Investment

First quarter gold investment more than doubled: hefty ETF inflows confirmed the positive shift in sentiment noted last quarter. Bar and coin demand steadied.

Tonnes	Q1'15	Q1'16	Year-on-year change	Quarter-on-quarter change
World total	252.2	253.9	↑ 1%	↓ -7%
India	40.9	28.0	↓ -31%	↓ -53%
China	59.1	61.9	↑ 5%	↑ 23%

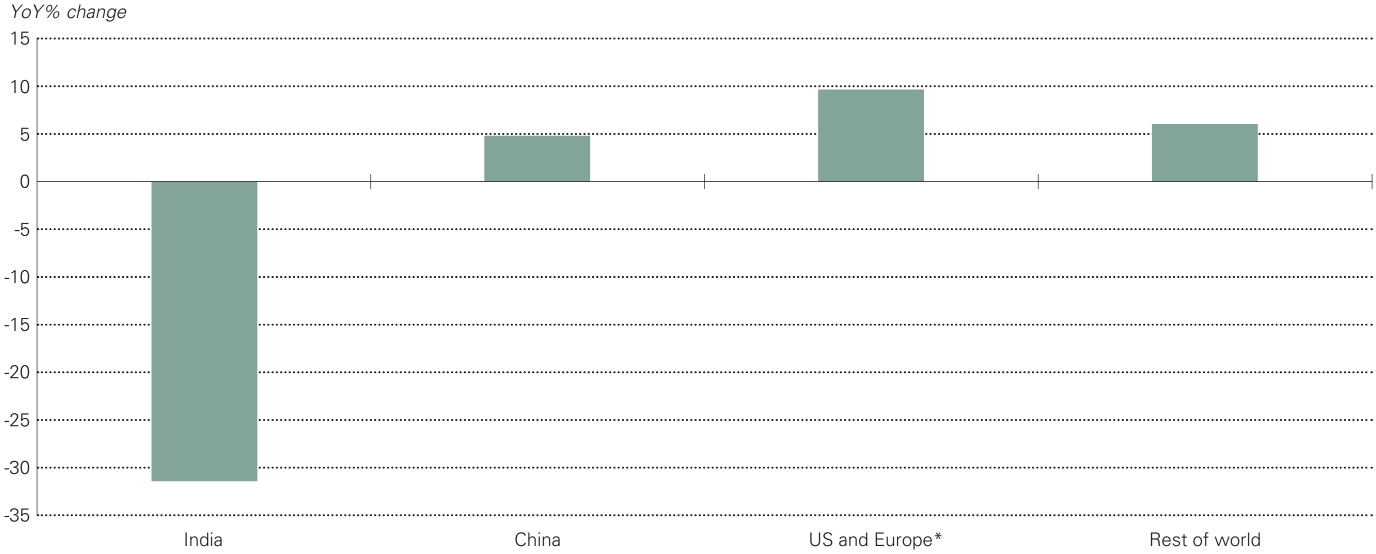
Global investment demand shot up to a seven-year high of 617.6t in the first quarter of the year. This was a 122% increase from the 277.9t of investment in Q1 2015 and the second-highest quarterly total on record. It eclipsed Q2 2010's 606t total – a time when heightened fear over the sovereign debt crisis fuelled a sharp spike in gold demand – and almost matched the record of 626t from Q1 2009 during the depths of the Great Recession.

As discussed in *Key themes,* ETFs were the main engine of this growth. Inflows into the sector surged to 363.7t after a three-year period of almost uninterrupted outflows. While demand on such a scale is unlikely to be sustained, the sector does appear likely to benefit further from the improved outlook towards gold among a broad investor base. Negative interest rates, stock market volatility and concerns over global economic growth all contributed to the upsurge in demand.

Demand for physical gold products held firm at 253.9t, a nominal 1% above last year's 252.2t. At the more granular level, gold coins outperformed (+17%) – supported by strong US demand – while demand for bars contracted slightly (-2%). Weakness in demand for medals/imitation coins was unsurprising given India's dominance of this category (**Chart 5**).

Chart 5: Global bar and coin demand hugely influenced by events in India

- Indian investment slowed sharply as investors waited for prices to stabilise and strikes shut off bar and coin sales by jewellery retailers.
- 'Fear factor' underpinned Western demand; the hunt for security drove investors towards gold.



*Europe comprises France, Germany, United Kingdom, Switzerland, Austria and Other Europe.

Source: Metals Focus; World Gold Council

Indian bar and coin demand beats sharp retreat
Retail investment in India fell by a third in Q1. Bar and coin demand dropped to 28t from 40.9t in Q1 2015. Investment in January was broadly flat, tapering off in February before coming to a standstill in March.

The sharp price increase was the initial reason for the slowdown in demand for bars and coins (Indian consumers are similarly cautious towards purchasing gold investment products during times of price volatility as they are towards jewellery). Subsequently, the disturbances which followed the government's budget announcement rippled through the investment market. Although the duty hike and strikes were primarily a jewellery issue, the rural population has limited access to the banking system, which means many consumers buy their gold investment products from the broad network of jewellery stores. And nationwide strikes meant that this channel for purchasing was choked.

