Q2 gold demand 4% weaker on slower ETF inflows

Gold demand stayed soft in Q2, dropping to 964.3 tonnes (t). The H1 total of 1,959.9t is the lowest since 2009.

ETF inflows have steadied at low levels in recent quarters, making for weak y-o-y comparisons. Q2 jewellery demand dipped 2% to 510.3t, largely due to a weaker Indian market. The pace of central bank buying also slowed in Q2 (-7%). Bar and coin demand was virtually unchanged as growth in a few key markets cancelled out weakness elsewhere. Technology demand provided some relief, adding 2% to reach a three-year high. Gold supply notched up a second consecutive quarter of growth (up 3%), reaching 1,120.2t.

For more information please contact: marketintelligence@gold.org
Jewellery

Q2 jewellery demand down 2% to 510.3t; H1 virtually unchanged at 1,031.2t.

- Indian consumers were confronted with a high local gold price and seasonal challenges
- Economic factors, and a new VAT regime in some markets hit Middle Eastern demand
- Chinese consumers responded well to industry focus on innovation and branding

<table>
<thead>
<tr>
<th>Tonnes</th>
<th>Q2'17</th>
<th>Q2'18</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World total</td>
<td>519.4</td>
<td>510.3</td>
<td>-2%</td>
</tr>
<tr>
<td>India</td>
<td>161.0</td>
<td>147.9</td>
<td>-8%</td>
</tr>
<tr>
<td>China</td>
<td>137.6</td>
<td>144.9</td>
<td>5%</td>
</tr>
</tbody>
</table>

Challenging conditions in a few markets were the main reason for the y-o-y global decline in Q2 gold jewellery demand. India and the Middle East were the main drivers of the decline, although weakness in those markets was partly offset by growth in China and the US. Comparing H1 2018 with H1 2017, demand was little changed: 1,031.2t compared with 1,035.8t.

It may seem surprising that gold jewellery demand failed to perk up in response to the relatively sharp decline in the US$ gold price over the quarter. But currency weakness in many markets meant that local consumers did not benefit from similar gold price reductions; instead they were faced with steady – or even higher – prices.

Stronger dollar drove the divergence between US$ gold price and local currency prices

Note: Index 02/04/2018 = 100
Source: ICE Benchmark Administration; Datastream; World Gold Council
Indian gold demand was down from a strong Q2’17, falling 8% to 147.9t due to high local prices and seasonal factors, but was in line with the long-term average. The y-o-y drop in demand was magnified by the jump in demand seen in Q2 last year when consumers rushed to make gold purchases before GST was implemented on 1 July. In a longer-term context, Indian jewellery demand was relatively healthy, just 1% below the five-year quarterly average of 149.1t and 3% higher than average Q2 demand over the preceding ten years (144.1t).

Demand was boosted in April by Akshaya Tritiya and the wedding season, before fizzling out. India’s gold trade reported brisk demand during the festival, despite relatively high local gold prices at that time. And wedding-related purchases supported demand early in the quarter. This positive effect soon wore off however, as the rupee continued to weaken against the US$, keeping the domestic gold price elevated.

Adhik Maas – an inauspicious time for Hindus – was also a contributing factor to the y-o-y decline. Adhik Maas is an additional month in the Hindu calendar, which occurs every 30-36 months in order to align the lunar and solar calendars. It is considered an inauspicious time for events such as weddings, so tends to have a dampening effect on gold jewellery demand. The start of Adhik Maas in mid-May coincided with the local gold price moving quite sharply into discount versus the US$ price.

The imminent monsoon kept demand subdued towards the end of the quarter. Although the inauspicious Adhik Maas period ended on 13 June, it was rapidly followed by the onset of monsoon preparations among rural communities, aided by government attempts to boost farm incomes (such as loan waivers and raising Minimum Support Prices on certain crops). Farming communities were heavily involved in sowing crops ready for the monsoon – often a time during which gold is used as collateral for loans to buy seed rather than to purchase gold jewellery.

Steep discounts seen in India during inauspicious month of Adhik Maas

Source: NCDEX; World Gold Council
Jewellery

**China**

Jewellery demand extended its recent recovery, gaining 5% to 144.9t in Q2. Y-t-d demand reached a three-year high of 332.9t.

