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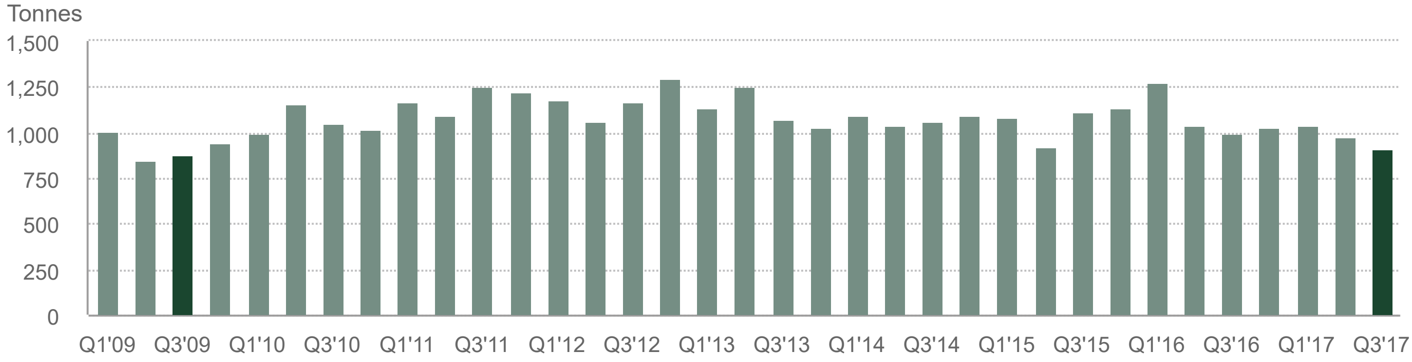
Gold demand in Q3 at eight-year low as ETF inflows slowed sharply

The third quarter saw a 9% year-on-year (y-o-y) drop in gold demand to 915 tonnes (t). Year-to-date (y-t-d) demand was down by 12%.[1] ETFs had another quarter of positive inflows, but at 18.9t, they fell far short of the 144.3t influx in Q3 2016. A softer quarter in the jewellery sector (-3%) accounted for 17t of the y-o-y decline. Demand from other sectors firmed: central banks bought a healthy 111t of gold (+25% y-o-y) while bar and coin investment strengthened by 17% (to 222.3t), albeit from a low base.

Global gold demand lowest since Q3 2009



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

Highlights

Gold jewellery demand fell in Q3. Jewellery volumes continue to languish below longer-term average levels. Indian weakness was the main reason for the y-o-y decline.

Tax and regulatory changes in India weighed on domestic gold demand. The new tax regime deterred consumers, as did anti-money laundering measures governing jewellery retail transactions.

Inflows into gold-backed ETFs stalled: holdings grew by just 18.9t. Investors continued to favour gold's risk-hedging properties, but the greater focus was on rampaging stock markets.

Gold bar and coin demand growth was driven by China. Global investment in bars and coins rose 17% from relatively weak year-earlier levels. Chinese investors bought on price dips, to notch up a fourth consecutive quarter of growth.

Volumes of gold used in technology increased for the fourth consecutive quarter. Demand for memory chips continued to soar thanks to the persistent popularity of high-end smartphones.

Total supply fell 2% in Q3. Mine production fell 1% y-o-y in Q3, which was also the fifth consecutive quarter of net de-hedging. Recycling activity (-6%) continued to normalise after jumping in 2016.

Jewellery

Jewellery demand fell 3%, weakened by a sharp drop in India

- **The y-o-y drop in global demand was largely attributable to India, which has been disrupted by the changing tax regime and tighter regulation around jewellery transactions**
- **China bucked its recent declining trend: jewellery demand was boosted by auspicious-day purchases.**
- **Turkey saw a second consecutive quarter of growth, aided by lower lira gold prices**

Tonnes	Q3'16	Q3'17		YoY
World total	495.3	478.7	▼	-3%
India	152.7	114.9	▼	-25%
China	140.6	159.3	▲	13%

Global gold jewellery demand, having improved during the first half of the year, deteriorated in Q3. Demand dipped to 478.7t – the weakest third quarter in our 17-year data series. Year-to-date demand of 1,457.3t is a modest 3% ahead of 2016, which was itself a very weak year.

India

The H1 recovery in Indian jewellery demand was derailed in Q3 by regulatory intervention. After three consecutive quarters of growth, demand fell by 25% y-o-y to 114.9t in the third quarter. The introduction of the 3% Goods and Services Tax (GST) at the beginning of July was a contributing factor. As we noted in Gold Demand Trends Q2 2017, a large swathe of Indian consumers had pre-empted the introduction of GST by bringing forward their gold purchases to Q2. This left demand a little flat at the beginning of July.

The jewellery trade also struggled with the new tax system. While large, organised retailers, with their sophisticated accounting and inventory-management systems, were well equipped to cope with the transition to GST, smaller, unorganised retailers faced difficulties.

Onerous anti-money laundering regulation added to the industry's woes. Already suffering from weaker sentiment, the jewellery industry suffered a further blow when the government brought the gems and jewellery industry under the umbrella of the Prevention of Money Laundering Act (PMLA) in late August. The Act placed an administrative compliance burden on retailers and consumers alike, requiring 'know your customer' (KYC) documentation for all jewellery transactions with a value of Rs50,000 (roughly equivalent to US$750) or above. Demand therefore remained under pressure, particularly in rural India, where cash transactions are the norm, as consumers shied away from providing official ID to support gold purchases.

Recognising the difficulties placed on the industry by the regulation, the government lifted the PMLA from the gems and jewellery sector in early October. This decision was well-timed, coming just ahead of Diwali. Consumer sentiment improved dramatically, although reports suggest only average festive-season buying due to the continuing obstacle of GST.

Monsoon sent mixed signals for demand. Total monsoon rainfall, although broadly normal (around 5% below the long-term average), was distributed unevenly across the country. Inconsistent rainfall during the kharif crop-sowing season, together with prolonged monsoon rains that inflict damage on these crops, have the potential to impact rural incomes in some areas.[2] This could have a knock-on effect on jewellery demand in these areas over coming quarters, although the effect will be mitigated by aid measures. The government raised the Minimum Support Price (MSP) for kharif crops and waived farm loans to the tune of Rs800bn (US$12bn) in the key food-producing states of Maharashtra, Punjab and Uttar Pradesh.

There are reasons for cautious optimism. Our view remains that the market will continue to adapt to GST, allowing demand to recover to a certain extent. Inventory levels in the market are healthy and the removal of the PMLA legislation should encourage demand. But this positive view will likely be tempered by the impact of the uneven monsoon rainfall distribution.

