewellery flooding the Russian market, particularly from South East Asia and Turkey. Meanwhile, local consumption is pressured by shrinking real disposable incomes, decreasing purchasing power and a rising indebtedness among consumers. In addition, rising gold price in local terms dampened demand for gold jewellery; the gold price in rouble terms rose by 14% and 4% in the first and second quarters respectively, with prices hovering around three-year high by the end of a six-month period. As a result, we estimate that local jewellery consumption contracted by 5% and 3% in the first and second quarters respectively. On the contrary, demand for silver jewellery seems to have picked up this year, suggesting that there has been a shift from gold to its more affordable alternative. Gold and silver jewellery markets in Russia tend to move in opposite directions, with silver usually benefitting at the expense of gold during times of economic crisis and elevated gold prices. It is also worth adding that the average weight of gold articles had been declining steadily over the past ten years, down by nearly a third according to the Russian Guild of Jewellers, and this trend continued into this year, with the average weight falling to just 1.48 grammes.

After acquiring a record amount of gold in 2018, the central bank's gold purchases continued into this year, totalling 77 tonnes for the January to May period. While this marked the country's fourteenth successive year of purchases, the rate of buying slowed to a monthly average of 15 tonnes during the five-month period, compared to a monthly average of 18 tonnes over the same period last year. This, by no means, implies a waning appetite by the central bank, but is rather a reflection of higher gold prices and the fact that 2018 was the year when Russia increased it's gold reserves at the fastest pace on record. We believe that central bank's gold purchases will continue, at least over the medium term, driven by the country's strong desire to diversify its assets away from the U.S. dollar. It is also worth adding that gold is considered as a critical strategic reserve and despite aggressive buying, particularly over more recent years, gold's proportion in the country's total official reserves still remains relatively low. Moreover, given that central bank consumes about two thirds of all the gold produced in the country and gold production is expected to rise in the coming years, strong purchases are likely to prevail.

RUSSIAN OFFICIAL TOTAL RESERVES



Source: GFMS, Refinitiv; IFS

RUSSIA MARKET OUTLOOK

Jewellery fabrication is likely to remain under pressure in the second half of the year, particularly if the gold price in rouble terms stays at similar levels or higher. It is also worth adding that there has been a lot of discussion around the potential removal of a VAT on physical gold bars. While this would clearly benefit the Russian gold investment market, which has been close to non-existent, there has been a delay by the officials in making a decision. The final decision is unlikely to be reached before the end of the year, while gold demand in this area will remain lacklustre.

TURKEY

- **Turkish bullion imports plummeted in May as demand slumped on rising prices.**

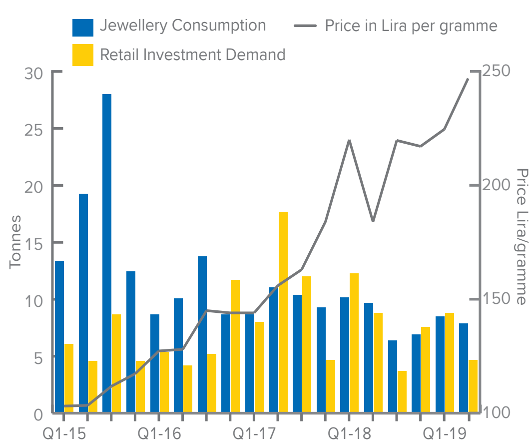
Gold in lira terms reached all time highs recently breaking though 265 TL/g, exceeding the price witnessed in 2018, following the collapse of the domestic currency, driving demand for jewellery sharply lower, with consumers selling back old gold assets dominating retail activity. Prior to the recent rally in the yellow metal, gold in local terms had been trending higher from the start of the year with imports to end-May more than two-third below the level recorded in 2018. The declining imports in recent months is a reflection of the acute drop in consumer demand as elevated gold prices have held most consumers on the sidelines, with many choosing instead to liquidate existing gold assets to book in a profit.

Jewellery exports had cooled but continued to provide support to local fabricators as they struggle with a fragile domestic scene. According to GFMS analysis, jewellery consumption in Turkey slumped by an estimated 17% year-on-year in the first half of 2019, to just over 16 tonnes, the lowest figure seen this century. Investment demand was also significantly impacted by the calamitous fall in the currency and the fragile state of the economy, slumping almost 36% year-on-year to 13 tonnes, dragged lower primarily by weaker official coin demand, which fell 48% for the period. According to data published by Borsa Istanbul, Turkish bullion imports in the first half of this year, at just 58 tonnes, were 64% below the corresponding period in 2018. After a weak start to 2019, with average monthly imports of below 7 tonnes in the first two months, average monthly imports for March and April jumped to above 16 tonnes, before crashing again in May, with bullion imports for the month slumping to just 3 tonnes, the lowest level since October last year.

As we outlined in the GFMS Gold Survey this year, Turkish consumer demand for gold fell sharply in 2018 as the devaluation of the lira pushed gold to record levels. The Turkish lira surged to a record low of 7.2 per dollar in August as Turks and foreigners sold the currency during the political crisis with the United States and due to fears about an overheating economy. The lira lost 28% of its value against the dollar last year and had fallen a further 10% since 31 December. In the final quarter last year the lira gold price retreated back to 202 TL per gramme, from a peak of 263 in August, leading to some increase in retail activity, but that was not to last as prices have been trending higher for much of this year, snuffing out consumer interest.

Last year, scrap flows surged briefly following the jump in the local price, with significant volumes of gold scrap returning to the local market in August, but this was also short lived as the economic uncertainly saw many consumers preferring to hold on to their gold assets rather than be holding lira. Turkey's inflation rate, pushed up by a currency crisis, had fallen from a 15-year high of 25.2% in October. But price pressures have remained after further weakness in the lira this year and the government continuing to stimulate the economy, which slipped into a recession in 2018. The government has sought to curb price increases in food and other items and introduced tax reductions on cars and domestic appliances in order to slow inflation. A continued recovery hinges on the prospects for the lira, whose steady decline this year has brought consumer confidence to an all time low.

TURKISH JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Refinitiv

TURKISH MARKET OUTLOOK

The prospects for the domestic gold market remain gloomy this year, with little hope for a recovery, while the gold price remains elevated and the economy struggles for survival. Retail investment may see an uptick as investors look for safe haven assets, but jewellery consumption will likely remain subdued for some time to come.

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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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Kikinzoku
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