The market followed familiar themes: consumers increasingly prefer innovative, creatively-designed pieces over traditional jewellery. While traditional, plain 24-carat jewellery continues to dominate the market – accounting for around 70% of gold jewellery demand – the shift towards alternative, newer products continued. 18ct, 22ct, 3D hard gold and premium higher-carat products, such as 9999s (99.99% pure gold) jewellery, performed well.

A greater emphasis on service and branding is paying dividends among increasingly discerning consumers. The fledgling trend towards more innovative promotion, marketing and customer service gathered pace in Q2, with positive results. Retailers and manufacturers are investing much-needed resources into more effectively targeting and engaging key younger audiences. Jeweller CHJ Jewellery, for example, partnered exclusively with a popular TV series ‘Women in Beijing’, which follows the lives of young ambitious women living in big cities. Research conducted by Deloitte in 2017 mirrors the results of our own 2016 consumer research programme, finding that millennials are less interested in heritage and tradition than in buying something unique and ‘different’.

The industry is alert to this trend and as it continues to address the need for more tailored, effective promotion and marketing, jewellery demand should benefit.

**Middle East & Turkey**

Jewellery demand across Middle Eastern markets continued to struggle against a challenging economic background. Iran, unsurprisingly, posted the region’s biggest Q2 loss. Demand fell 35% to 6.6t – the lowest quarter in our historical data series. Faced with renewed economic sanctions and a collapsing currency, which caused a huge rise in the local price, demand for gold jewellery slumped. Instead demand was channelled into gold investment products (which, unlike gold jewellery, are VAT-exempt), pushing demand for bars and coins to a four-year high.

Elsewhere in the region, y-o-y comparisons in the UAE and Saudi Arabia (down 24% and 10% respectively) suffered due to the impact of VAT, introduced at the beginning of the year. Total H1 demand in Saudi Arabia has halved in the last three years: 18.0t in H1 2018 compared with 36.2t in H1 2015. The continued push for localisation – favouring domestic employees over expat workers – has also undermined demand, given that many of the latter are Indians with ingrained gold-buying habits.

Egypt was again the only market to see improvement, up 10% to 5.1t. This y-o-y gain is however, somewhat misleading as the comparison is against a record low quarter: demand was just 4.7t in Q2 2017. Nonetheless, the domestic environment is encouraging: a US$2bn IMF loan was approved after the Egyptian government implemented a programme of reform and investment, contributing to economic growth. The currency has stabilised but remains relatively weak, which should continue to support the export sector.

The 10% y-o-y fall in jewellery demand in Turkey was a response to the very high and volatile local gold price at a time of political tension. Jewellery demand of 10t was the second-lowest Q2 in our series for Turkey. The value of the Turkish lira plunged as global investors reacted to comments by President Erdogan that called into question the independence of the central bank in setting interest rates. This, in turn, caused the local price of gold to skyrocket during Q2. Budget-conscious consumers – already uneasy over the faltering economic environment and somewhat controversial presidential election – put jewellery buying plans on hold.

---

1. Deloitte, *Bling it on, What makes a millennial spend more?,* 2017

   [www.gold.org/research/china-jewellery-market-new-perspectives](http://www.gold.org/research/china-jewellery-market-new-perspectives)
The West

US jewellery demand continued along its recent path of steady growth: demand grew 5% to a ten-year Q2 high of 28.3t. Y-t-d demand was equally buoyant: at 51.9t gold jewellery demand saw the strongest H1 total since 2008. Demand benefited from the positive domestic economic environment: rising wages, lower taxes boosting household incomes, unemployment at historic lows and heightened consumer confidence. Department stores report good jewellery sales (with some reportedly reallocating store space back to gold from silver) and the high-end of the market is performing well.

Europe saw a continuation of recent modest growth. A marginal uptick in Q2 demand (14.5t from 14.4t) was mirrored in the H1 total (27.4t from 27.2t). Demand was supported by the relatively stable euro gold price and a subdued reaction from consumers to geopolitical uncertainties, although in the UK consumers remained hesitant in the face of Brexit uncertainty. Italy was again the weak spot, with demand affected by drawn-out political wrangling after the general election in March. But the top end of the market remains resilient, helping to contain losses.