China

Demand for gold jewellery in mainland China recovered to 159.3t, up by 13% y-o-y after 10 consecutive quarters of decline. Year-to-date demand (472.4t) is in line with the same period of 2016 (465.5t). But from a longer-term perspective the market remains weak: demand is 15% below the 5-year quarterly average of 187.1t.

Holiday purchases lifted demand, albeit from a very low base. The first green shoots of recovery in the market were witnessed around late August, with gifting of gold jewellery for Chinese Valentine's Day. This was followed by the Autumn Festival – a time for family reunion and an occasion when some parents buy their children gold jewellery for its perceived ability to bring happiness and good luck.

Leading retailers reported decent growth in Q3: sales were up both in terms of value and volume, and new store openings resumed after a period of stagnation during 2015-16. These openings were largely concentrated in the Tier 3 and Tier 4 cities. Competition is picking up: branded, national retail chains are becoming more aggressive and this could lead to a period of consolidation. Reports from the Shenzhen Jewellery Fair were positive: both visitor numbers and sales exceeded expectations and retailers were seen replenishing inventories ahead of the Q1 Chinese New Year festive buying season, after a prolonged period of destocking.

Although plain, 24 carat gold still dominates the market, demand was lacklustre as consumers continued to show preference for small, well-designed pieces. Sales of 'chuk kam' were flat and disappointing, even compared with 2016's low base.[3] Growth was concentrated among 18 carat jewellery, 24 carat 3D 'hard-gold' and piece-priced premium products, as consumers continue to favour innovation and differentiation over tradition. And gold continues to face stiff competition from travel, entertainment and dining for a share of consumers' budgets. **China's National Tourism Administration estimated that over 700mn Chinese travelled during the recent October week-long National holiday.** [4] Domestic travel revenue during the holiday was estimated at 584bn yuan (approx. US$90bn), an increase of around 13% from 2016.

But there are reasons to expect that the market may establish a base: efforts to improve quality control in online purchases may support the market in the long term. Aiming to remain relevant to consumers (especially young millennials, who are twice as likely to shop online as Chinese consumers in general),[5] Chinese jewellers are eagerly venturing into the cyber-retail space and trying to enhance quality assurance. In September, Alibaba, China's largest e-commerce platform, reached an agreement with the National Gemstone Testing Center (NGTC) that all jewellery sold on Tmall and Taobao would carry its certification of quality. Jewellers such as Chow Tai Fook and CHJ are expected to be among the first to adopt this practice.

Other Asia

Demand across the rest of the Asian region was generally weaker, with one or two exceptions. A 10% y-o-y decline in Malaysian demand (to 1.6t from 1.8t) was partly attributable to the timing of Eid. This year, the festival fell in June rather than July, so festival-related purchases were captured in the Q2 demand numbers.

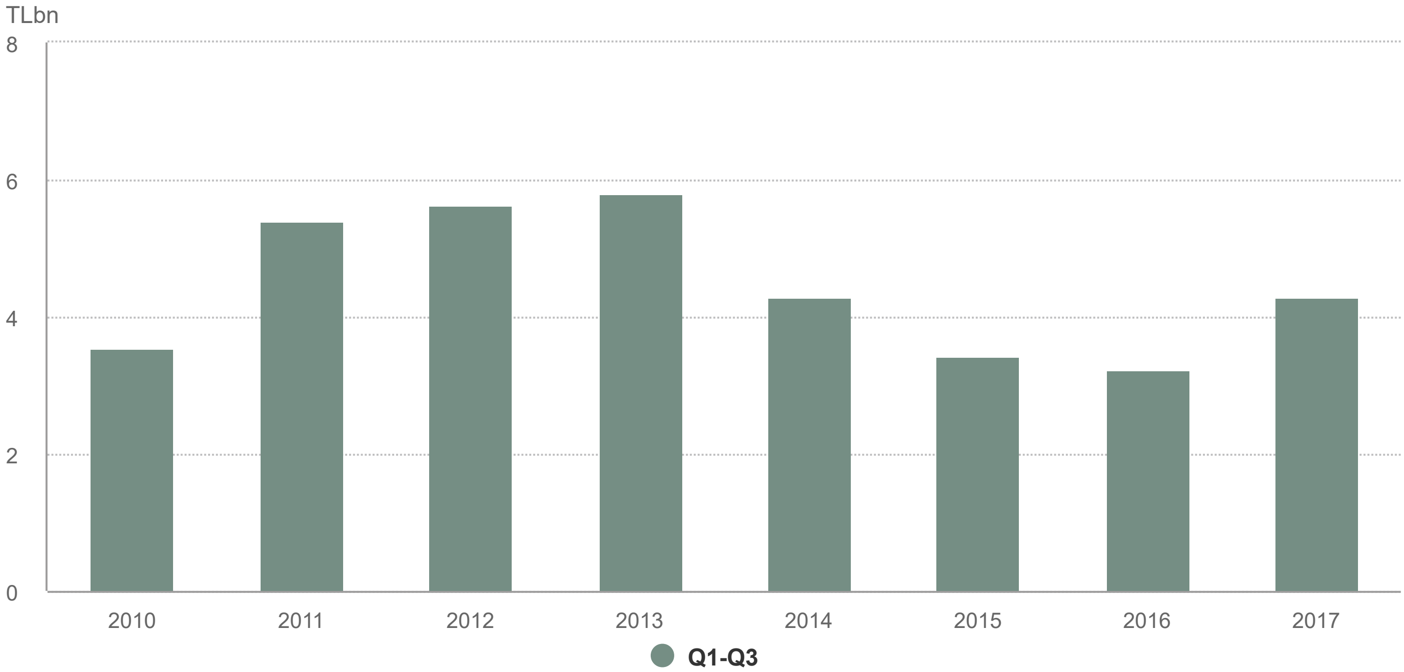
Japan's Q3 jewellery market was lacklustre: demand inched down from 4.2t to 4.1t. But industry sentiment is positive heading into Q4 amid reports that Japanese jewellery exports were well-received at the Hong Kong jewellery show.

Vietnam again outperformed regional counterparts. Demand climbed 14% y-o-y to 3.7t as solid GDP growth boosted sentiment and encouraged consumers to spend on luxury items. The positive environment in Vietnam so far this year has encouraged industry expansion among leading jewellery retailers: Phu Nhuan Jewellery Co., [6] for example, is reported to be on course to open more than 40 new shops in 2017, based on information from H1. Vietnam was one of the few markets to exceed its long-term performance: Q3 demand was 11% above the 5-year quarterly average.

