

GFMS GOLD SURVEY 2018

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GFMS GOLD SURVEY 2018

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2018 RELEASES

• WORLD SILVER SURVEY 2018	12 th (New York) May 2018 13 th (Mexico City) May 2018
• GFMS BASE METALS REVIEW AND OUTLOOK	17 th May 2018
• GFMS PLATINUM GROUP METALS SURVEY 2018	6 th June 2018
• GFMS GOLD SURVEY 2018: H1 UPDATE AND OUTLOOK	26 th July 2018
• GFMS BASE METALS REVIEW AND OUTLOOK	8 th October 2018
• GFMS GOLD SURVEY 2018: Q3 UPDATE AND OUTLOOK	25 th October 2018

ACKNOWLEDGEMENTS

The estimates shown in the *GFMS Gold Survey* for the main components of mine production, scrap, fabrication and investment demand are calculated on the basis of a detailed supply/demand analysis for each of the markets listed in the main tables. In the vast majority of cases, the information used in these analyses has been derived from visits to the countries concerned and discussions with local traders, producers, refiners, fabricators and central bankers. Although we also make use of public domain data where this is relevant, it is the information provided by our contacts which ultimately makes this *GFMS Gold Survey* unique. We are grateful to all of them.

NOTES

UNITS USED

troy ounce (oz) =	31.1035 grammes
tonne =	1 metric tonne, 32,151 troy ounces
carat =	gold purity in parts per 24

- Unless otherwise stated, U.S. dollar prices and their equivalents are for the LBMA Gold Price PM.
- Unless otherwise stated, all statistics on gold supply and demand are expressed in terms of fine gold content.
- Throughout the tables, totals may not add due to independent rounding.

TERMINOLOGY

“-”	Not available or not applicable.
“0.0”	Zero or less than 0.05.
“dollar”, “\$”	U.S. dollar unless otherwise stated.
“Identifiable Investment”	The sum of physical bar investment and all coin fabrication, plus the net change in Exchange Traded Fund (ETF) holdings.
“Jewellery Consumption”	Fine gold content of all <i>new</i> jewellery (i.e. does not include exchanged or second-hand pieces) sold at the retail level. It is calculated as being equal to jewellery fabrication, plus imports less exports (i.e. the net inflow of jewellery). An adjustment is also made for retail stock movements.
“Physical Surplus/ Deficit”	The difference between the supply of new and secondary gold to the market in a calendar year and measurable demand for physical gold. This excludes opaque Over the Counter (OTC) investment in gold and commercial bank transactions.
“Net Balance”	The physical surplus or deficit of gold with the addition of highly visible ETF and exchange stock inventory changes.
“Retail Investment”	Identifiable net investment in physical gold in bar and coin form. The bars may or may not conform to ‘London Good Delivery’ status but will be in a form that is commonly traded in the country of origin. Coins include all official and unofficial coins and medallions, with and without a face value.

THE GFMS TEAM AT THOMSON REUTERS GRATEFULLY ACKNOWLEDGES THE GENEROUS SUPPORT FROM THE FOLLOWING COMPANIES FOR THIS YEAR’S GFMS GOLD SURVEY AND ITS QUARTERLY UPDATES



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LME

1. SUMMARY AND OUTLOOK

The more things change, the more they stay the same is an English translation of a 19th century French saying and is an apt way to describe the gold market of last year. The average annual dollar gold prices rose a mere 0.5% in 2017, a stark contrast to all prior years this century which have seen moves (whether up or down) of more than 5% and typically double-digit. That said, those with longer time horizons may well get flashbacks to the stability of 1995, when we commented in the 1996 Gold Survey that the gold market last year presents an apparent paradox. At that time the lack of price volatility had been the lowest since 1968 and this was despite substantial changes in supply and demand. More than twenty years on we were arguably in the same boat. As is described in much greater detail in this report individual supply and demand elements saw some dramatic fluctuations. Indeed, if we hark back to the mood music at the start of 2017, with President Trump's inauguration and various European elections looming, market volatility was widely expected to be high. However, market volatility, at least as measured by the VIX, dropped to the lowest level since its creation, a significant headwind for arguably the ultimate safe haven, as gold is.

Despite this, gold prices edged marginally higher to almost exactly match our \$1,259 forecast in last year's Gold Survey and the net balance was of a similar magnitude to 2016. The relative stability emanated from a combination of markedly weaker ETF demand, especially after the opening months of the year, being offset by a meaningful improvement in physical demand. The importance of the ETF action can be highlighted by noting that the strongest price appreciation coincided with the vast bulk of this buying, just as in 2016, reflecting improved investor sentiment and associated risk hedging. Thereafter, the relative absence of ETF action was offset by a recovery, albeit from rock bottom levels, of jewellery demand while official sector purchases rose by over a third fuelled by Turkey emerging as a significant and regular buyer. Gold started 2018 strongly, extending the rally that followed the Federal Reserve's much-expected rate hike. This rally hit a barrier just below \$1,360 in late January and this has repeatedly been hit since then. We will explore on page 10 whether we expect this to hold.

