Crucible

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IN FOCUS: COVID-19 AND THE GOLD MARKET

Between Scylla and Charybdis, David Parkins

EDITORIAL

After a strong start to the year for gold and the wider economy in general, the past weeks will certainly go down in the history books. The market turmoil sparked by the Covid-19 outbreak is reminiscent of market conditions following the 9/11 and the 2008 global financial crisis. But the current Wall Street sell-off highlights gold's liquidable nature, particularly during rainy days, and only strengthens its value as a safe-haven asset.

For this issue of Crucible, we have invited contributors from different geographies to provide their perspectives on the impact the outbreak is having on the bullion industry in their respective countries/regions. One thing is clear, Covid-19 has not only impacted the financial industry, but almost everything else, from the way we work to our social activities. In Singapore, SBMA is monitoring the situation closely, and the Management Committee has regretfully decided to cancel the Asia Pacific Precious Metals Conference (APPMC), originally scheduled for June 7-9, 2020, and will focus our efforts on next year's edition.

The past teaches us that even the biggest crises end at some point. The situation in China is already stabilising thanks to the Chinese government's strict measures to curb the virus. Global and coordinated stimulus is needed, and we are moving in the right direction. Public health and monetary response by authorities are materialising, although more might be needed in the coming weeks in Europe and the United States, I am sure central banks and governments around the world will do everything in their power to support the economy and put this external shock behind us.

Stay vigilant, alert, and healthy and I hope to see you next year at APPMC 2021 on June 6-8.

Albert Cheng

CEO, Singapore Bullion Market Association

HONG KONG & CHINA Q1 MARKET UPDATE

BY JEREMY EAST, *Senior Representative for the Asia Region, London Bullion Market Association*

In Hong Kong and China, the Covid-19 situation looks to be improving steadily, with almost no new cases as of March 12. The virus and control measures have, however, had a severe impact on the regional economies and especially the local gold market.

China is the largest physical gold market globally, normally consuming approximately one-third of global gold production. Demand has been hit hard in Q1, with China gold imports significantly reduced. Gold, which usually trades on the SGE at a premium to loco, London has recently been trading at a discount. This has been seen in Hong Kong too, where physical gold is also trading at a discount. As a result, producers in the region have been making large bars and delivering them to London. Gold is flowing to the centre of the global market to satisfy ETF buying – which looks to be the main price driver.

China's jewellery sector has also been severely affected. Major players announced that sales were down around 30-40% with many closing stores in the face of collapsing demand. Several conferences have been postponed in region, such as the SGE event in April. The LBMA Responsible Sourcing & Technology Summit in March has been cancelled, however, we are looking at online delivery of the content to our members so please keep an eye out for more information.

Looking ahead, as the situation here looks to normalise in Q2 and Q3, we may see some pent-up demand for physical gold underpinning regional premiums. However from a price perspective this might be offset by declining demand in the West due to the worsening situation there.

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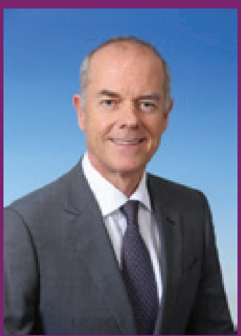
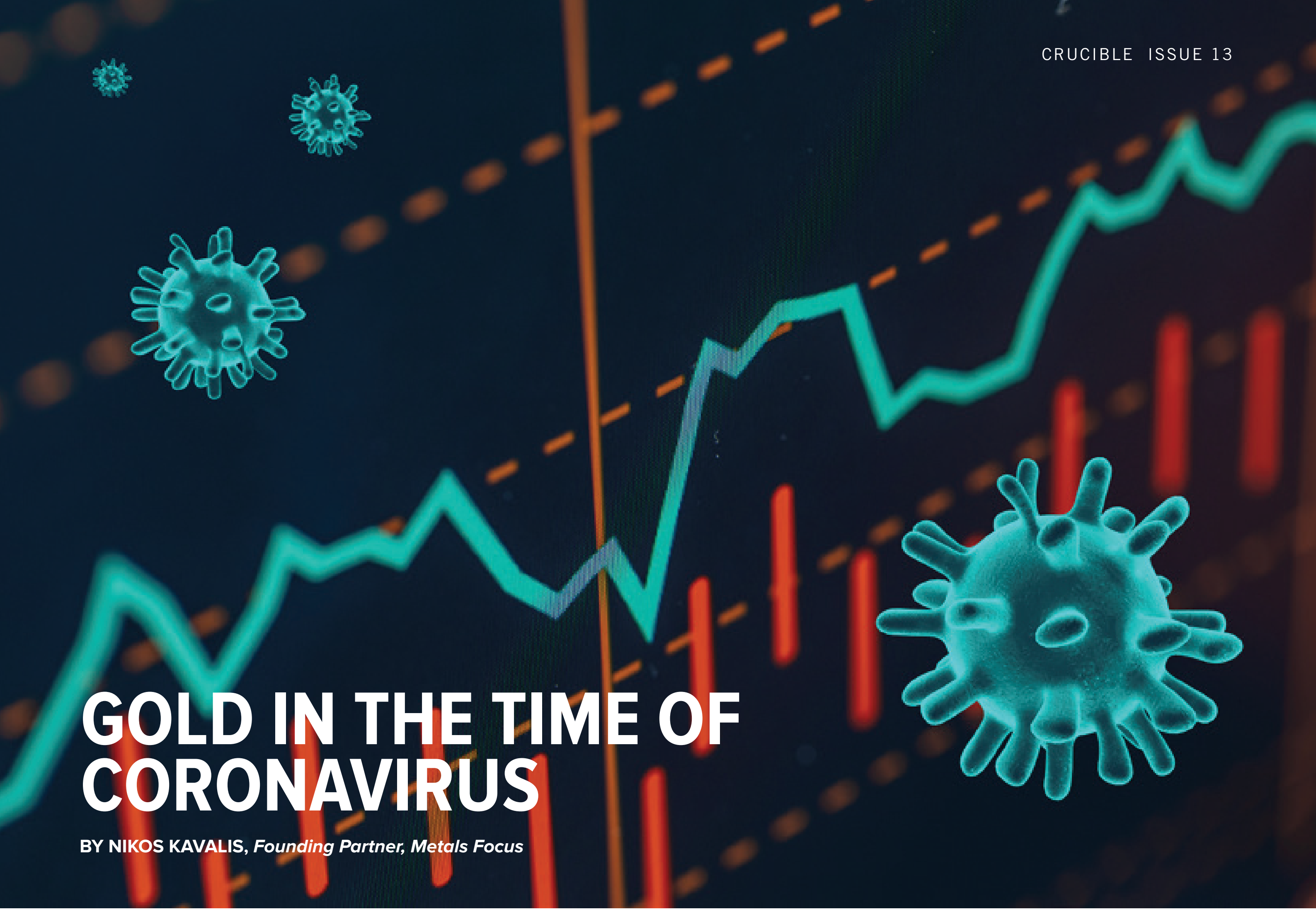


JEREMY EAST is LBMA's Senior Advisor for Asia, based in Hong Kong. He is also the Chief Executive of commodity consultancy East Wind Capital. He previously spent 11 years with Standard Chartered Bank as Managing Director and Global Head of Metals Trading & Commodities for Greater China and North Asia, and ran Commerzbank's Precious Metals business.



GOLD IN THE TIME OF CORONAVIRUS

BY NIKOS KAVALIS, ***Founding Partner, Metals Focus***

Over the past few weeks, we have seen Covid-19 evolve from a predominantly Chinese outbreak to a global crisis. As of March 16, 2020, there have been nearly 165,000 confirmed cases and over 6,500 deaths across 146 countries, and these numbers continue to increase on a daily basis. Although China remains the hardest-hit country in absolute terms, relative to its population, more than 20 countries, most of them in Europe, have now surpassed it.

The virus is now officially a pandemic, according to the World Health Organisation. Concerns about its ability to continue spreading have sent shock waves across markets. Equity prices around the world have suffered sharp declines and bond yields in key markets have collapsed to all-time lows. Industrial commodities have also come under pressure.