Middle East and Turkey

Turkish jewellery consumption increased for the second quarter in a row, helped by dips in the local gold price. Demand grew 11% to 10.3t as the Turkish lira gold price dropped in both July and August and held below the April peak for the remainder of the quarter. 2017 has seen a strong recovery in spending on gold jewellery in Turkey: the value of y-t-d demand is up 25% on 2016 at TL4.3bn, on a par with 2014.

Value of Turkish jewellery demand recovers



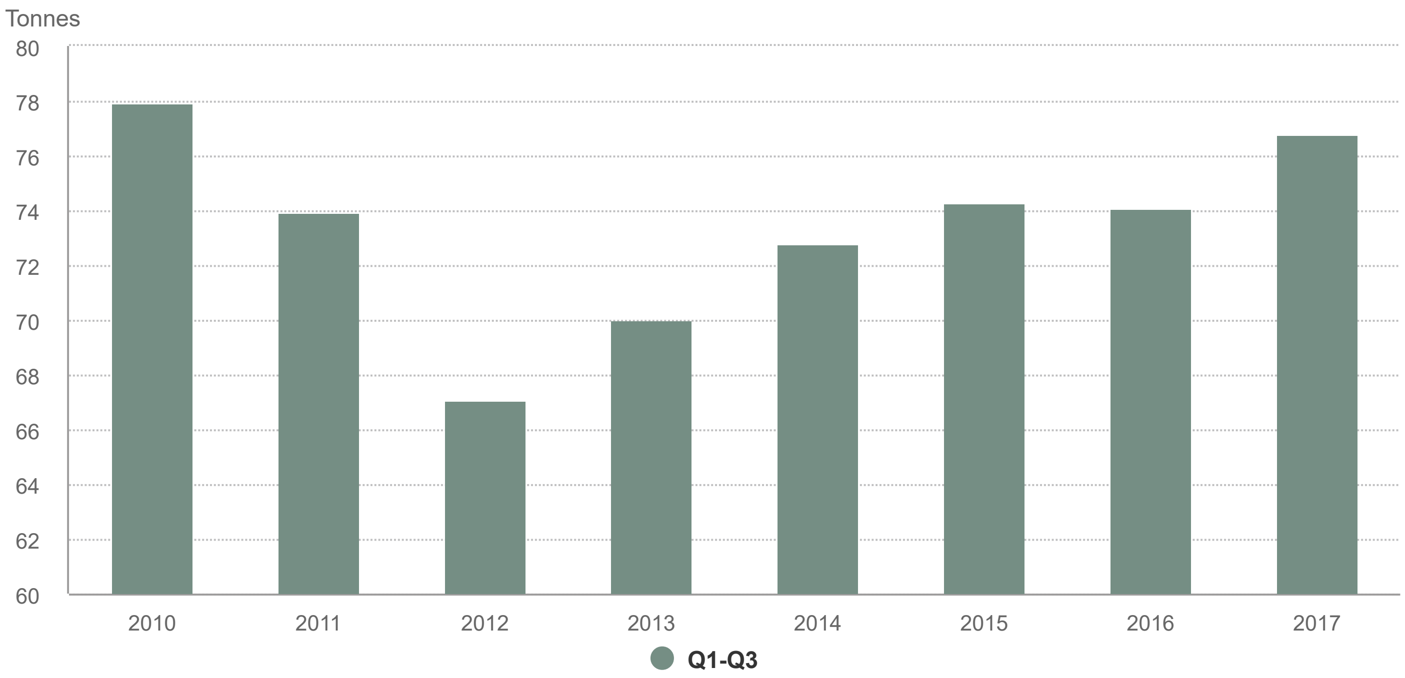
Source: Metals Focus; GFMS, Thomson Reuters; ICE Benchmark Administration; Datastream; World Gold Council

Regional demand for the Middle East was down 4% y-o-y: declines in Egypt, Saudi Arabia and UAE swamped gains in Iran. Sentiment deteriorated across the region. Higher living costs and falling tourist revenues in the UAE were behind a 10% fall in demand. Saudi Arabian demand continued to suffer due to weaker oil prices and rising employment costs. The planned introduction of a 5% VAT rate in January in both markets may boost demand before the end of the year, although we believe the effect will be temporary: demand is likely to falter once the new tax is in place. Iran's jewellery market notched up its ninth consecutive quarter of y-o-y growth, increasing by 8% to 11.4t. The central bank imposed interest rate controls, which boosted spending on gold jewellery (as well as on bars and coins).

The West

The US was the strongest of the industrialised Western jewellery markets. With demand of 26.9t, the US saw its strongest Q3 since 2012. The sound economic and employment environment has supported consumer sentiment this year, which rose to a 13-year high in October. Demand y-t-d is up 4% to a seven-year high of 76.8t, a figure that firmly maintains the position of the US as the third largest jewellery market globally. Mark Hanna, Chief Marketing Officer of Richline Group, Inc. believes that although this ‘globally significant market…faces further challenges’, it can ‘flourish, if it adopts key initiatives’.[7]

Year-to-date US Jewellery demand reaches seven-year high



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

Weakness in Europe was largely due to losses in the UK – other markets were broadly steady. UK demand was hit by pre-Brexit jitters, with consumers uncertain as to the likely economic impact of Britain’s exit from the EU. Demand fell 5% to 4.6t. Losses were concentrated in the 9 carat mass market, while the 18 carat and 22 carat segments were relatively well insulated. In contrast, France saw a marginal improvement in demand (from 1.9t to 2.0t), thanks to improving economic factors and increased tourism.

Investment

Investment demand was down 28% y-o-y at 241.2t; bar and coin growth counteracted some of the weakness in ETFs

- **ETF inflows slowed sharply from the spectacular 2016 levels**
- **Bar and coin demand increased 17% y-o-y but remained soft in comparison with long-term average levels**
- **Chinese investors fuelled gains in bar and coin investment**

Tonnes	Q3'16	Q3'17	YoY
Investment	334.5	241.2	-28%
Total bar & coin demand	190.2	222.3	17%
India	40.1	31.0	-23%
China	41.0	64.3	57%
Gold-backed ETFs	144.3	18.9	-87%

ETFs

Global holdings of gold-backed ETFs grew by just 18.9t in Q3: total AUM at end-September was 2,343.2t (US$96.7bn) – the highest since October last year. The sector saw outflows in July, before modest inflows resumed in August and gained momentum in September. But inflows into these products continued to lag well behind 2016's record levels. During the Q1 to Q3 period, inflows of 179.7t were just one-quarter of the record inflows seen in the first nine months of 2016.