Other Asia

Growth in Indonesia and Vietnam more than compensated for weakness elsewhere in the region. Demand in Indonesia reached a three-year high: Q2 demand grew 10% to 11.2t. Consumers, buoyed by healthy domestic economic growth, responded well to gold sales promotions. It was a similar picture in Vietnam, where a 14% y-o-y rise in Q2 demand contributed to the strongest H1 since 2008 (9.5t vs 9.9t in 2008). Continued Vietnamese economic growth was reflected in positivity among jewellery consumers. Jewellery wholesalers and retailers expanded their sales networks to capitalise on this upbeat mood.

The mood in South Korea’s jewellery market was relatively muted: demand slipped to a five-year low of 4.9t as consumer sentiment was subdued by increasing signs of a global trade war, despite the easing of political tensions on the Peninsula.
Modest inflows into gold-backed ETFs were dominated by Europe; Q2 bar and coin demand was unchanged.

- Muted ETF inflows were sharply lower y-o-y as US investors focused on domestic economic improvement
- Bar and coin demand was barely changed amid mixed signals from gold prices, stock markets and geopolitics
- Turkey saw a sharp decline, as rocketing local gold prices prompted a surge in recycling

<table>
<thead>
<tr>
<th>Tonnes</th>
<th>Q2’17</th>
<th>Q2’18</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>310.3</td>
<td>281.4</td>
<td>-9%</td>
</tr>
<tr>
<td>Bar &amp; Coin</td>
<td>247.8</td>
<td>247.6</td>
<td>0%</td>
</tr>
<tr>
<td>India</td>
<td>41.6</td>
<td>39.3</td>
<td>-5%</td>
</tr>
<tr>
<td>China</td>
<td>62.6</td>
<td>69.5</td>
<td>11%</td>
</tr>
<tr>
<td>Gold-backed ETFs</td>
<td>62.5</td>
<td>33.8</td>
<td>-46%</td>
</tr>
</tbody>
</table>

ETFs

Global gold-backed ETFs saw another quarter of muted growth: inflows of 33.8t were considerably lower than the 62.5t increase during Q2 2017.

H1 inflows of 63t were the lowest since the first half of 2015, despite mounting global trade tensions and relatively volatile stock markets. By the end of H1, global holdings stood at 2,434.3t. ETFs have seen steady but modest investment over the last four quarters, with holdings increasing by an average of 27.2t per quarter.

In something of a reversal of the Q1 trend, inflows in Q2 were directed towards European-listed funds while North American funds saw net outflows. Early in the year geopolitical concern (primarily surrounding tensions with North Korea) together with a weakening of the US dollar, made US investors skittish, driving investment into gold-backed ETFs. Around mid-April, these issues began to subside and the US economy showed continued improvement, taking the momentum out of US inflows. At the same time, Europe saw political instability escalate, and this – in conjunction with a marked depreciation of the euro – encouraged a flight to safety in European-listed gold-backed ETFs.

European funds have attracted the bulk of inflows into ETFs so far in 2018

Source: Bloomberg; Company Filings; ICE Benchmark Administration; World Gold Council
European funds absorbed 53.2t of inflows and AUM in the region reached 1,052.7t by the end of the quarter. Inflows were up by 53% y-o-y. Y-t-d, European products have led the way, accounting for 83% of total global inflows during H1. Inflows were indicative of regional geo-political turbulence. Indecisive Italian elections led to protracted negotiations, finally culminating in the creation of a vocal populist coalition in June. Uncertainty over the direction of central bank policy was a further incentive for investors to seek refuge in gold-backed ETFs. But momentum was less than stellar as investors in the region lacked a clear signal from the euro-denominated price.

Healthy inflows into North American funds in April were followed by two months of strong outflows, resulting in the region seeing net Q2 outflows of 30.7t. This was in stark contrast to the 32.3t of inflows seen in Q2 2017. Investors seemed to shrug off poor equity market performance and the escalating trade conflict between the US and its major trading partners. Instead, the strengthening dollar, which contributed to the sharp decline in the US dollar gold price during Q2, weighed on sentiment. Y-t-d, North American funds are little changed: holdings are up by just 4.8t to 1,248.7t.