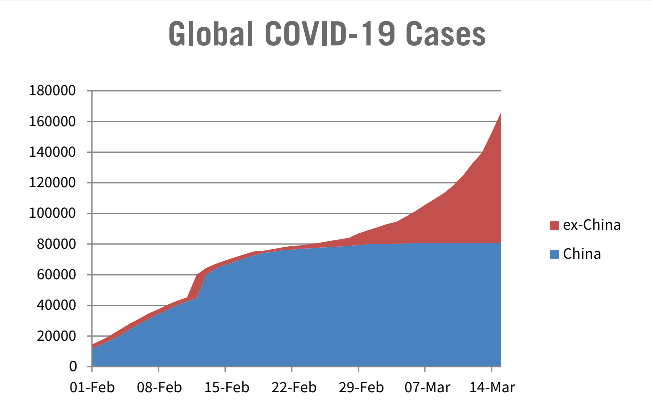
> **CONCERNS ABOUT COVID-19'S ABILITY TO CONTINUE SPREADING HAVE SENT SHOCK WAVES ACROSS MARKETS.**

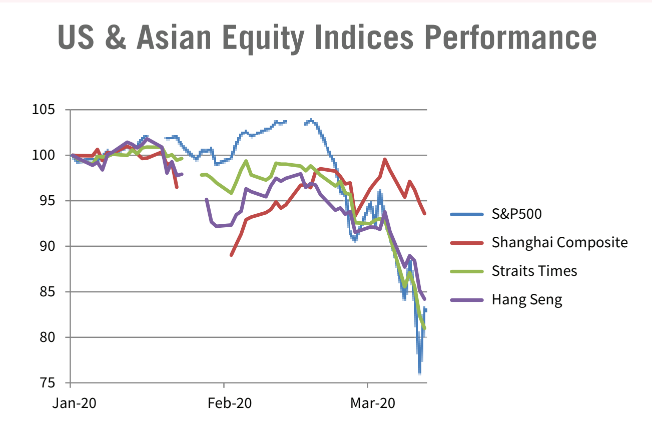
As a result, authorities in a number of countries have either implemented or promised monetary and fiscal interventions, which at times have offered some support. In spite of such efforts, risk aversion has continued to spread. Most notably, the 50 and 100 bps cuts by the US Federal Reserve on March 3 and March 15 respectively, have done little to help US equity prices.

For a while, gold was one of the few beneficiaries, as investors have looked for safe haven assets to help diversify their portfolios. Since the beginning of February, gold exchange-traded fund (ETF) holdings have increased by more than 100 tonnes and in the first half of February, money managers' net positions in Comex futures rose by nearly 180 tonnes, although more than a third of that was later sold off. In turn, this fuelled a rally to a peak of $1,703, a level unseen since before the 2013 liquidations. Meanwhile, gold prices denominated in euro as well as a number of Asian currencies reached all-time highs.

More recently, as panic selling eventually spread across all asset classes, safe haven assets also experienced heavy liquidations. Bond yields rebounded and gold prices collapsed. As of March 16, the dollar price was once again trading in the 1,500s – close to where it started 2020. It is important to stress that even after these corrections, gold continued to significantly outperform other asset classes, most notably equities, where most major markets have suffered double-digit declines year-to-date.

The impact of the crisis on other precious metals prices has been negative. Silver has been dragged down by the sell-off in industrial metals and has underperformed gold, sending the gold-silver ratio to a record high of 123. Platinum has experienced similar challenges, amplified by a market in surplus. Palladium and rhodium prices have also suffered corrections, but remain historically high, bolstered by





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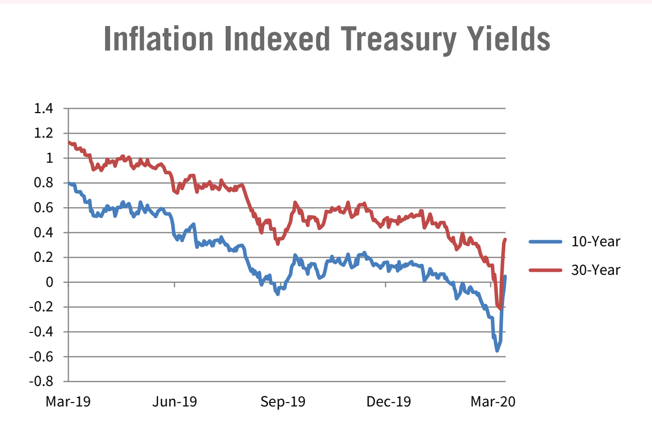


PALLADIUM AND RHODIUM PRICES HAVE ALSO SUFFERED CORRECTIONS, BUT REMAIN HISTORICALLY HIGH

a perception that even under the most pessimistic Covid-19 spread outcomes, their markets would remain in deficits. It is worth noting that for a short while, all palladium group metals (PGMs) received a boost from news about supply disruptions in South Africa, but this soon evaporated in the face of rising risk aversion.

Looking ahead, we believe the Covid-19 outbreak is likely to continue affecting global markets and, by implication, precious metals, at the very least for the next few weeks and likely the next two to three months. Although the rate at which confirmed cases are growing has slowed down significantly in China, it is accelerating across some key Western economies, notably the United States, Italy, France and Germany.

Italy, Spain and France have already implemented aggressive containment measures that will undoubtedly affect their economies. Other nations may well follow suit, while individuals are also likely to increasingly exercise caution in their day-to-day activities. Against this backdrop, further pressure on global growth seems inevitable. Investor anxiety towards that prospect will likely amplify this as far as market moves are concerned. In this environment, gold's downside will at the very least be supported. Eventually, we expect a healthy rebound to emerge, as the appetite for safe haven assets remains strong.

In theory, some support for economic activity may emerge as more monetary and fiscal stimulus measures are implemented. However, we are sceptical of the effectiveness of such measures, at least while the virus continues to spread. As consumer and businesses activities are restricted, they will probably struggle to make use of these injections. Such concerns may also explain why the interest rate cuts in the US failed to rejuvenate the country's equity markets.

IN CONTRAST TO ITS IMPACT ON INSTITUTIONAL INVESTMENT AND PRICES, THE COVID-19 OUTBREAK HAS AND WILL MOST LIKELY CONTINUE TO WEIGH ON THE PHYSICAL MARKET.

Meanwhile, loosening monetary policy will likely also benefit gold. Short-term US dollar interest rates have moved deep into negative territory as a result of policy rate cuts. Longer-term yields are also extremely low. Before its recent rebound, the 30-year inflation-indexed yield moved into negative territory for the first time in the bond's history.

In contrast to its impact on institutional investment and prices, the Covid-19 outbreak has and will most likely continue to weigh on the physical market. Although some risk-averse retail investors will be drawn to gold, we believe this will be far outweighed by the negative impact the crisis will have on demand elsewhere. Around the world, restrictions to consumer activities, concerns about the impact of the crisis on personal incomes and elevated gold prices have been and will almost certainly continue to weigh on jewellery consumption and, in many markets, also physical investment.

NIKOS KAVALIS is a founding partner of Metals Focus. He has over 16 years of experience in precious metals, having previous worked for the Royal Bank of Scotland and GFMS. Since September 2019, Nikos has been based in Singapore, where he also runs the local subsidiary of Metals Focus.

COVID-19: POTENTIAL IMPACTS ON CHINA'S ECONOMY AND GOLD MARKET

BY RAY JIA, *Research Manager, World Gold Council*

A Shenzhen jewellery wholesaler's showroom in February (Image: Showking, Batar Group)

China's economy is vastly different now compared to 2003, at the height of the SARS outbreak. A consumption-led economy means the economic fallout from the novel coronavirus (Covid-19) outbreak could be larger, argues the World Gold Council's Ray Jia.

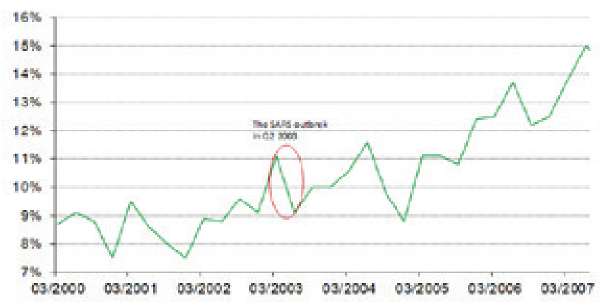
The Covid-19 outbreak in China is being contained currently as the number of reported infections continues to fall, but China's economy and gold market is still under pressure.[1] To understand the current situation, it helps to look at what has happened in the past – the severe acute respiratory syndrome (SARS) outbreak in 2003 is the closest comparison that can illustrate how Covid-19 may affect China's economy and gold market. However, one should keep in mind that impacts are not alike since China's economy is at a different stage now, and the gold market was much smaller then.