ETF investors lacked a clear catalyst in Q3 as the gold market was pulled in different directions, culminating in modest global inflows for the quarter.

The geopolitical environment continued to fan the flames of gold's investment case. The increasing war of words between North Korea and the US – with its threat of nuclear conflict – was high on investors' radars. US-listed funds added around 90t during August and September (offsetting July outflows of around 60t). And our market contacts reported that each escalation in tension led to a small but discernible jump in holdings of German-listed ETFs. Brexit and terrorist-related incidents also continued to reinforce investor interest.

Monetary policy, meanwhile, was more of a mixed blessing for ETFs. For the first two months of the quarter, the probability of a December US rate hike fell steadily. But this reversed sharply in September after the Federal Reserve signalled strongly that rates would rise in December. These shifts in expectations were reflected closely in the gold price, which traded in a broad upward range throughout July and August before swiftly retracing half of those gains in September.

Gold price moves were similarly mixed in their impact on ETF flows. The fact that the gold price held within the recent broad US$1,200-1,300/oz. range for much of the quarter encouraged some price-related tactical trading. Western investors were reported to have taken profits on their holdings as the price rose in July and August, before re-investing at lower prices at the end of the quarter. Notably, our contacts specified that investors were not taking outright short positions, but were rather liquidating existing positions to realise gains.

Soaring stock markets also played a dual role: investors used their gold holdings to balance their burgeoning equity positions. Investors the world over were reluctant to bet against stock markets – some of which reached new highs – and this tamed inflows into gold-backed ETFs. However, many used their strategic holdings of these ETFs to complement their equity positions as a hedge against any possible downturn.

Having led inflows into ETFs over the first half of the year, European investors relinquished their lead in Q3. ETFs listed in Europe saw small outflows of 6.8t during the quarter, in contrast to US-listed funds whose holdings grew by 30.4t.

Year-to-date however, European-listed funds account for 70% of net ETF inflows, the bulk in German-listed funds.

ETF holdings in China dropped again in Q3, although the pace of decline slowed markedly. Net outflows of 2.9t reduced holdings in Chinese gold-backed ETFs to 42t at the end of September. Reports suggest that the flows were price-driven, with investors in the sector often buying after a price correction in contrast to the more traditional approach of buying into a price rally.

Bar and coin

Q3 global bar and coin demand shot up 17% y-o-y, reaching 222.3t (US$9.1bn). But the y-o-y comparison flatters to deceive: Q3 last year was the lowest level of bar and coin demand since Q1 2009. When considered in the broader perspective, Q3 2017 bar and coin demand was below its 3-, 5- and 10-year quarterly averages.

China made the biggest contribution to global y-o-y growth, with demand up 57%, reaching 64.3t. China's gold market is in relatively good shape: y-t-d, 2017 has seen the second highest volume of bar and coin demand on record.[8]

Two themes have underpinned China's market this year. First, from a macroeconomic perspective, fears over a potential depreciation of the yuan and the spectre of rising inflation continued to hang over investors. Second, there are relatively few alternative investment opportunities. The Chinese government, for example, imposed restrictions on the real estate market earlier this year. Gold, as a globally traded asset and a natural hedge against currency weakness, has benefited.

Competition in this market remains fierce. As noted in previous quarters, high-net-worth individuals increasingly prefer Shanghai Gold Exchange bars compared to commercial banks' own products because of their lower premiums. In response, some banks have teamed up with renowned gold jewellers to build on each other's strengths. In July, the Bank of Communications (BOCOM) partnered with Beijings Caibai – one of the largest players in China's jewellery market – to develop gold investment products. Caibai brings skills in product design and manufacturing while BOCOM offers a vast network of branches and investment expertise.

In contrast, India – the world's second largest bar and coin market – was weak. Demand fell 23% to 31t. As explained in the jewellery section, India's gold market was once again beset by regulatory and tax changes – namely the PMLA and GST [9] – which crimped retail investor activity.

GST also affected India's trade flows. Bullion imports started on a slow note in July as importers struggled to adapt to the new tax regime, particularly around the process for obtaining a refund of GST paid by the bank and its impact on their cashflows. In the absence of clarity, most banks stopped importing gold on a consignment basis.

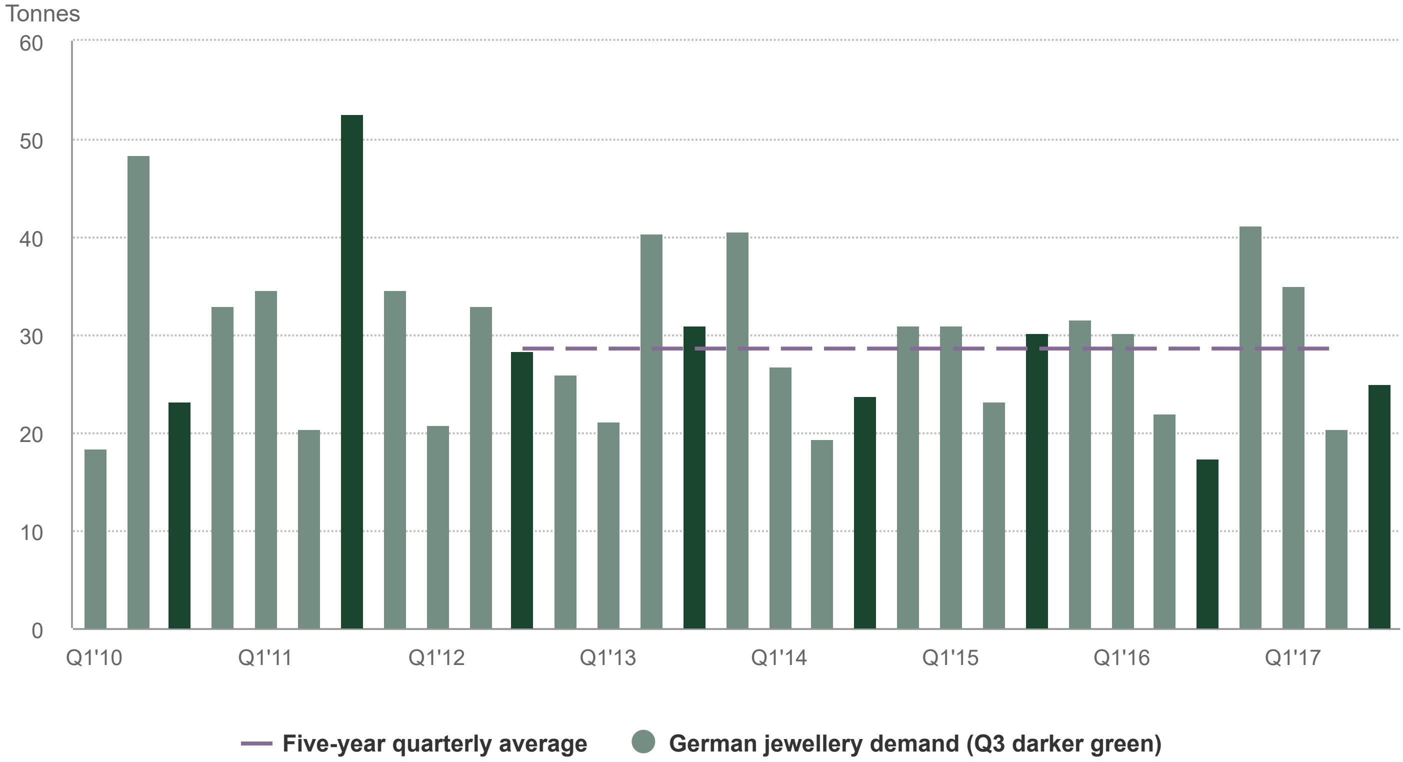
In another twist, the Indian market was awash with South Korean gold. For a while, traders took advantage of the free trade agreement between the two countries which stipulated that gold coins would be subject to only a 1% tax. The government closed the loophole following an outcry from the gold industry. But during the brief window of July and August, a total of 30t of South Korean gold coins entered the market. These were melted down for processing by jewellery manufacturers rather than sold directly to retail investors.