Asian funds saw further growth: an impressive 16.7t of inflows in Q2 took y-t-d inflows to 10.8t. China’s Bosera Gold open-ended ETF continued to grow, aided in part by the unwinding of Bosera’s unlisted funds (I and D Shares), and has leapfrogged Huan Yifu to become China’s largest gold-backed ETF with holdings of 30.9t (as at end Q2). Holdings in Asian-listed ETFs as a group have grown 13% y-t-d to 95.6t, primarily due to growth in China.

Bar and coin

The global bar and coin market remained subdued in Q2 2018. Demand was flat y-o-y at 247.6t and, at the halfway stage of the year, is bang in line with the three-year average: 509.1t in H1 2018 compared to the H1 average of 508.6t from 2015 to 2017.

Price dips often tease out an investor response, but, for many markets, the 5.5% fall in the US dollar gold price over the quarter failed to translate into buying opportunities because of local currency weakness. Investor concerns over currency depreciation were, however, a driver of demand in some markets, most notably China and Iran.

China bar and coin investment: 11% growth in Q2 fuelled by currency and stock market weakness

Source: Metals Focus; GFMS, Thomson Reuters; World Gold Council
China, the world’s largest bar and coin market, saw demand rise 11% to 69.5t as gold benefited from a flight to safety amidst increasingly tense trade-war rhetoric. The yuan weakened drastically against the US dollar, falling 5% over the quarter. And the stock market slumped: the Shanghai Stock Composite index dropped 14% in the first six months of the year. The y-o-y rise was from a relatively soft quarter in Q2 2017. Bar and coin demand has held in a relatively steady range over the last five quarters, hovering between 60 and 80 tonnes.

There were some important policy developments in China too. In a move to increase market transparency and boost investor protection, the People’s Bank of China (PBOC) announced draft regulations concerning the risk management practices of businesses which sell gold investment products over the internet, as well as the management of gold accumulation plans and gold asset management businesses. These draft regulations would provide the PBOC greater oversight of vaulted gold products – such as gold accumulation plans – and stronger investor protection. For example, a vaulted-gold product must have its gold kept at Shanghai Gold Exchange-approved vaults or the vault of a PBOC-approved financial institution.

Despite a spurt of investor demand for coins around Akshaya Tritiya in April, demand in India fell 5% y-o-y to 39.3t. The government’s intense focus on unaccounted wealth continued to scare off some investors, while buoyant performance on the Bombay Stock Exchange Sensex – up 4% in the first six months of the year – was a significant draw for others, especially urban investors.

But, more broadly, many investors viewed the local gold price as relatively expensive because of the recent rupee depreciation: the average rupee gold price in Q2 was 7.4% higher y-o-y and 2% higher q-o-q. The inauspicious period of Adhik Maas from 16 May to 13 June dampened activity further.

Demand in Thailand was flat y-o-y at 15.1t. The fall in the US dollar gold price was offset by a fall in the Thai baht leaving the domestic gold price trading in a narrow range over the quarter.

The Vietnamese gold market enjoyed a boost when the Ho Chi Minh stock index entered a bear market, falling 25% from its all-time high in late May. Bar and coin demand rose 7% to 9.5t.

Turkish demand suffered at the hands of a deteriorating economic outlook and a weak currency. Demand halved y-o-y and dropped 11% q-o-q as the Turkish lira gold price rose to a record high in late May, almost touching TRY202/g. Turkey’s briskly expanding economy and the threat of a weakening lira has created relatively buoyant bar and coin demand in recent quarters. Having bought into a rising gold price over the past 12 months, the recent leap higher off the back of a plummeting currency proved too much for many investors. Fresh buying activity fell in Q2 and, as explained in the supply section, recycling rose as investors locked in profits from gold’s price appreciation. The snap general election in June and the start of Ramadan dampened investor interest towards the end of the quarter.
By contrast, Iran’s weakening economy, growing sense of insecurity and a currency which has almost halved in value, boosted bar and coin demand. It shot up to 15.2t – a 200% increase y-o-y – to reach its highest quarterly level since Q1 2014. Coin demand was healthy as the Iranian central bank increased the amount of gold coins released to the market. Gold coins have performed well in recent quarters as, unlike gold jewellery, they do not attract 9% VAT.