SARS SLOWED CHINA'S GDP GROWTH TEMPORARILY

The SARS outbreak, which occurred between March and July 2003, slowed China's economic growth temporarily.[2] China's gross domestic growth (GDP) growth dropped to 9.1% in Q2 2003, down from 11.1% the quarter before. Growth in key economic indicators during this period, such as retail sales, also took a hit as the streets were left empty as people sought to minimise the spread of the virus.

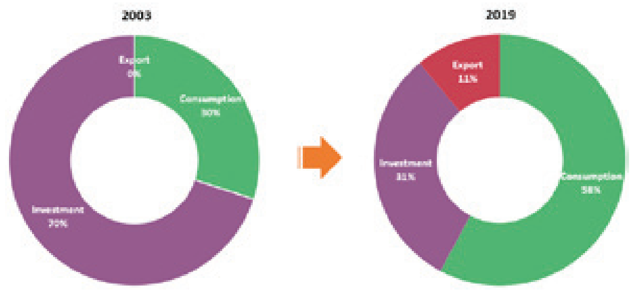
But the economy soon rebounded: GDP growth in Q3 climbed above 10% as the SARS outbreak was contained. Other key aspects of China's economy also recovered quickly, supported by:

2003Q2's GDP growth dipped temporarily



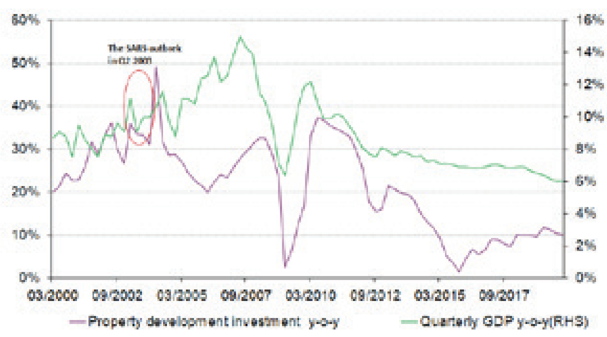
Source: Bloomberg, World Gold Council

Consumption, investment and export's contribution to GDP in 2003 and 2019



Source: Wind, World Gold Council

Property investment has been an important driver of China's economy...



Source: Wind, World Gold Council

...so is equipment investment

Source: Wind, World Gold Council

- Structural factors: consumption only accounted for 30% of GDP in 2003 and consumption was hit the hardest by the SARS outbreak.
- Cyclical factors: fixed asset investment, including real estate development and equipment investment, was soaring in the early 2000s, fuelling China's economy.

CHINA'S ECONOMY: 2003 VS. 2020

China's economic growth could face more challenges from the Covid-19 outbreak than from SARS in 2003. First, the contribution of consumption to GDP has grown to nearly 60% in 2019, up from 30% in 2003.[3] This means a significant hit on consumption will leave a deeper dent on China's GDP growth. For example, China's box office revenue during the 2020 Chinese New Year holiday dropped by over 90% from the year before, according to the National Bureau of Statistics.

Second, cyclical supports have lost momentum. Low levels of urbanisation provided large room for China's property development investment growth in early 2000s. Equipment investment was also on an upward trajectory then as China just joined the World Trade Organization. These factors fuelled China's economy in 2003, but both measures currently are at different stages due to a stricter housing price stabilisation policy and structural economic transformation.[4]

EFFECTS ON THE GOLD JEWELLERY MARKET

China's jewellery demand dropped sharply during the SARS outbreak. According to the National Bureau of Statistics, monthly gold and silver products retail sales during the SARS period kept declining. And in Q2 2003, China's jewellery demand plunged to 41.7 tonnes, a 54% decline from the previous quarter and 21% lower than the same period in 2002, the lowest level in 20 years.

Covid-19 has left China's jewellery industry in limbo. According to a recent survey by China Gold Association, even though more than 50% of jewellery stores reopened with shorter business hours, very few customers turned up, as the public is avoiding leaving their homes unnecessarily to avoid infection.

With deserted stores comes cash flow issues, but leading brands have taken action. To help their franchisees – representing 90% of jewellery retail stores in China – weather the storm, leading jewellery retailers have lowered or even waived store rental or franchise fees during this critical period.

The supply chain is also under pressure. Our trade partners in Shenzhen, China's jewellery manufacturing hub, has told us that major manufacturing lines have resumed with strict working arrangements and protection for employees. However, many manufacturing plans are behind schedule, with less working days and lower efficiency due to more stringent health protection measures.

Jewellery wholesalers' showrooms are open but remain empty. First of all, subdued jewellery consumption means less replenishment from retailers. As public gathering is discouraged and traveling to Shenzhen is not as easy and safe as before, many retailers have chosen to restock via wholesalers' online channels.

As such, we expect China's jewellery demand to be severely impacted in Q1. However, the booming jewellery sales ahead of the Chinese New Year holidays, when most people were still not aware of the virus, will limit Q1's decline to some extent. Nonetheless, weakened jewellery sales in Q1, traditionally the peak season for Chinese jewellery retailers, will affect overall jewellery demand for the year.

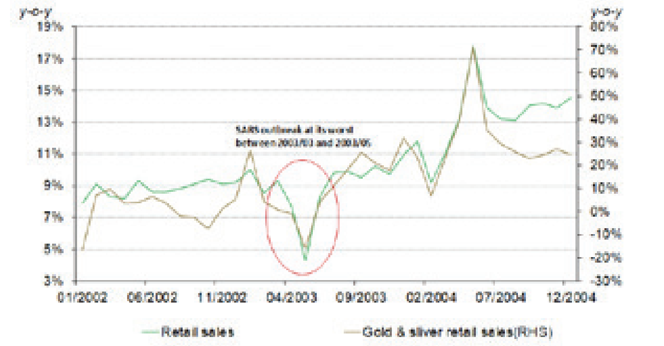
The virus could also affect the industry structurally. First, sluggish jewellery consumption expectations might lead to a slower pace of expansion among major jewellers. Furthermore, cash flow problems will weed out many market players, leaving only jewellers with healthy financial conditions, brand values and industry resources, fostering the industry's consolidation and sustainability.

The adoption of innovations among jewellers is also likely to accelerate. Upon realising the benefits of bringing businesses online when everyone stays home, jewellers could increase their investment into digital platforms and online retail channels. Meanwhile, online consumers, mainly the younger generation, will become the focus of jewellery retailers, steering their product range towards lighter, more affordable pieces, which are preferred by this demographic in China.

Finally, the gold price's solid performance in February serves as an excellent example demonstrating gold jewellery's intrinsic monetary value compared to other products. This will certainly benefit the jewellery industry in the long run.

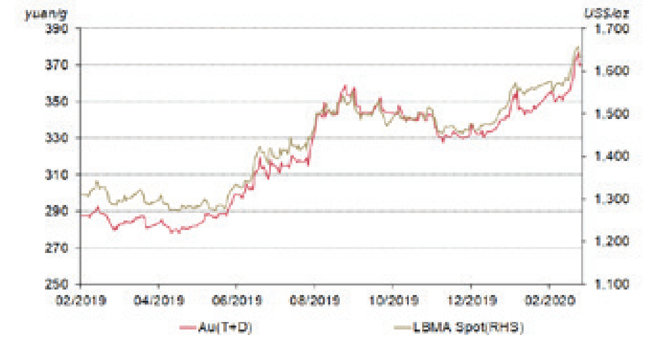
Left: Jewellery retail store during Covid-19 (Image: China Gold Jewellery)

Gold retail sales were hampered during SARS

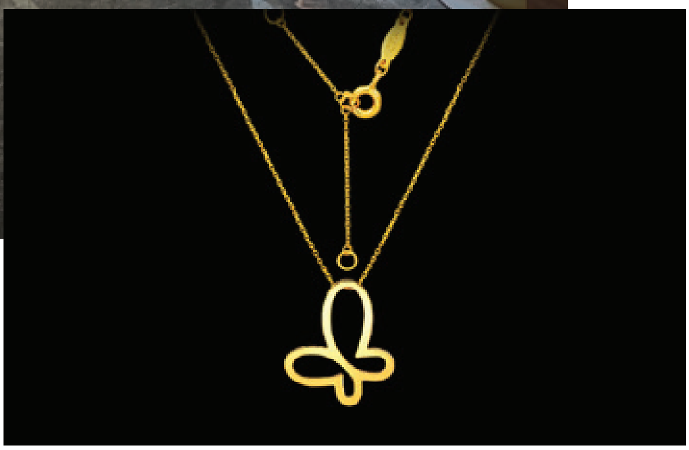


Source: National Bureau of Statistics, World Gold Council

Chinese gold price follows international gold price closely



Source: Bloomberg, World Gold Council



Top: The retail jewellery market in China has taken a hit as customers stay home (Image: Lao Fengxiang)

Bottom: New gold jewellery products by a leading retailer (Image: Chow Tai Fook)

CHINA'S GOLD INVESTMENT MARKET

The SARS outbreak's influence on Chinese local gold price was negligible. In 2003, factors such as US-Iran tensions, the Iraq War, the US dollar and the US Treasury yields were driving the gold price in China. In other words, gold's performance during the SARS period had a very low correlation with the SARS outbreak that caused sudden shocks to China's equity market and economy. At the same time, China's gold investment market was much smaller back then.