This flow from South Korea impacted on India's domestic gold price: cheap imports pushed the local gold price to a discount of as much as $7/oz in August. Once the loophole was closed on 25th August, the discount narrowed and the local gold price moved back to a small premium by Diwali in October. The government also acted against trading houses that had imported the South Korean coins: on 18th October, the Directorate General of Foreign Trade imposed restrictions preventing them from selling imported gold in the domestic market.

Turkey recorded another impressive quarter. Bar and coin demand hit 15t, almost three times higher than the same period last year. A couple of dips in the lira gold price during the quarter proved tempting for some investors, but two themes have had a greater impact. President Ergodan's pro-gold comments in November last year continued to lend support to the market. In addition, the government's Credit Guarantee Fund – which guarantees loans to small and mediumsized enterprises that could not otherwise get credit – has boosted the economy and supported gold demand. Turkish gold demand was at its highest since 2013 on a y-t-d basis.

Bar and coin demand in Europe rose 12t to 45.5t, a 36% improvement on the relatively weak Q3 last year. Germany – the mainstay of European demand[10] – made the biggest contribution, with demand up 45% to 25.1t. July saw a spurt of activity as the euro-denominated gold price dipped to its lowest level since February 2016. Geopolitical risk stemming from national polls has boosted demand in some countries in recent years, but that wasn't the case in Germany. Contacts in the industry described the German election in September as a non-event, with minimal impact on gold demand.

German bar and coin investment healthy but below 5-year average

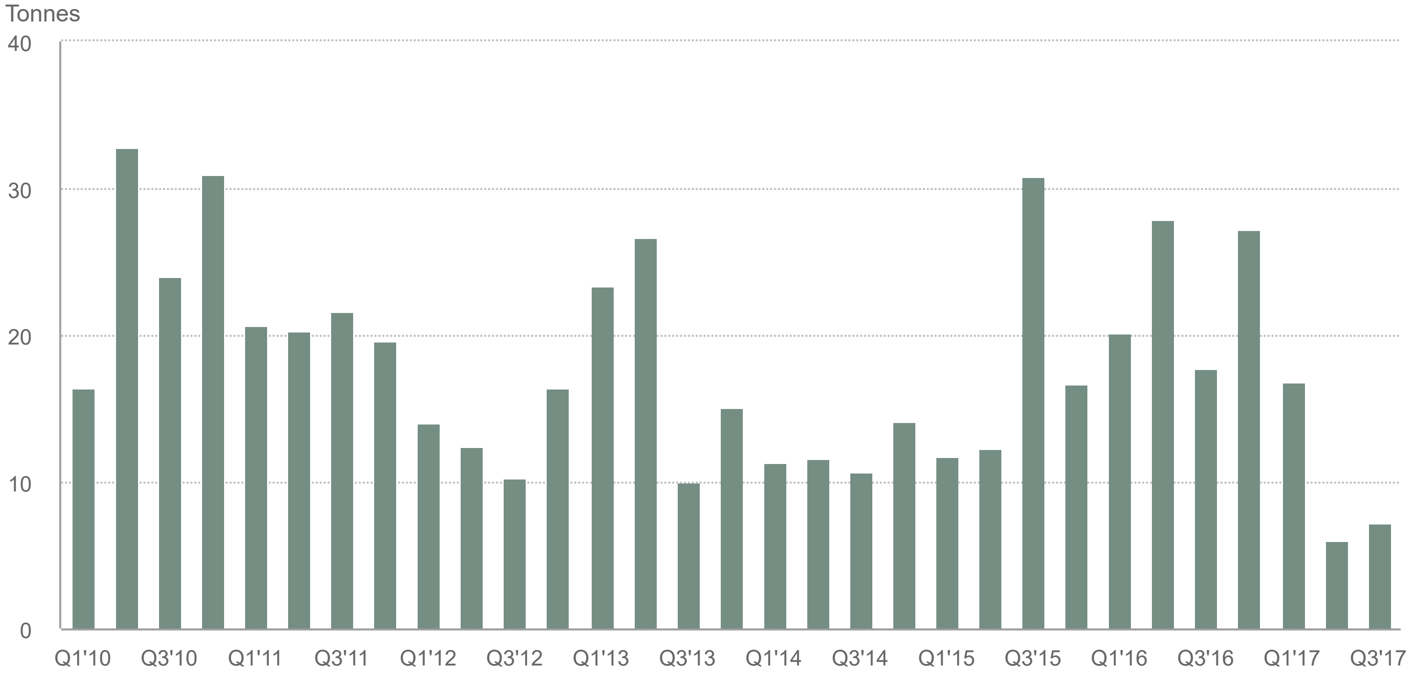


Source: Metals Focus; GFMS, Thomson Reuters; World Gold Council

Although a small market, South Korea saw an upsurge in activity. Investment demand jumped 42% to 1.4t against a backdrop of heightened tensions between its neighbour, North Korea, and the US. Sales of small gold bars – 100g and 10g – were strong, as investors bought an asset that is light enough to carry and to cash in.