European bar and coin demand slipped 15% y-o-y to 33.5t. Germany, which accounts for the lion’s share of the European market, saw demand fall 9%. This combined with a relatively soft Q1 to produce the weakest H1 since 2008. Bullion dealers in the region noted that retail investors were less concerned than ETF investors about the impact of the Italian elections and European Central Bank interest rate rises, and that a gold price above €35k/kg for much of Q2 (due to euro weakness) was perceived as relatively expensive. Some dealers reported an upturn in activity as the euro-denominated price fell sharply towards the end of the quarter, but it was too little too late for Europe’s Q2 bar and coin demand estimate.

Having languished in recent quarters, the US market remained in the doldrums. Although demand rose 9%, this was solely a reflection of an extremely weak Q2 2017. With investment of just 11.3t, H1 2018 is the weakest start to the year since 2007. US bullion dealers have, however, reported that the secondary market remains buoyant, with healthy two-way activity. And towards the end of the quarter, when the US dollar gold price reached lows of US$1,250/oz, retail investors showed signs of interest once more.

**Iranian bar and coin investment quadruples amid flight to safety**

![Chart showing Iranian bar and coin investment from Q1 2010 to Q1 2018](chart.png)

Source: Metals Focus; GFMS, Thomson Reuters; World Gold Council
Central bank net purchases in Q2 were 7% lower y-o-y, but 8% higher y-o-y in H1

- Q2 central bank net purchases were 7% lower y-o-y, totalling 89.4t
- Net purchases over H1 2018 were 8% higher than the previous year
- Net purchases continue to be driven by Russia, Kazakhstan and Turkey

Central banks added 89.4t (on a net basis) to global gold reserves in Q2, down 7% y-o-y. While the pace of purchasing lags that of recent years, volumes remain healthy. Looking at H1, net purchases totalled 193.3t, 8% higher than the same period last year.

Purchases in Q2 and H1 were dominated by the familiar trio of Russia, Kazakhstan and Turkey. Russia again led the way, accumulating a net 53.2t in Q2, 49% up on Q2 2017. This brought H1 net purchases to 105.3t (5% y-o-y), and gold reserves to 1,944t at the end of June (17% of total reserves). Russia’s voracious appetite for gold is strategic – amidst geopolitical tensions it looks to diversify away from the US dollar.3

Russia, Kazakhstan and Turkey led H1 net purchases; 8% higher year-on-year

<table>
<thead>
<tr>
<th>Tonnes</th>
<th>Q2’17</th>
<th>Q2’18</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central banks and other institutions</td>
<td>96.4</td>
<td>89.4</td>
<td>-7%</td>
</tr>
</tbody>
</table>

Source: Metals Focus; GFMS, Thomson Reuters; World Gold Council

Kazakhstan continued its lengthy buying run. The central bank continued its monthly buying, with the result that gold reserves grew by 11.6t during Q2 to 20.7t (3% y-o-y). The country’s gold reserves have now grown for 68 consecutive months. At the end of the quarter there were calls in Kazakhstan’s lower house of Parliament for the bank to further increase gold reserves in the face of geopolitical and economic risks, and uncertainty arising from the global shift towards a multicurrency system.4

Turkey’s central bank further increased gold reserves, albeit at a slightly slower pace. H1 net purchases totalled 38.1t (+82% y-o-y) after net purchases of 8.3t (-60% y-o-y) in Q2. Despite the lower level of purchases in recent months, Turkey retains its strategic commitment to gold. Gold reserves totalled 240.2t at the end of June, 107% higher than when net purchases began in May 2017.5

The Reserve Bank of India (RBI) bought 2.5t of gold in March, following a fractional 0.3t addition in December.6 These increases in gold reserves are the first since November 2009, when the RBI purchased 200t from the IMF. Currently, there is little to suggest this is indicative of a strategic move, but it is noteworthy given how long the level of gold reserves have been unchanged.

During H1, the State Oil Fund of the Republic of Azerbaijan (SOFAZ) added around 2.8t of gold to its portfolio. This is the sovereign wealth fund’s first purchase of gold since Q4 2013, with gold reserves now standing at 33t.