While major Chinese assets such as stocks and commodities were hampered by the virus on the first trading day after the Chinese New Year holiday, gold soared. Evident corrections in major assets contributed but more importantly, easing monetary policy environment and rising geopolitical tensions in the Middle East during this period were the major factors lifting international gold prices.

Risk hedging demand and the bullish gold price trend ignited Chinese investors' passion in gold. The daily trading volume of Au(T+D), the margin-traded gold contract at the Shanghai Gold Exchange, grew by nearly 200% in February. Chinese gold ETF holdings also grew by more than 3 tonnes that month.[5] With independent drivers from most domestic assets, gold's role as an effective risk-diversifying tool for Chinese investors is gaining increasing attention.

However, China's bar and coin's offline retail demand could remain subdued in the near term. First, the high gold price might deter some investors away. Second, the virus' potential damage to China's economy could mean lower purchasing power among consumers. Finally, similar to jewellery sales, bar and coin demand is also vulnerable to empty streets.

NOTES

1 Wang Xiaoyu, "Confirmed, suspected cases of novel coronavirus infection declining nationwide", *China Daily*, 2 March 2020.

2 Please visit the World Health Organization (www.who.int/ith/diseases/sars/en/) for more information about SARS.

3 Latest available data.

4 For more information on China's structural transformation, see: Chi Fulin, "Transformation to quality growth", *China Daily*, 11 June 2017 and Shujie Yao, "China faces economic headwinds, but fundamentals remain strong", *China Daily*, 26 November 2019.

5 Excluding Bosera's unlisted funds as they are only updated quarterly.

RAY JIA joined the World Gold Council in early 2019, and works within its Market Intelligence Group as a research manager for the China region. He previously held various positions at China Industrial Futures, focusing on market analysis for major commodity classes and international macros for both individual and institutional investors.

PROTECTING YOUR PORTFOLIO AGAINST COVID-19

BY JOSHUA ROTBART, ***Founder and Managing Partner, J. Rotbart & Co.***

We are only two-and-a-half months into the coronavirus (Covid-19) crisis, but its economic repercussions are already starting to be felt. As we look to the future, what steps should be taken to ensure financial stability? Gold and precious metals have long been a safe harbor during times of uncertainty like this.

ALTHOUGH COVID-19 HAS NOT BEEN DEEMED A GLOBAL PANDEMIC, THIS DOESN'T MEAN YOU SHOULDN'T START TAKING PRECAUTIONS.

To paraphrase an old saying, when China sneezes, the world catches a cold. And unfortunately, this is turning out to be literally true with the Covid-19 outbreak. Even with quarantines ranging from entire cities to at-risk individuals, we are seeing more and more cases reported worldwide. And while urgent efforts are being made to develop a vaccine and contain the disease's spread, the impact of this crisis is being felt everywhere.

Even if you live somewhere far removed from Covid-19 patients, it is likely you are also feeling the effects of the virus – at least in your wallet. The Global Preparedness Monitoring Board, comprised of the World Bank and the World Health Organization, estimated that the 2003 SARS epidemic caused a loss in productivity of more than US$40 billion and that a moderate global pandemic could affect GDP by 2.2%, or around US$1.5 trillion. And although Covid-19 has not been deemed a global pandemic, this doesn't mean you shouldn't start taking precautions. JP Morgan has already adjusted its forecast for China's first-quarter growth from an impressive 6.3% down to 1%.

WE DON'T THINK THERE IS AN END TO THE COVID-19 SITUATION THAT WON'T BE WITHOUT SOME FINANCIAL AND ECONOMIC DISCOMFORT.

CHINA'S ECONOMY IS THE WORLD'S ECONOMY

As the world's second-largest economy, China affects every portfolio, including yours. The situation in China has slowed manufacturing across multiple industries around the world. From automotive to tech, deliveries have decreased or ceased, which will show in bottom lines everywhere. Apple and other companies have already warned about their earnings. This, in turn, may wreak havoc on stock exchanges as other related companies feel the pain.

As companies need to tighten their belts during and after a crisis like this, investors must look to safe havens to protect their portfolios. Gold and other precious metals, such as silver and palladium, are often looked to as a hedge against financial downturns elsewhere.

The local gold market in Hong Kong is quiet and local activity has decreased as consumers prefer to stay home and wait. Same for China – currently demand is not there for gold, or any related products. Having said that, our clients in Singapore and North America are quite active and either increase their exposure to gold or liquidate some of their holdings to materialize profits.

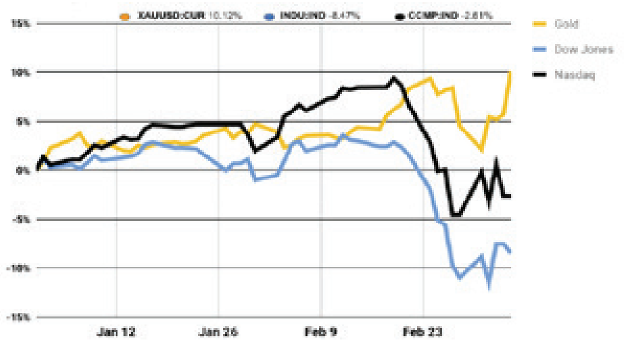
PROTECTING YOUR PORTFOLIO AGAINST COVID-19 WITH GOLD

One can see the security of gold from during the SARS crisis – gold prices gained 27% during the height of the epidemic, from March 2003 to March 2004. And gold has continued gaining value to this day. As Covid-19 picks up pace, investors have been flocking to this and other precious metals as they try to protect their portfolios, with gold prices reaching record highs in the last few weeks.

Since the first recorded incidents of Covid-19 on December 12, 2019, to March 6, 2020, gold prices have increased 10% from US$1,467 to US$1,681. Comparatively, major equity markets are slipping (see the graph below). This again proves gold's importance as a hedge against falling financial markets.

If gold prices are so high, why should you buy it? We believe that gold is a safe, long-term investment, during good times and bad. And we don't think there is an end to the Covid-19 situation that won't be without some financial and economic discomfort. And we're not alone. Other analysts believe gold prices may reach as high as US$2,000 or even higher. Nevertheless, with global efforts in place to address Covid-19, we look forward to this health crisis being resolved safely and soon with no lasting negative impacts.

Changes in the price of gold, Dow Jones and Nasdaq from January 1, 2020 to March 6, 2020



Data as of March 6, 2020

Source: Bloomberg

JOSHUA ROTBART is the founder and managing partner of J. Rotbart & Co. Originally from Israel, Joshua joined Malca-Amit in 2010 and led the business development of the logistics group's flagship vault at Singapore Freeport. In 2013, he moved to the company's global head office in Hong Kong to develop Malca-Amit Precious Metals, its bullion procurement subsidiary. He left in 2016 to start J. Rotbart & Co.

COVID-19'S IMPACT ON SINGAPORE'S PHYSICAL RETAIL GOLD MARKET

BY LOH MUN CHUN, ***Director, GoldSilver Central***

As we near the end of Q1 2020, the Covid-19 virus outbreak continues to dominate headlines, keeping investors and the public on tenterhooks.