The US market was depressed, with demand of 7.3t compared to 17.7t in Q3 2016. After a very strong showing in 2016 – the third best year for bar and coin demand on record in the US – 2017 has been rather unexciting: y-t-d demand was at its lowest level since 2006. Dealers report that investors are disappointed by the range-bound gold price, which compares poorly to the headline grabbing performance of the S&P500.

US bar and coin investors sidelined as soaring stock markets steal the headlines



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

Central banks and other institutions

Global official gold reserves rose 25% y-o-y, led by a small cadre of banks

- **Global gold reserves grew 111t in Q3 2017**
- **Russia, Turkey and Kazakhstan remained dominant buyers, accounting for over 90% of the total**
- **Kazakhstan has now purchased 185t over the past five years**

Tonnes	Q3'16	Q3'17	YoY
Central banks & others	88.8	111.0	▲ 25%

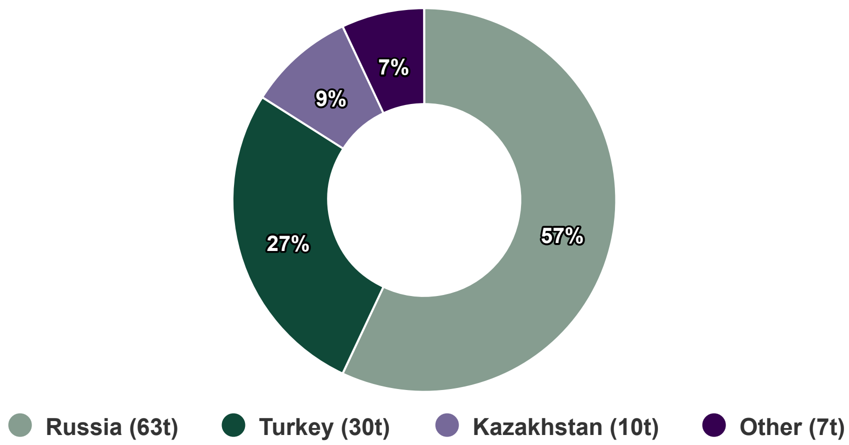
Central banks collectively added 111t to their gold reserves in Q3, 25% more than the same period in 2016. This brings y-t-d demand from this sector to a healthy 289.6t. The third quarter was something of a familiar tale: Russia accounted for the bulk of purchases, with Kazakhstan and Turkey also increasing reserves.

Echoing recent years, the Central Bank of Russia was by far the largest purchaser. It accumulated 63t in Q3, pushing gold reserves to 1,778.9t (17% of total reserves). On a y-t-d basis, Russian gold reserves have risen by almost 164t, around 35t more than in the same period of 2016 and 112t more than the second largest purchaser, Turkey.[11]

After returning to the market to purchase gold in Q2, the Central Bank of Turkey continued to grow its gold reserves. During Q3, Turkey bought 30.4t. Reserves (excluding commercial bank holdings) reached 167.4t at the end of September, more than 50t higher than at the end of April this year.

Kazakhstan purchased 10.3t during the quarter. Its central bank has now increased gold reserves each month for the last five years, accumulating 185.3t.

Russia and Turkey dominate Q3 central bank buying



Source: Metals Focus; IMF IFS; Central Bank of Turkey; World Gold Council

Other central banks increasing reserves during the quarter were Qatar (3.1t), Kyrgyz Republic (1.3t), Indonesia (1.2t), and Mongolia (0.4t). While these increases are small in comparison to those mentioned above, they demonstrate that emerging market central banks maintain an interest in gold in order to diversify their reserves.

Net reductions in gold reserves remained limited in Q3. Germany sold 0.4t for its coin-minting programme, while Tajikistan (-1.3t) and Malaysia (-0.6t) also saw minor declines.

Technology

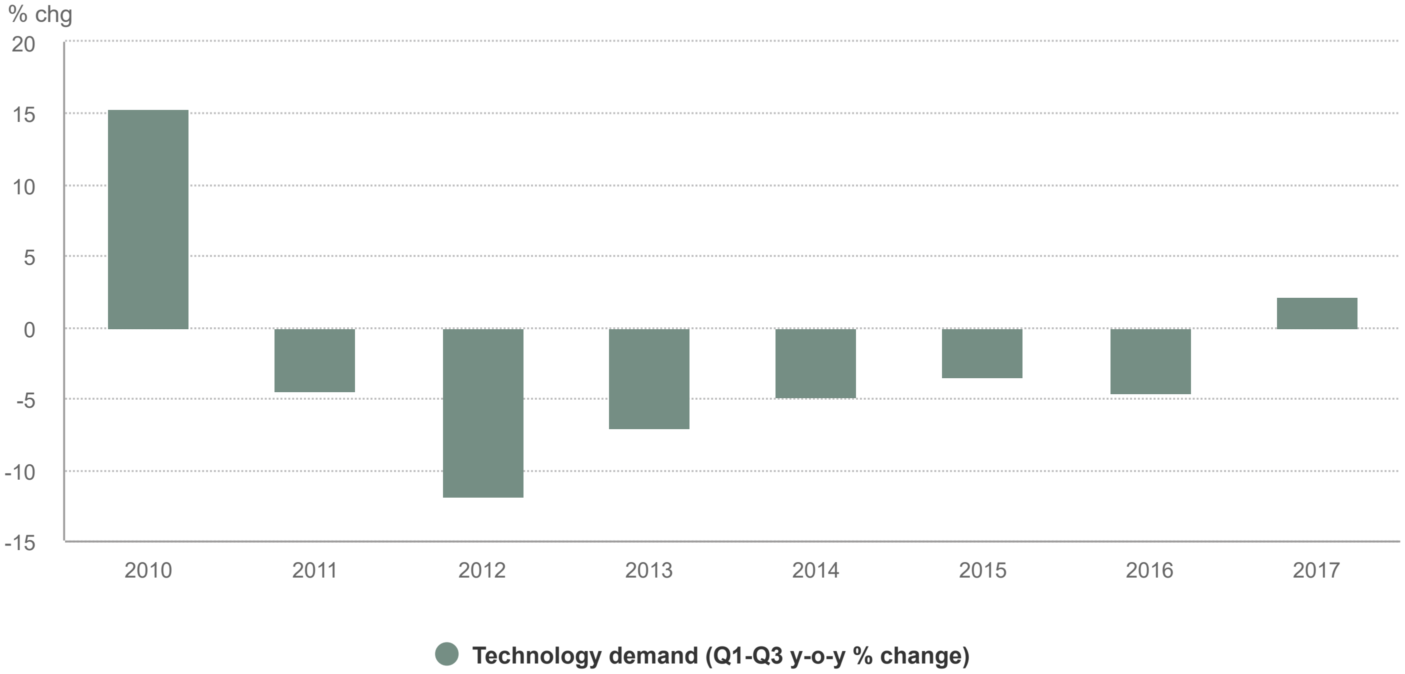
Gold used in technology extended its recent recovery