Once again, net reductions remained trivial in relation to increases. Among the handful of central banks that reduced their gold reserves in H1, Venezuela was the most significant. Gold reserves have declined 11.9t in H1 2018 (accounted for solely in January) in response to the perilous economic situation facing the country.7 However, it was later reported that Venezuela sought to recover some gold lost through the lapsed swap at the end of 2017.8 Gold reserves in Australia (4.1t), Qatar (Xt), Germany (3.8t), Sri Lanka (2.4t) and the Ukraine (1.2t) have also declined in H1.

---

5 Excludes gold holdings accumulated through the Reserve Option Mechanism policy.
6 This purchase was announced after the release of the last Gold Demand Trends report.
7 IMF gold reserve data for Venezuela is only available to end-March 2018.
Gold used in technology grows further, driven by wireless applications

- Electronics demand grew 3% on a yearly basis, underpinned by strong demand from memory, wireless and printed circuit board (PCB) sectors.
- The outlook is bright as ongoing electrification will help to bolster established sources of demand.

<table>
<thead>
<tr>
<th>Technology</th>
<th>Q2’17</th>
<th>Q2’18</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>81.5</td>
<td>83.3</td>
<td>↑ 2%</td>
</tr>
<tr>
<td>Electronics</td>
<td>64.4</td>
<td>66.2</td>
<td>↑ 3%</td>
</tr>
<tr>
<td>Other Industrial</td>
<td>12.8</td>
<td>12.9</td>
<td>↑ 1%</td>
</tr>
<tr>
<td>Dentistry</td>
<td>4.3</td>
<td>4.2</td>
<td>↓ -4%</td>
</tr>
</tbody>
</table>

Gold used in technology grew 2% to 83.3t in Q2, the seventh quarter of undisrupted y-o-y growth. This uptick was again driven by strong electronics demand, particularly in the wireless and memory sectors, which defied the traditional summer lull.

Electronics

Gold used in electronics grew 3% y-o-y to 66.2t in Q2. Demand in the wireless sector enjoyed some 8-12% growth y-o-y, bucking the traditional slow season for smartphone sales. This was driven by strong demand from power amplifiers used in 5G infrastructure and 3D sensors in VR gaming systems and automobiles. In fact, this very strong demand for 3D sensors is not currently being met by supply, boding well for the short to mid-term.

The LED sector once again lagged other technology-related areas of demand for gold. Gold volumes were 5-8% lower y-o-y, primarily due to ongoing cost-driven substitution by silver in the high-end OLED market.9

In the memory sector, market dynamics remain positive for gold usage. Increasing output of NAND has driven prices down, and with major manufacturers such as Samsung and SK Hynix ramping up capacity over the coming couple of years, NAND flash prices are forecast to cool further. This should drive wider adoption of solid-state drives in notebooks, thereby supporting gold volumes. DRAM continued to benefit from strong demand, particularly in the server market, which has been boosted by healthy demand for big data and cloud services.

The strong server market also supported demand for PCBs. Together with ongoing growth in the automotive industry and 5G infrastructure deployment, gold used in PCBs was estimated to be 2-5% higher y-o-y.

Barring a 1.8% y-o-y decline in India (to 3.3t), the other countries monitored have registered strong growth. The traditional technology hubs – Mainland China/HK and South Korea – have once again topped the list with volumes of 18.4t (+5.1%) and 6.7t (+5%) respectively. This was followed by the US, which grew 3.0% y-o-y to 14.7t.

Other Industrial & dentistry

Dental demand continued its slow but steady decline, recording a 4% fall y-o-y. Other industrial usage of gold was broadly flat, but R&D efforts in developing new uses for gold continue apace.10 Johnson Matthey’s newly commercialised gold catalyst is now in the final stages of testing: more information about this particular technology can be read in the July issue of Gold Investor.11

---

9 Organic Light-Emitting Diode (OLED) panels are thinner and more flexible than LCD displays, produce a high-contrast picture on screen, and are also more efficient and eco-friendly.