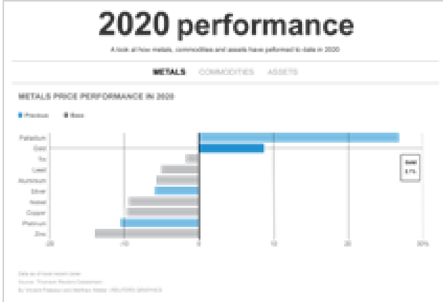
Financial markets have reacted with rising volatility as investment capital continues to seek out safe haven assets for refuge while waiting for clarity on full impact from the virus to play out. Governments around the world are still grappling with this crisis and are ready to introduce additional financial measures to stave off recession fears and buffer their economies. The emergency 50 basis point rate cut on March 3, 2020 by the US Federal Reserve was dramatic. It was a magnitude not seen since the Lehman Brothers collapse in 2008, and it revealed the gravity of the situation. However, pundits were quick to note that this was a health crisis and not a financial one. Rate cuts may have limited effects as cities remain in lockdown and factories remain shut. Critics have remarked that finding a vaccination cure might be more useful than a rate cut in these times.

In precious metals, gold has been the clear winner since the start of 2020. As of March 10, 2020 year-to-date, gold is up 8.7%, silver down 5.6% and platinum down 9.49%. The rise in prices has invariably caught the attention of physical gold investors in Singapore, with many donning face masks and making their way into dealerships to sell off their gold holdings at high prices. Volatile gold prices have also caught the attention of online investors looking for opportunities in gold trading to capture directional moves via trading platforms for physical deliverable gold.

In Singapore, lessons learned from SARS were put to the test as government agencies rolled out health advisories and business continuity guides to industry bodies and players to guide them on best practices. Having personal social responsibility, especially in times like these, can go a long way to stop the spread of the virus. In our office and retail store, we have implemented temperature taking and contact detail recording, and have face masks available for symptomatic clients to use. Hand sanitizers are now a permanent fixture in our retail store. Notwithstanding the challenges of Covid-19 prevention, providing liquidity for physical gold is still key for a properly functioning physical retail gold market in Singapore.

Initially, many observers were noting a casual correlation between the uptick in gold and the Covid-19 outbreak. However, the real drivers behind this rally could lie behind the combination of the full effects from interest rate cuts filtering in, disruption of global supply chain potentially leading to unseen inflationary risks, constant zero to negative yield environment and the peak gold scenario commented by analysts over the years. All of this may add up to a resurgent positive tone for the original safe haven precious metal: gold.

The revisit to 2012 price highs of US$1,702.50/oz. on March 9, 2020 has investors wondering if this is the gold bull market that everyone has been talking about and waiting for. Stay tuned to see how the markets will unfold.



LOH MUN CHUN is a director of GoldSilver Central, a company he co-founded in 2011. He has been trading the precious metals markets since he began his career in United Overseas Bank's Gold department in 1991. Mun Chun was also SBMA's Honorary Auditor and Social Secretary from 1994 to 1995.

A SNAPSHOT OF THE INDIAN GOLD MARKET AMID COVID-19

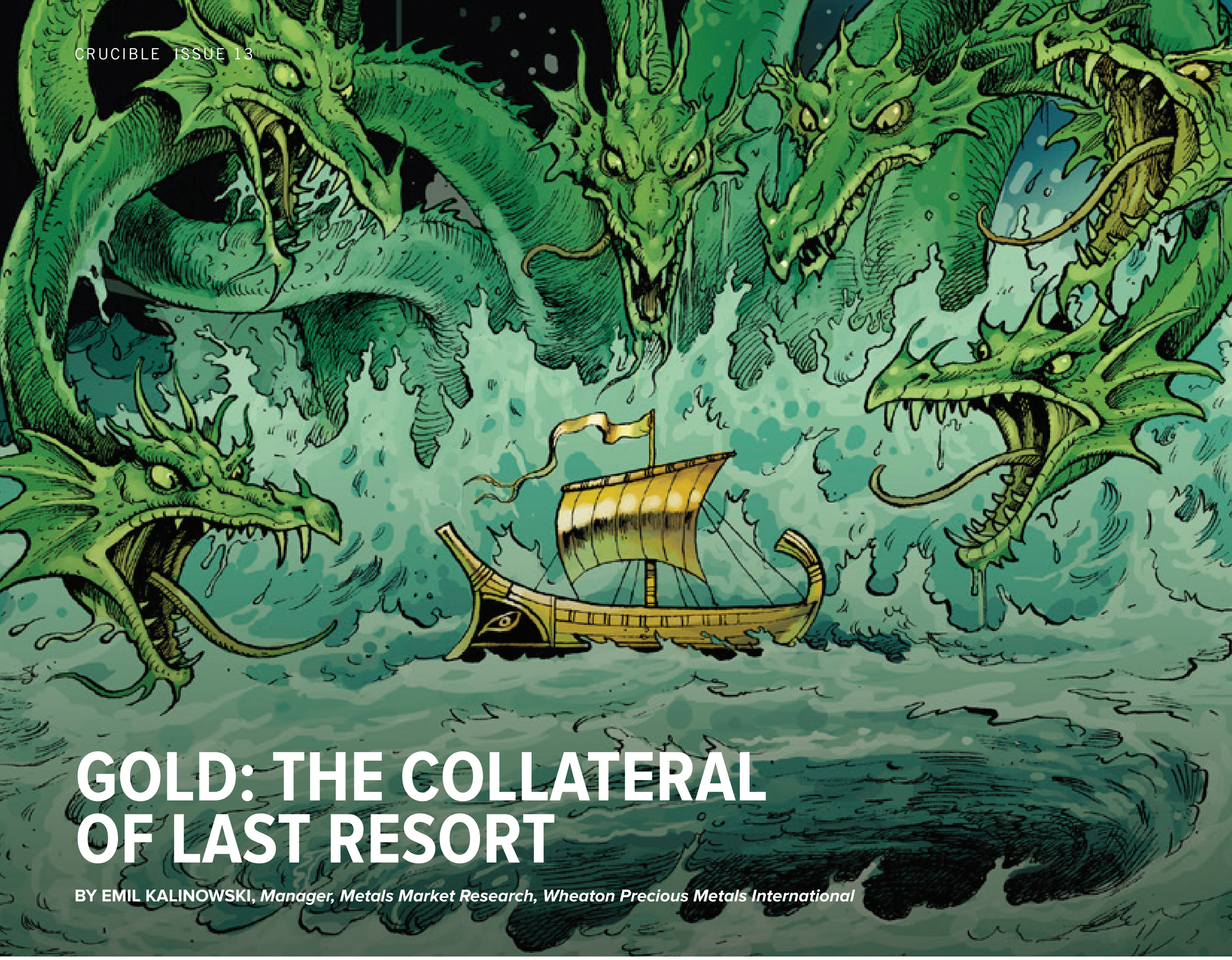
BY PRITHVIRAJ KOTHARI, ***National President, India Bullion and Jewellers Association***

At the start of the year, I expected 2020 to be a very good year for gold, as developments in global economy were not very encouraging. In the past six months we have seen low real interest rates in the United States, Europe and Japan, lower economic growth projections, Brexit, the US-China trade war, and more. Covid-19 has brought everything to a standstill. Covid-19 has hit 115+ countries and everyday the number of casualties are on the rise. As a result of the outbreak, equities, crude oil and currency markets have collapsed. Gold was the only asset class that held firm at the beginning. At the same time, portfolio managers, institutional investors increased the weightage of gold in their portfolios. The increase in SPDR ETF holdings in recent times is a case in point.

However, gold too suffered when there was a huge margin call on other asset classes. In my opinion, the correction in gold prices could the pull market down to US$1,500–1,520 levels. I expect gold to stabilise around these levels and then move up gradually. The broad structure of gold market is positive. We could see gold prices touching US$1,800/oz. in London over the next 12 months purely on the back of increased investment demand for gold in an uncertain global economic environment.

In India, we see important changes. When gold prices touched 38,000 rupees ($729) per 10 grams for the first time last year, demand collapsed and scrap flow into the market increased. As a result, the official market traded at a $75 discount. Today, prices are much higher but discounts are minimal. People have started accepting the new range of prices. Physical demand for gold may fall slightly, but jewellery demand should continue to hover around 550 tonnes.

The rupee has slid to around 74 to the US dollar. However, lower crude oil prices could save the day for the currency. Gold prices in the Indian market could move gradually to 47,000 rupees per 10 grams. As seen in the past, people do not buy when the market is falling. Thus, the current demand is lower. Once the price stabilises, then buying should resume in the market. Given that the marriage season is approaching, a correction in prices will be good for jewellery demand.



GOLD: THE COLLATERAL OF LAST RESORT

BY EMIL KALINOWSKI, ***Manager, Metals Market Research, Wheaton Precious Metals International***

In 2020, gold investors find themselves sailing the wine-dark sea, with currents inexorably pulling the good ship into a strait flanked by Scylla and Charybdis.