- **Strong momentum in memory chip demand led to another quarter of double-digit growth**
- **Automobile applications generated increased demand for LEDs**
- **Wider application of 3D sensors boosted gold demand from the wireless sector**

Tonnes	Q3'16	Q3'17	YoY
Technology	82.6	84.2	▲ 2%
Electronics	65.3	67.3	▲ 3%
Other Industrial	12.8	12.8	▼ 0%
Dentistry	4.5	4.2	▼ -7%

Technology demand stood at 84.2t in Q3, 2% higher y-o-y and the fourth consecutive quarter of growth. Year-to-date demand reached 244.4t, up 2% over the same period of 2016 and the first increase since 2010.

Year-to-date technology demand returns to growth after 6 years of decline



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

Electronics

The volume of gold used in electronics grew 3% y-o-y to 67.3t in Q3. All main sub-sectors registered growth. Continued strength in the memory sector – where supply remained very tight and demand high – underpinned a 12 to 15% increase in demand for gold bonding wire in Q3. Samsung Electronics credited 'strong demand for …memory chipsets…and flagship mobile devices' as a key contributor to its record Q3 net profit. [12] The prolonged shortage in memory chips is expected to persist into 2018 as factories struggle to increase output sufficiently to meet demand for high-end smartphones. We believe this bodes well for the short-term outlook for gold bonding wire.

Demand for LEDs continued to improve thanks to sustained growth in automotive applications, such as collision avoidance and intelligent sensing systems. Demand for fine pitch LED displays gathered momentum, due to a surge in demand from smartphone applications: we estimate that monthly output volumes doubled in Q3 from the previous quarter and contributed to the y-o-y growth of gold usage in the LED sector of between 3 and 5%.

Gold used in wireless applications also fared well: growing by around 8% y-o-y in Q3. Demand for 3D sensors – used in facial and gesture recognition – surpassed expectations. And, in our view, their wider applications in gaming, vehicles and healthcare industries will continue to generate growth.

The traditional Q3 seasonal peak in new smartphone launches boosted gold used in Printed Circuit Boards, which are an important component in wireless charging.

Electronic demand by South Korea and Taiwan was 10% and 9% higher y-o-y respectively. Other countries/regions with impressive growth included China, Italy and Switzerland.

Researchers in the US and China have developed a gold-based catalyst that could improve the performance and efficiency of hydrogen-powered cars.[13] Writing in the leading journal Science, researchers describe the development of a gold nanoparticle/molybdenum-carbide catalyst which attained a high level of activity at low temperatures, producing the pure streams of hydrogen critical to efficient fuel cell operation.

Supply

Total supply fell 2% in Q3; declines in both mine production and recycling were reinforced by further net de-hedging

- **Mine production declined 1% y-o-y in Q3, but y-t-d production was the highest on record**
- **Q3 was the fifth consecutive quarter of net de-hedging; the global hedgebook fell to 218t**
- **Recycling activity continued to normalise after 2016: the supply of recycled gold fell 6% y-o-y in this quarter**

Tonnes	Q3'16	Q3'17	YoY
Total supply	1,168.4	1,146.4	▼ -2%
Mine production	851.8	841.0	▼ -1%
Net producer hedging	-18.3	-10	-
Recycled gold	335.0	315.4	▼ -6%

Mine production

After a strong first half, mine production in Q3 fell by just over 1% y-o-y to 841t.[14] On a y-t-d basis, mine production hit 2,420t by the end of Q3, the highest on record. At a country level, production varied among the major producers.

Ongoing issues hamper supply. Chinese gold mine production – the largest producer since 2007 – registered a fifth consecutive y-o-y decline in Q3. Recently imposed regulations, which target the discharge of cyanide in tailings, continue to bite and may impact production over several more quarters. The dispute between Acacia Mining and Tanzania's government again significantly disrupted production in that country, leading to a fall in total Q3 production of 15% y-o-y – with output from Acacia falling by 7% y-o-y. The company also announced its intention to scale back its Bulyanhulu project to manage losses caused by the government's concentrate export ban. Q3 output from Burkino Faso also fell 15% y-o-y as operations at the Inata project were scaled back. Second-half output from Essakane - the country's largest mine - is also anticipated to be lower.

New mines reporting ramped-up production boosted some countries' output. Mine production in Suriname grew by an impressive 90% y-o-y, driven by Newmont's Merian mine moving towards full capacity. In Canada, output rose 10% y-o-y on the back of increases at Brucejack and Hope Bay, both of which started commercial production earlier in the year. In Argentina, the 15% y-o-y increase in gold mine production was due to a combination of a ramp-up in production at the Cerro Negro mine and a strong quarter at Veladero.

While new mine starts during Q3 were limited, a number of new mines are expected to enter production in Q4. This could help support mine production through Q4 and on into 2018. Reports of notable starts include:

- The Natalka project in Russia, which began commissioning in September and is expected to ramp up to full production by the end of 2018
- Canada's Rainy River project, which is expected to start commercial production in November
- Houndé in Burkino Faso, which is expected to pour gold before the end of 2017