10 This category of demand includes gold used in the production of compounds, such as Gold Potassium Cyanide, for electro-plating in industrial applications as well as in the production of gold-plated jewellery and other decorative items such as gold thread. India accounts for the bulk of demand in this category. www.gold.org/research/gold-demand-trends/gold-demand-trends-q1-2018/notes-and-definitions

11 www.gold.org/research/gold-investor/gold-investor-july-2018
Q2 total supply was up 3% y-o-y, supported by production and recycling growth

- Q2 was the highest second quarter on record, boosting mine production by 4% y-o-y during H1
- Net de-hedging of 10t in Q2 as gold price weakened; global hedgebook now 248t
- Recycled gold supply grew 4% in Q2, driven by Turkey and Iran

<table>
<thead>
<tr>
<th>Tonnes</th>
<th>Q2’17</th>
<th>Q2’18</th>
<th>Y-o-y change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total supply</td>
<td>1,086.1</td>
<td>1,120.2</td>
<td>3%</td>
</tr>
<tr>
<td>Mine production</td>
<td>811.4</td>
<td>835.5</td>
<td>3%</td>
</tr>
<tr>
<td>Net producer hedging</td>
<td>-8.2</td>
<td>-10.0</td>
<td>-</td>
</tr>
<tr>
<td>Recycled gold</td>
<td>282.9</td>
<td>294.7</td>
<td>4%</td>
</tr>
</tbody>
</table>

Mine production

Supply from gold mine production grew 3% y-o-y in Q2 – from 811.4t to 835.5t – the highest Q2 on our records. Looking at H1, mine production rose from 1,571.7t to 1,629.5t (4% y-o-y). This strength in mine output is mainly attributable to the continued ramp-up of several projects, as well as further capital expenditure from gold miners (albeit still at a historically low level).

Declines in some major producing nations were outweighed by substantial gains in others. In China, the world’s leading producer of gold, environmental reforms introduced in 2017 continued to impact production (-5% y-o-y). Furthermore, in June the Ministry of Ecology and Environment (MEE) launched the largest ever number of compliance inspections. In the US, the completion of mining at Kinross Kettle River-Buckhorn and a planned shutdown for maintenance purposes at the Barrick Nevada roaster, dented production levels (-8% y-o-y). Closures at TauTona and Cooke underground – both loss-making operations – contributed to a 5% y-o-y decline in South African output.12, 13

Q2 output growth in some countries outweighs decline in others

Y-o-y % change
- Canada: 21
- Indonesia: 18
- Russia: 16
- China: -5
- South Africa: -5
- United States: -8

Source: Metals Focus; World Gold Council

12 thevault.exchange/?get_group_doc=143/1502785037-PR20170628AGARestructureSAOps.pdf
13 thevault.exchange/?get_group_doc=245/1509510468-ReleasewithlogoSibanye-StillwatersconcludestheS189processrelatingtoCookeandBeatrixWestoperations1Nov2017.pdf
Russian production in Q2 rose 16% y-o-y as growth in the Magadan, Amur and Irkusk regions was supported by the ramp-up of Natalka. In Indonesia, continued mining of higher grades at the country’s biggest mine, Grasberg, saw national output rise 18% y-o-y. The largest y-o-y rise was seen in Canada, where the continued ramp-up of three greenfield projects, Brucejack, Rainy River and Moose River, boosted production by 21%. In Tanzania, recent issues surrounding Acacia Mining have stabilised, leading to green shoots of growth in overall production.14

The outlook for gold production appears optimistic. Several gold miners reported strong levels of Q2 production, with some raising guidance for 2018. And the project pipeline continues to improve, largely due to output growth from junior and mid-tier miners. Q2 saw several projects begin production, helping to support global output levels. Capital expenditure also increased 14% y-o-y during Q2, signalling a further commitment from miners to grow production. However, cost pressures also built up during the quarter due to higher raw material costs such as oil and steel, with the latter affected by trade tariffs. These pressures are not having a substantial impact on supply currently, but could have a greater impact the longer they continue (and the gold price remains subdued).

Net producer hedging

Following 32.2t of net hedging in Q1 2018, gold miners switched to 10t net de-hedging in Q2.15 The weakness in the Q2 gold price reduced the incentive to hedge production, coupled with existing short-term positions reaching maturity. At the end of Q2 the global hedgebook stood at 248t.

Hedging remains tactical rather than strategic.