The imagery is, of course, courtesy of Homer from his epic poem *Odyssey*, in which Odysseus and his men have no choice but to sail through a chokepoint on which two mythical, monstrous sentries stand. Scylla was a six-headed sea monster that had a bad attitude and a taste for sailors. Charybdis? A ship-eating whirlpool. Scholars identify Italy's Strait of Messina – bracketed by the island of Sicily and the Calabrian coast – as the geographic inspiration for the legend. This author identifies the year ahead – bracketed by fear and monetary disorder – as the economic inspiration for the metaphor.

THE MALFUNCTION OF THE GLOBAL MONETARY ORDER HAS, SINCE 2007, PLACED A PREMIUM ON COLLATERAL.

THE FINANCIAL SYSTEM, WHICH HAD EVOLVED OVER FIVE DECADES TO RELY ON UNSECURED FUNDING, WAS SUDDENLY FORCED TO HAVE AN EXISTENTIAL LEVEL OF INTEREST IN COLLATERAL.

The malfunction of the global monetary order has, since 2007, placed a premium on collateral. Before that fateful year, the financial institutions that funded an ever-expanding cross-border movement of goods, people and capital did so on an unsecured basis. Short-term interbank loans required to square books, meet regulatory requirements, extend credit and speculate in markets were, indeed, unsecured. The network policed itself; its exponential growth smoothed over inconsistencies, incentivised banks to cooperate and ensured the order's functionality.

But during the global economic crisis of 2007–09, banks that met all statutory capital requirements had, rather unexpectedly, become insolvent and then needed rescue, dismemberment or burial. The survivors turned rather squeamish about it all. Uncollateralised funding became unpalatable.

THEN, IT HAPPENED AGAIN, JUST TWO YEARS LATER, THIS TIME THE EPICENTRE WAS IN EMERGING MARKETS, OF WHICH CHINA WAS THE MOST PROMINENT VICTIM.

The financial system, which had evolved over five decades to rely on unsecured funding, was suddenly forced to have an existential level of interest in collateral. The problem was, and remains, that there was hardly enough collateral to back the funding that supported the level of economic activity that then existed, let alone the sustainable expansion of it.

This dilemma became all the more acute when the once-in-a-lifetime banking crisis repeated itself just a few years later, this time across the sovereign bond markets of nations that bordered the sea Odysseus sailed. Then, it happened again, just two years later, this time the epicentre was in emerging markets, of which China was the most prominent victim.

This is where gold enters the picture; it is the collateral of last resort. Gold has over the past 13 years developed a relatively consistent pattern. As the preconditions for the next financial denouement proliferate across the horizon, investors begin to batten down the hatches by placing a higher value on collateral, be it US Treasury securities, German bunds, or gold. These safe harbours appreciate either absolutely or relatively, the change in valuation a consequence of the rising anxiety levels felt by financial institutions. They fear being caught out, of being short funding, of lacking collateral to post. This is the fear of being pulled underwater. This is Charybdis.

Gold hasn't been a cross-cultural monetary standard for millennia just because it is pretty to look at. It has a job – one that it is exceedingly qualified for – and that is to be accepted as money when other financial instruments that were thought to be money are revealed to be credit. That is when gold is sold. Sacrificed. This is Scylla.

During the global economic crisis, the demand for gold rose as fear escalated but then suffered severe bouts of selling when what was thought to be money-good (i.e. mortgage-backed securities) was repudiated. The same sequence was repeated in 2011–12. Sovereign bonds that had been considered money-good were being given haircuts by Sweeny Todd. What is there to sell that will be accepted by everyone, everywhere, in every era by every generation and culture? The answer is obvious.

THIS IS WHERE GOLD ENTERS THE PICTURE; IT IS THE COLLATERAL OF LAST RESORT.

The cycle is repeating itself today. In the fourth quarter of 2017, the reflation, known as globally synchronised growth, reached its apex. Throughout 2018, different pieces of the reflation edifice sloughed off. First, esoteric money markets began to crinkle. Then, emerging markets currencies crackled. By the third quarter, growth was no longer synchronised. By the fourth, it wasn't even growth. In 2019, central banks began to pause interest rate hikes, then began to cut them outright. The US stopped its quantitative tightening in August, and by September, it was expanding its balance sheet at the fastest pace this side of quantitative easing. Gold rose throughout all of this. Fear. Disorder. In early 2020 the new managing director of the International Monetary Fund gave a speech in which she strongly implied the world was at risk of a global depression. Fear. Disorder. Now Covid-19.

If this general economic deterioration crosses over into an outright, interbanking liquidity panic, it should not surprise anyone that gold will be sold.

Keep an eye on the collateral markets, not the stock markets. Are central banks comfortable holding their US Treasury securities in custody with the Federal Reserve? Or are they pulling them to subsidise the local banking network that may be experiencing difficulties in securing Treasuries on the open market? Are primary dealers freely distributing Treasuries? Or are they hoarding them for their own use? Are banks returning collateral as part of their overnight operations? Or has a disorder convinced them to fail to deliver, even at penalty rates? Are overnight rates in the repurchase agreement market narrowing? Or are they spreading outwards from the unsecured funding offered by the Federal Reserve?

IF THIS GENERAL ECONOMIC DETERIORATION CROSSES OVER INTO AN OUTRIGHT, INTERBANKING LIQUIDITY PANIC, IT SHOULD NOT SURPRISE ANYONE THAT GOLD WILL BE SOLD.

Atop the mast, looking down the horizon as far as I can, it seems like gold investors may confront volatile waves in 2020. But one day, likely not that far off, the calm waters of inflation will present itself and will make gold's sailing smooth.

EMIL KALINOWSKI joined Wheaton Precious Metals Intl. in 2014 as Manager, Metals Market Research. His present focus is on the 2007 malfunction of the monetary system and its continuing disorder. He earned the CFA designation in 2013 and holds a Bachelor of Finance and MBA from Arizona State University. He previously held positions at State Street and Goldman Sachs. Presently living in the Cayman Islands, he is also radio talk show host and newspaper contributor but ratings and letters to the editor suggest he's probably going to have to keep his regular job.

WHY INVESTORS SHOULD ALWAYS HOLD A POSITION IN GOLD

BY NICOLAS MATHIER, ***Founder, Global Precious Metals***

The financial system is fraught with counterparty risks which are constantly being tested amid instability, political changes, and threats to our global economy that trickle down from pandemic-hit China; a shift in political ideology towards nationalism causing events like Brexit; potential nuclear proliferation in Iran; or even polarised upcoming United States presidential elections.

PAPER MONEY EVENTUALLY RETURNS TO ITS INTRINSIC VALUE: ZERO
– VOLTAIRE, 1972

The gradual rise in the price of gold over the past decade, and more so its spike in the last two years, is a testament not only to its unhindered store of value and demand over centuries, but also that it is indeed a safe haven in economically troubled times. Continued interest in gold, levels of reserves held by central banks, and volumes that continue to be traded indicate that investors understand the asset's value; the interest in owning gold as a tangible liquid asset outside of the financial system goes further as a hedge against counterparty risks, failures of which we have seen too many of in recent times.

While markets have bounced back since the last financial crisis, there has been an air of caution and global debt has nevertheless increased, which in part explains the continued appetite for gold as a reliable asset that governments cannot expropriate, and which financial institutions cannot use in their fragile fractional reserve banking systems. These factors further explain why the price of gold has been maintained, if not strengthened. While the price volatility of gold in the short term is reactionary, time has shown that it is also a combination of events that has resulted in a gradual market correction.

Outside of price-influenced buyers of gold, there are a significant number of investors in the precious metal who are all too aware of counterparty risks, and regardless of gold's performance, are fully invested in the characteristics of physical gold and in maintaining a position outside the banking system. Precious metals stand out in the investment universe because they are no one's liability and have no counterparty. Financial institutions are highly leveraged to the point that the failure of a significant player would result in a systemic collapse. The term "too big to fail" has been coined to reflect this reality. Banks and other financial institutions are holding record amounts of derivatives and structured products for which value and liquidity are not understood in times of extreme events; at times during major global or local financial distress, gold exchange-traded funds (gold ETFs) and the paper gold exposures move in different ways due to the counterparty risks within those structures. To add to this, major global institutions have been perpetrating frauds and market manipulating markets, which put at risk investors' holdings and further subject the institutions to dramatic fines and significant losses. In these days of unprecedented financial experiments, many investors choose to diversify part of their portfolio by adding physical precious metals.