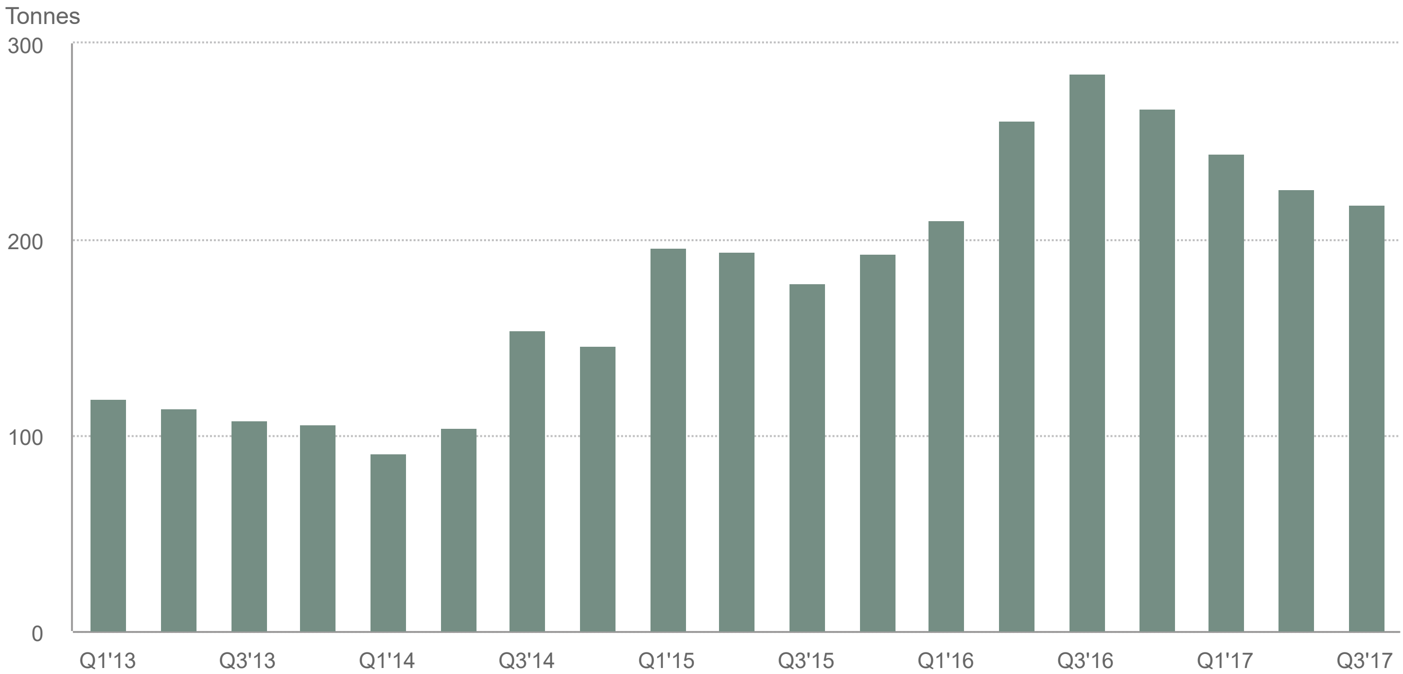
Producer hedging

The gold market saw net producer de-hedging of 10t in Q3. This is the fifth consecutive quarter of net de-hedging, a period that has seen the overall global hedgebook cut 24% to 218t.

Despite the hedgebook falling, some notable tactical hedges were initiated. Acacia Mining reported that – in response to its dispute with the Tanzanian government – it had bought put options for 210,000oz of future production. At the end of

September Yamana Gold announced that it too had entered into options contracts (for 285,000oz), to secure cash flow during the completion of its Cerro Moro project in Argentina. Teranga Gold announced in September that it will sell forward 131,000oz of gold to finance its Banfora project. Pan African Resources also opted to hedge a portion (27,000oz) of its 2018 production, making clear that this is a short-term position to secure cash flow for the construction of its Elikhulu railings treatment project.

Global hedgebook down almost 25% over recent quarters



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

Recycled gold

As with the previous two quarters, the y-o-y comparison for recycled gold was weakened by the strong performance of 2016. Third quarter recycled gold supply reached 315.4t, nearly 6% lower than Q3 2016. Recycling continues to normalise after the spike in 2016: Q3 demand is almost directly in line with the five-year quarterly average of 314.8t.

Europe and the Middle East were the biggest drivers of the y-o-y decline. In Europe, the depletion of near-market supplies continued to limit the level of recycling, not helped by the 5% q-o-q decline in the quarterly-average gold price in Q3. In the UK specifically, the y-o-y comparison was skewed by the jump in recycling levels seen in Q3 2016; a reaction to the shock outcome of the Brexit referendum.

Middle Eastern recycling was impacted by two key markets. In Egypt, recycled gold levels continued to normalise as the country recovered from the currency weakness of 2016 that had prompted consumers to sell. In Turkey, the local gold price (despite remaining near or at record levels) fell short of expectations, curtailing sales and resulting in a y-o-y decline. Reports suggest the local price would need to comfortably exceed TL150/g before consumer interest in recycling is stimulated.

Recycling in East Asia was predominantly price driven; the modest price rise during the quarter led to a similarly modest rise in recycled gold. In India, recycled gold supply in Q3 grew 4% y-o-y, although our view is that recycling activity was restrained due to uncertainty over the impact of the PMLA Act on the jewellery sector. [15]

Footnotes

1. 'Year-to-date' refers to the period to the end of September 2017, unless otherwise specified.
2. India has two main cropping seasons: Kharif and Rabi. Kharif crops are sown during the summer monsoon, beginning with the first of the rains in July, and are harvested in the winter. Rabi crops are sown during the winter months, with a spring harvest.
3. 'Chuk kam' translates as 'pure gold' and is widely used to refer to plain, 24-carat gold jewellery
4. Read more: www.cnta.gov.cn/xxfb/wxzl/201710/t20171008_841776.shtml
5. World Gold Council, 'China's jewellery market: new perspectives on consumer behaviour', December 2016. www.gold.org/research/china-jewellery-market-new-perspectives
6. Read more: www.tvs.vn/images/2014/document/company%20reports/2017/Thang%207/TVS_PNJ_GoodAsGold_EquityUpdate_27July2017.pdf
7. Mark Hanna, 'US gold jewellery – an evolving industry', Gold Investor September 2017, World Gold Council. www.gold.org/research/gold-investor/gold-investor-september-2017/us-gold-jewellery-an-evolving-industry
8. 2013 holds the record when China's investors hoovered up gold in response to the sharp price fall.
9. Read more: www.gold.org/research/gold-demand-trends/gold-demand-trends-q3-2017/jewellery
10. For an in-depth look at Germany's gold investment market, see World Gold Council, Market Update: Germany's Golden Decade, October 2017 www.gold.org/research/market-update/market-update-german-investment-market
11. Turkish gold reserves have increased due to direct purchasing by the central bank and its policy of accepting gold in its reserve requirements from commercial banks. This report considers just the gold bought directly by the Central Bank of Turkey.
12. Read more: news.samsung.com/global/samsung-electronics-announces-third-quarter-2017-results
13. Siyu Yao et al, 'Atomic-layered Au clusters on α-MoC as catalysts for the low-temperature water-gas shift reaction', Science, Vol. 357, Issue 6349, July 2017.
14. H1 2017 mine production has been revised upwards by 21.9t due to information that third parties released after the publication of Gold Demand Trends Q2 2017. The H1 2017 y-o-y percentage has subsequently changed from 0% to 1%.
15. Read more: www.gold.org/research/gold-demand-trends/gold-demand-trends-q3-2017/jewellery

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