Since Q1 2014, an equal number of quarters have seen de-hedging as hedging. This reveals the tactical, rather than strategic, nature of hedging by gold miners over recent years. Movements in the gold price – in local currency terms as well as internationally – continue to be a key factor in the hedging decision-making process, as does project-specific financing.

Producer hedging remains tactical rather than strategic

---

14 In March 2017, the Tanzanian government banned Acacia Mining from exporting gold/copper concentrate, severely disrupting output.

15 Q1 2018 net producer hedging has been revised up by 26.4t owning to the estimates being published before prior to the release of Q1 trading updates by some gold miners.
Recycled gold

Gold recycling – specifically gold exchanged for cash – grew by 4% in Q2, from 282.9t to 294.7t. Supply from recycling in H1 was marginally higher than H1 2017 (575.3t v. 570.2t).

**Turkey and Iran were the primary drivers of gold recycling growth in Q2.** Currency weakness in both countries boosted local gold prices, enticing consumers to lock in profits from their holdings. In Iran, recycling was supported by the country’s deteriorating economic situation, compelling some consumers to sell.

Recycling in India, the world’s second largest consumer of gold, was higher y-o-y. This increase is not entirely unexpected as ahead of the important sowing season consumers in rural communities sold gold – as they usually do – to fund farming equipment and seed purchases. Income from the subsequent harvest will be at least partially reinvested in gold. This seasonal uplift is more pronounced than in recent years due to currency weakness boosting local prices, and this has created another incentive for consumers to sell.

**In western markets, such as the US and Europe, gold recycling remained relatively stable.** A combination of depleted near-market stocks, an absence of distress selling and an anaemic local gold price, created unfavourable conditions for gold recycling to flourish.
About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight, and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors. We provide insights into the international gold markets, helping people to understand the wealth-preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East and the US, the World Gold Council is an association whose members comprise the world’s leading gold mining companies.

World Gold Council
10 Old Bailey, London EC4M 7NG
United Kingdom

T +44 20 7826 4700
F +44 20 7826 4799
W www.gold.org

Contributors

Louise Street
louise.street@gold.org

Krishan Gopaul
krishan.gopaul@gold.org

Mukesh Kumar
mukesh.kumar@gold.org

Carol Lu
carol.lu@gold.org

Alistair Hewitt
Director, Market Intelligence
alistair.hewitt@gold.org
Twitter: @AHewitt_WGC

Further information

For data sets and methodology visit:
www.gold.org/data/gold-supply-and-demand

Or contact:
marketintelligence@gold.org

Disclaimer

© 2018 World Gold Council. All rights reserved. World Gold Council and the Circle device are trademarks of World Gold Council or its affiliates.

All references to LBMA Gold Price are used with the permission of ICE Benchmark Administration Limited and have been provided for informational purposes only. ICE Benchmark Administration Limited accepts no liability or responsibility for the accuracy of the prices or the underlying product to which the prices may be referenced. Other third party content is the intellectual property of the respective third party and all rights are reserved to them.

Reproduction or redistribution of any of this information is expressly prohibited without the prior written consent of World Gold Council or the appropriate copyright owners, except as specifically provided below.

The use of the statistics in this information is permitted for the purposes of review and commentary (including media commentary) in line with fair industry practice, subject to the following two pre-conditions: (i) only limited extracts of data or analysis be used; and (ii) any and all use of these statistics is accompanied by a citation to World Gold Council and, where appropriate, to Metals Focus and Thomson Reuters, as their source.

World Gold Council does not guarantee the accuracy or completeness of any information. World Gold Council does not accept responsibility for any losses or damages arising directly or indirectly from the use of this information. This information is not a recommendation or an offer for the purchase or sale of gold, any gold-related products or services or any other products, services, securities or financial instruments (collectively, “Services”). Investors should discuss their individual circumstances with their appropriate investment professionals before making any decision regarding any Services or investments.

This information contains forward-looking statements, such as statements which use the words “believes,” “expects,” “may,” or “suggests,” or similar terminology, which are based on current expectations and are subject to change. Forward-looking statements involve a number of risks and uncertainties.

There can be no assurance that any forward-looking statements will be achieved. We assume no responsibility for updating any forward-looking statements.