At Global Precious Metals, client holdings are fully segregated, so they have distinct and full legal ownership and their assets are devoid of systemic financial sector risk. As gold is a very liquid asset, it can be traded rapidly in large volumes on transparent markets, with no conditions or caveats attached. Having a hard asset that has stood the test of time over centuries, and that is accessible 24 hours a day is of great appeal to HNW clients. Another appeal of physical gold is its confidentiality, and the fact that it also sits outside regulatory proliferation that has been spilling out incessantly in recent years, inhibiting autonomy over one's assets.

ALLOCATED	Client has direct ownership of his assets (not on our balance sheet) No credit or counterparty risk
SEGREGATED	Client holdings are identified by serial number No co-mingling of client's assets
LEGAL TITLE	Unencumbered legal title to the gold Unfettered access Mere storage contract
NON-FINANCIAL	Gold is a commodity and not considered a financial product No reporting requirement for trading, storage & transport
CONFIDENTIALITY	Identity of the client is only known by GPM

PAPER GOLD VS. PHYSICAL GOLD

There are significant differences between paper gold such as derivatives, unallocated accounts and ETFs, and holding physical gold. Primarily, the benefits derived from holding physical gold, which is a tangible hard asset to which an investor has legal title, is the ability to hold it at home or in a vault with unfettered access. This is not available for ETFs, which are essentially IOUs to be settled in fiat currency. To add to this, custodians of the gold backing the ETFs can use undisclosed sub-custodians holding the bullion in undisclosed locations, and there are several limitations to the liability of the custodian and sub-custodians. If an investor owns an ETF, he does not own gold – he owns equity in a fund that owns gold and related derivatives; If an investor owns a derivative, he does not own gold, he owns exposure to a contract which may or may not be settled sometime in the future.

Most of the world's gold is held in unallocated accounts provided by financial institutions and large bullion dealers. While such accounts are described as the most convenient, cheapest, and easiest ways to gain exposure to bullion, specific bars are not set aside for the client and the account is backed by the credit worthiness of the institution. The London Bullion Market Association clearly says that with such accounts, "the client is an unsecured creditor". The reality behind these accounts is that they are an investment structure whereby the investor provides free capital to the supplier (and sometimes pays a small fee in the form of margin to do so) and risks the loss of his capital should the supplier become insolvent. As an investor in unallocated gold, your metal is on the balance sheet of the supplier as a liability and you remain exposed to its insolvency; the actual metal doesn't necessarily need to exist, pursuant to the terms and conditions of the unallocated storage contract.

Accordingly, the principal difference is that physical gold is owned directly by an investor, whereas paper gold belongs to third parties that have a relationship with the investor through shares or a contract, and physical delivery of the gold-backed paper is contingent upon the terms of the contract; is usually unavailable to the investor or too costly.

ADVICE FOR INVESTORS

When a client wishes to invest in physical gold, we advise them to consider the following key components:

1. Storage in a stable jurisdiction known for efficient commercial law and property rights enforcement.
2. Bullion, logistics, and storage offered by a reputable provider, preferably being part of a reputable group of companies and with the directors clearly identified and accountable.
3. Full insurance coverage up to the replacement value of the metal, at no additional cost.
4. Documentation clearly evidencing the title in the property by the investor (usually accomplished with a sale invoice by the company, complemented by a warehouse receipt and a certificate of ownership) to reinforce the fact that the ownership lies with the investor.
5. A storage agreement that clearly limits what the supplier can do with the investor's metal and outlines his role as a mere service provider.
6. Documentation and statements setting forth the exact weight, manufacturer, fineness, and bar number of your property. Failure to do this by the provider means that you are involved in an unallocated storage scheme.
7. Regular audits by independent third-party auditors.
8. Competitive storage and administrative fees, which should not exceed 1% of the value of the metal per annum and should be closer to half a percent (including insurance).
9. Ability to sell your holdings back to the supplier in a convenient and fast way.
10. Ability to pick up or inspect your bullion at the storage facility with minimum notice to the provider (48 hours maximum).

NICOLAS MATHIER is the founder of Global Precious Metals. He was previously Manager of Trading & Business Development at Swiss Precious Metals in Singapore. Nicolas began his financial career as an Assistant Private Banker with Lombard Odier & Cie. in Geneva, Switzerland, after which he worked as a relationship manager and trader at Swiss Heritage, a wealth management company based in Singapore.

BRINGING TRACEABILITY TO THE GOLD INDUSTRY

BY ABHINAV RAMESH, ***Director, Chainflux***

The gold industry is, in general, a late adopter of innovation. Despite the technological advances and best practices the industry has embraced in recent years, the gold industry globally remains loosely organised, dispersed, and an OTC-based market. From the mine, gold follows a sketchy path to reach the end consumer.

Artisanal, or small-scale, mining is still rife with exploitation due to poor safety conditions, unfair wages and the use of child labor. Aggregators from the mines have a large say in price determination for dore. When the product is shipped to the customer, it is sometimes mixed with dore from unknown sources. Regulators are becoming wary of this and are looking to implement more stringent sourcing guidelines and to increase transparency in the procurement of dore. In many cases, gold production and trade are known to contribute towards perpetuating illegal activities like gold smuggling and financing of illicit activities. This stems from the fact that gold is highly fungible and cannot reliably be traced to its last owner. In markets where the gold industry is relatively well-organised, it is a fact that despite following more or less "set in stone" technology-supported supply chain practices, gold passes through a succession of middlemen and undergoes transformation multiple times without satisfactory documentation. As a result, refiners, bullion producers and jewellers cannot effectively support and uphold responsible sourcing practices since there is no reliable basis for ascertaining the origins of the gold they hold.

To address the gold sector's severe traceability shortcomings, there is an increasing interest in embracing blockchain technology to guarantee the provenance of gold, from its source to the point of sale.

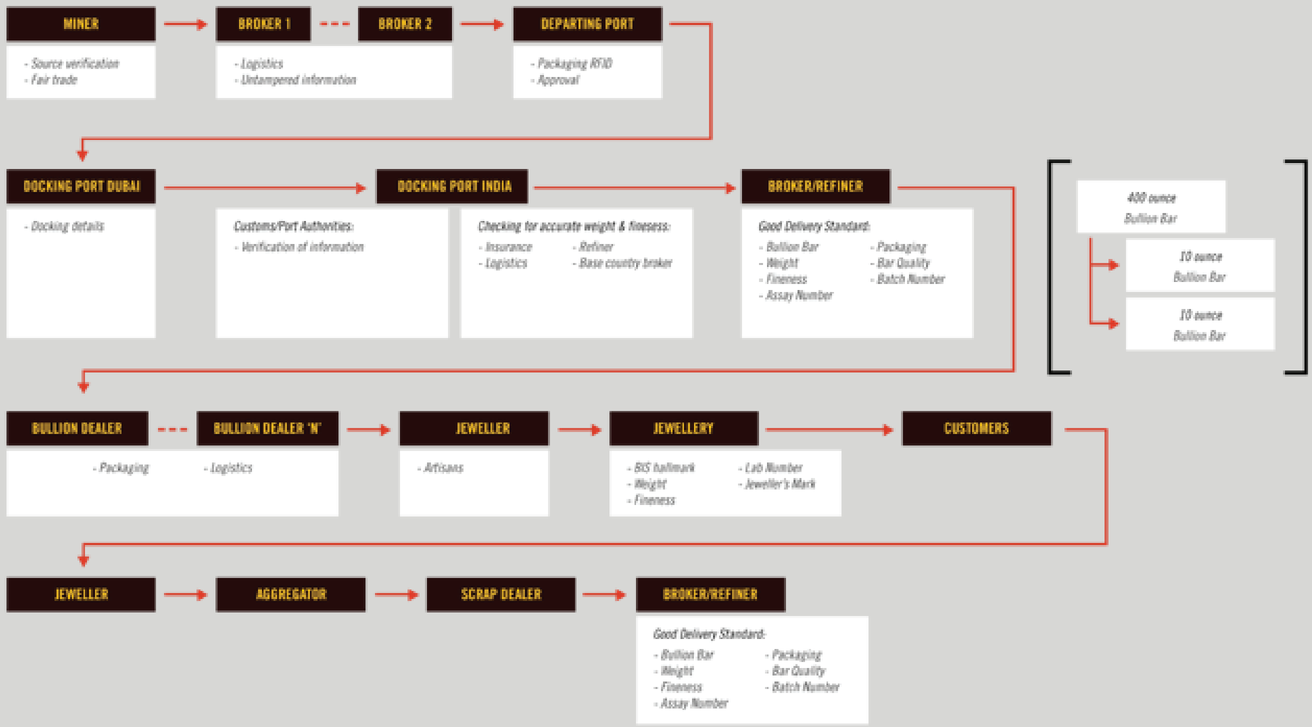
FROM MINE TO CONSUMER: TRACKING GOLD USING BLOCKCHAIN

Blockchain is a technology popularly associated with cryptocurrencies like bitcoin. However, it is also the technology that provides a foundational database for all supply chains – from food to retail, and now precious metals. Blockchain is essentially a shared database on which any kind of information – for example, transactions, ownership records and certifications – can be stored. All information submitted to a blockchain is consolidated into "blocks" of data that are "chained" together using sophisticated cryptography, a log of it shared with every node connected to the network. This is what makes it impossible for someone to edit, delete, or modify data submitted to a blockchain.