During the quarter, the Reserve Bank of India announced it would permit banks to sell the Indian Gold Coin (IGC) – India's first official gold coin. These coins are minted at the Indian government mint, hallmarked by the Bureau of Indian Standards (BIS) and the scheme is managed by MMTC Ltd. Indian Overseas Bank was the first to begin distribution of the coins in March and recent announcements have confirmed that the coins will also be distributed through India's post office network. The developing infrastructure for the sale of the IGC should, in future, help to relieve any such supply-side pressure on investment demand.

Chinese investors buy into price rally
Chinese investors increased their demand for gold bars and coins. Demand expanded by 5% year-on-year to 61.9t. The usual seasonal uplift from Chinese New Year drove demand in the first six weeks of the quarter, aided by the rising price. Chinese investors differ from others in Asia in their investment attitude in that they tend to prefer to buy into a rising trend, rather than waiting until the price stabilises. Demand then waned as currency volatility subsided: the Chinese yuan stabilised and the currency settled into a relatively steady trading band against the US dollar after the People's Bank of China intervened to stabilise the currency.

A number of major commercial banks reported increases in sales of gold investment products, although regional differences were noted with robust demand in the East of the country countered by relatively subdued demand in the South.

US Mint coin sales leap as investors seek safety in gold
The behaviour of bar and coin investors closely echoed that of investors in the ETF market in Q1. Demand shot up by 55% year-on-year from 11.8t to 18.3t. This was 11% above the five-year quarterly average of 16.4t. Sales of American Eagle coins by the US Mint jumped by 68% year-on-year, to 245,500oz (7.6t), while sales of 24k American Buffalo coins increased 7% to 60,000oz (1.9t). Imports of other Sovereign minted bullion coins rose by almost 60%.

The noxious atmosphere of uncertainty created by global monetary policies and shifting expectations for US interest rate rises were cause for concern. Investors sought the safety of gold. As the price responded, the move was further fuelled by those keen not to miss out on the investment opportunity. This demand momentum then tailed off in March as gold's price rally ran out of steam at around US$1,275/oz, before holding in a sideways range around US$1,250/oz, where it remained throughout the remainder of the quarter and into April.

Europe again a stalwart of gold investment
European investment remained strong. Bar and coin demand was steadfast at 58.4t as the negative interest rate environment, migration crisis and rumbling 'Brexit' speculation continued to highlight gold's investment properties, specifically its role as a secure store of wealth. The fear factor underpinning demand reverberated around regional investment markets: there were anecdotal reports of a rise in demand for safety deposit boxes in Germany as some customers looked for alternative options in case of further interest rate cuts. This appears to be backed up by market research. Initial results of a large-scale consumer research programme indicate that German investors are motivated by a desire for low-risk, 'straightforward,' tangible investments and feel a strong need to invest in assets that protect their wealth against economic downturn, government policies and currency fluctuations.

Germany accounts for the bulk of the region's demand and the first quarter was no exception: 31.1t of bar and coin demand equated to 53% of Europe's total. But the UK was the star performer. Although volumes remain small, demand grew by 61% to 3.2t. That was the highest quarter for UK investment since Q2 2013, when demand totalled 3.7t.

Turkish investors focus on profit-taking opportunities

The 5% year-on-year decline in Turkish investment demand may, on the face of it, suggest that investment demand was more robust than that for jewellery. But this was largely a function of the comparison being made with a very weak Q1 2015.

The rise in the local gold price during the quarter meant that Turkish investors proved to be more interested in opportunities to take profits on their holdings than to add to them, demonstrated by considerable recycling activity.

Middle Eastern investors reacted to higher gold prices in a similar way. Investment in Egypt fell by 22% year-on-year. A swift and sharp depreciation in the Egyptian pound versus the dollar caused a surge in recycling, which in turn led to a discount of around 4% in the local price.

Asian investors remain on the sidelines as price surges

The focus was also on recycling throughout east Asia. Consequently, investment demand saw widespread declines. The largest losses were seen in Malaysia, where demand dropped 40% to 1.5t, the lowest quarter since Q3 2012. The 21% year-on-year fall in Vietnamese investment (to 11.5t) was due to the rising price of – and premiums on – official gold tael bars. Demand instead shifted to quasi-investment jewellery items (packaged 'chi' rings of 99.99% purity, which effectively function as low-denomination investment products).

A more positive quarter was seen in Japan, which notched up its third successive quarter of positive net investment demand (3.3t vs -3.2t in Q1 2015). However, as the gold price rallied, demand lost momentum as evidenced by the sharp quarter-on-quarter decline from Q4 2015 (-63%). Japanese investors showed a similar inclination to those in Vietnam, with a preference for investment-by-proxy in plain gold jewellery. In Japan's case, the focus was on kihei chains: low-premium, plain gold chains. Producers of these products reported impressive sales growth.

Thailand was the only other east Asian market market to see growth in bar and coin demand: investment here grew by 15% to 22.4t. Festival-related demand from Chinese communities was boosted by stock market turmoil, which drove domestic investors to look for wealth protection. The upsurge in demand was concentrated in the first few weeks of the year before the rallying price prompted profit-taking.