The decentralised and secure nature of blockchain technology makes it ideal for the gold industry. In addition to data storage, self-executing programs or "smart contracts" can be written on the blockchain to automatically initiate transactions and transfer the ownership of goods and services without relying on any paper documentation. This greatly reduces the time it takes to take an item (say, gold) from one entity and move it to another in a fully transparent and compliant way.

Blockchain, in this way, effectively addresses trust, or rather the lack of it, between two or more transacting parties. It helps paint a clear

GOLD'S JOURNEY FROM MINE TO CONSUMER



BLOCKCHAIN CAN BE SUFFICIENTLY TRUSTED TO TRANSMIT DATA DOWNSTREAM AND UPSTREAM DURING AN ITEM'S MOVEMENT ACROSS A SUPPLY CHAIN

picture of the path a transaction (i.e. the transfer of gold from one entity to another) has followed by capturing relevant information each point of transaction, transformation, and transfer, thereby establishing an unbroken chain of custody.

Because of this, blockchain can be sufficiently trusted to transmit data downstream and upstream during an item's movement across a supply chain.

Specifically for gold, blockchain can be used to not only underpin, but also promote, standards like the Good Delivery Standards established by the London Bullion Market Association (LBMA). Among others, blockchain-enabled, internet-available platforms can be used to bring together and incentivise the many disparate stakeholders on the gold supply chain – from miners and refiners to logistics providers, bullion brokers and jewellers – to share and record information with everyone participating in the network. This way, at every step of gold's journey on the supply chain, relevant parties would be able to ascertain whether the information by entities before them is sufficiently reliable before deciding to take consignments forward. Pressure from end consumers is already forcing gold jewellers and bullion dealers to aggressively seek provenance information from the source. This can further be leveraged to bring gold industry players on board such a platform to help improve gold's traceability. In the long run, by storing and producing near-perfect data, blockchain-based traceability will also make it increasingly difficult for unverified gold to enter circulation, which will help curb illegal activities.

BRINGING ABOUT THE TRANSFORMATION

What blockchain promises is a transformational change in the way gold is sourced and sold. While these are still early days of the technology, there's merit in encouraging the exploration and development of proofs-of-concept focused on increasing trust and transparency in the gold industry.

There's already a growing interest among leading gold importing and exporting nations, including India, to build solutions that not only transmit data downstream but also upstream (i.e., from end consumer to jewellers and then on to refiners) on blockchain. The need is not just for an end-to-end system, but a circular one wherein gold can be tracked from the moment it is mined to when it is processed, bought and resold on the open market. This will ensure responsible gold buying and selling practices.

One such example is Chainflux's Shine platform, which acts as the SWIFT equivalent for the gold industry and is built on a private blockchain consortium network. It is a closed network where gold can be exchanged, traded, refined, and converted to jewellery. Shine provides seamless and fast transactions, and has privacy layers to hide information such as price, network access and node access configurations, and incentive mechanisms for all parties to participate in the network. Shine is being piloted with one of the largest exchanges in the world, and is working with the World Gold Council and the Indian Gold Policy Centre to pilot it within the Indian gold ecosystem.

ABHINAV RAMESH is an entrepreneur in the fintech and blockchain space. He is a former management consultant and research fellow in neuroscience. He runs WandX solutions, a blockchain products company out of Bangalore, India. Wandx solutions has partnered with the Indian Gold Policy Centre and the World Gold Council for the blockchain platform Shine, which aims to bring about traceability within the gold supply chain, initially in India, then the world over. Abhinav enjoys sports, and is an ironman finisher.

SBMA News

BY ALBERT CHENG, *CEO, Singapore Bullion Market Association*

SBMA hopes that our members and friends have had a good start to 2020. The secretariat had been busy making arrangements for the now-cancelled 4th APPMC, and is now making contingency plans for our activities for the rest of the year. In his address to the nation on 12 March 2020, Singapore Prime Minister Mr Lee Hsien Loong said that Covid-19 will be with us for a long time and that the economy will take a big hit. He further said that we will be in this high-risk state for some time to come. In view of the circumstances, the SBMA Management Committee has taken a measured decision to cancel APPMC this year. We hope you will continue to support us and the next APPMC, scheduled for June 6–8, 2021.

Here's an update of our activities in the first quarter of the year:

JAN 13-14: CEO Albert Cheng represents SBMA at the Asia Financial Forum (AFF) in Hong Kong.

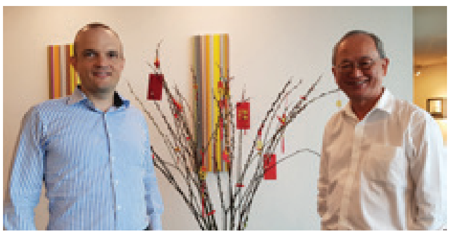
From left, SBMA Member Jacek Baranowski of Metal Market Asia with CEO Albert Cheng at the Asian Financial Forum 2020

JAN 21: Conference call with an international exchange to discuss the possibility of them to become a benchmarking service provider for SBMA Benchmark Gold Price.

FEB 21: Meeting with TradAir to discuss and work on SBMA's strategy and development plans for 2020–2023.

Exploratory Meetings

During the quarter, we scheduled meetings with the following companies: Arihant Jewellers Pte Ltd, Cynopsis, Finews.Asia, Global Precious Metals, Hubilo, Incrementum, Loomis International, Malca-Amit, Matterhorn Asset Management, Metal Market Asia, NASDAQ, TOCOM, TradAir, Virtu Financial and World Gold Council on membership and matters related to market development.



From left, Jan Baltensweiler of Matterhorn Asset Management with CEO Albert Cheng

MEMBERSHIP

As of end 2019, SBMA total membership consists of 45 companies, including three Category 1 members, 31 Local Associate Corporate members, nine Foreign Associate Corporate members, and two Affiliate members. Updated membership numbers for 2020 will be released in the next issue of *Crucible*.

UPCOMING EVENTS

SBMA is monitoring the upcoming events below, given the uncertainty surrounding the Covid-19 outbreak. For more up-to-date information, please check our website or with the conference organiser.

May 18-20, 2020. London, U.K.
Platinum Week 2020
During the third week in May each year, representatives of the platinum industry gather in London, England for what has become known as Platinum Week. London is a historically significant trading centre for PGM where many of the properties and technical applications for PGM were first developed.

Arrangements for Platinum Week 2020 are ongoing. However, in light of the Covid-19 outbreak, LPPM is monitoring developments and will advise members by mid-March as to whether the events will take place.

CANCELLED

July 14-16, 2020. Beijing, China.
4th China Gold Congress and Expo
As the largest precious metal event in China, China Gold is the premier display platform for gold in the country. The exhibition is also the premier platform for showcasing gold industry trends and promoting investment and trading in gold.

Please visit http://en.china-gold.org/ for registration and event details.

September 3-5, 2020. Udaipur, India.
17th India International Gold Convention
More information, updates and details are available at www.goldconvention.in/

October 11-13, 2020. Lisbon, Portugal.
Global Precious Metals Conference 2020 by LBMA/LPPM
Senior representatives from all sectors of the precious metals market will meet in Lisbon, Portugal, for the premier event in the industry. Please visit www.lbma.org.uk for registration and event details.

About Crucible

Crucible is published quarterly by SBMA. If you would like to contribute an article, news or information to Crucible, place an advertisement in Crucible, or if you require further information, please contact:

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