WORLD GOLD SUPPLY AND DEMAND

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Supply										
Mine production	2,467	2,651	2,771	2,868	2,882	3,076	3,180	3,222	3,251	3,247
Scrap	1,388	1,765	1,743	1,698	1,700	1,303	1,159	1,180	1,306	1,210
Net Hedging Supply	-357	-234	-106	18	-40	-39	108	21	32	-41
Total Supply	3,497	4,182	4,407	4,584	4,543	4,340	4,446	4,422	4,590	4,415
Demand										
Jewellery	2,355	1,866	2,083	2,099	2,066	2,726	2,559	2,464	1,953	2,214
Industrial Fabrication	479	426	480	470	432	428	411	376	366	380
...of which Electronics	334	295	346	342	310	306	297	267	264	277
...of which Dental & Medical	56	53	48	43	39	36	34	32	30	29
...of which Other Industrial	89	79	86	85	84	85	80	76	71	73
Net Official Sector	-235	-34	77	457	544	409	466	443	269	366
Retail Investment	939	866	1,263	1,617	1,407	1,871	1,162	1,160	1,043	1,028
...of which Bars	667	562	946	1,248	1,057	1,444	886	875	786	780
...of which Coins	272	304	317	369	350	426	276	284	257	248
Physical Demand	3,538	3,125	3,903	4,643	4,449	5,434	4,598	4,442	3,630	3,988
Physical Surplus/Deficit	-40	1,057	504	-59	94	-1,094	-151	-20	959	427
ETF Inventory Build	321	623	384	189	279	-879	-155	-117	539	177
Exchange Inventory Build	34	39	54	-6	-10	-98	1	-48	86	0
Net Balance	-396	395	67	-241	-176	-117	3	146	334	250
Gold Price (LBMA PM, US\$/oz)	871.96	972.35	1,224.52	1,571.69	1,668.98	1,411.23	1,266.40	1,160.06	1,250.80	1,257.15

Source: GFMS, Thomson Reuters

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

SUPPLY IN 2017

- *Mine production was relatively unchanged last year, posting a five tonne decrease to a total of 3,247 tonnes.*
- *Total cash costs rose by 4% to \$672/oz, while all-in sustaining costs increased by 5% to \$878/oz.*
- *Global scrap supply fell 7% last year to 1,210 tonnes, a two-year low, as a lack of price action limited recycling.*

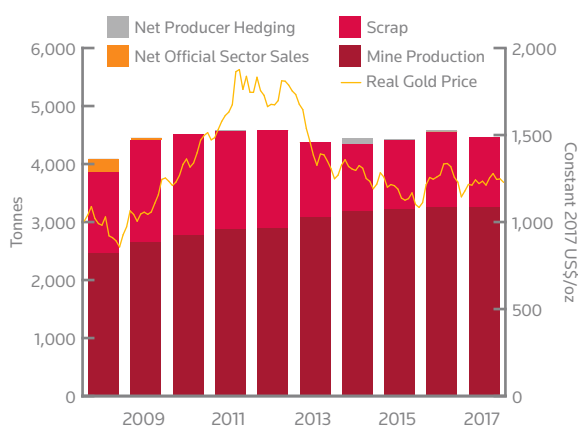
Global **mine production** inched lower in 2017 driven by environmental concerns in China and a crackdown on illegal mining in Indonesia. At the former, year-on-year toll smelter production is estimated to have dropped by 14 tonnes, in tandem with a 12 tonne contraction in the country's integrated mining and refining industry. In Indonesia's formal sector, further losses were registered at Batu Hijau, where output is estimated to have contracted by five tonnes as the operation reached the end of Phase 6 on its first full year of operation under new management. As a result, output in Asia contracted by 49 tonnes, followed by a 15 tonne drop in South America led by lower output in Chile, Colombia and Peru. Elsewhere, Russian production showed the largest gain, supported by a ramp-up at Olimpiada, while production in Canada and the United States rose by a combined 19 tonnes on higher grades and new projects respectively.

Mining costs rose last year on a Total Cash Cost basis by 4% to an average of \$672/oz, while All-in-Sustaining Costs (AISC) increased by 5% to \$878/oz. Higher production costs were posted predominantly in South Africa, where despite an increase in processed grades, costs rose by 18% to \$1,010/oz. Although there have been business improvements behind a small portion of this subset, most producers faced headwinds led by higher fuel costs, lower grades and mixed changes across producer currencies.

On a delta-adjusted basis, the global **producer hedge book** contracted by 16% year-on-year to total 211 tonnes. Polyus, the largest hedge book holder, continued to deliver into its agreed options contracts, exercising a total of 25 tonnes in barrier options. However, a second Russian producer partially offset this, as the company continued with its capital investment programme. Further activity was noted amongst African and to a lesser extent Australian operators, though Mexican miners, of the likes of Fresnillo and Minera Frisco, remained absent.

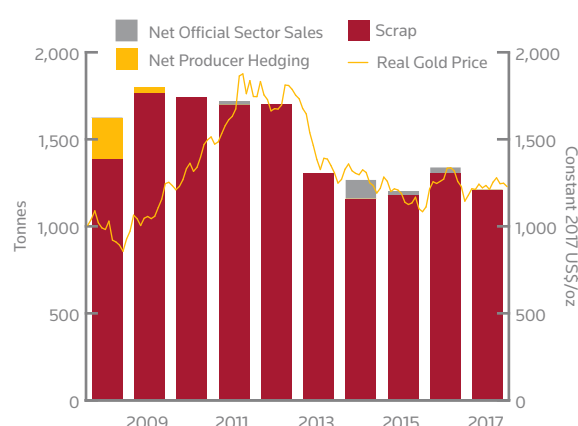
Global **scrap** supply fell 7% last year to 1,210 tonnes, the first annual decline since 2014. Falls were widespread as a stable dollar gold price and stronger domestic currencies kept gold prices contained, with the lower price failing to elicit tightly held stocks. At over 55% of the total, Asia dominates supply and this grouping retreated 12% last year, led lower by an acute decline in India. Japan was the outlier in the region with unofficial imports boosting scrap collection by 13% over 2016 volumes. Elsewhere, European scrap eased by 4%, as euro denominated gold prices were unusually stable. The exception was the United Kingdom where scrap flows rose to a five-year high, aided by the highest annual average sterling gold price since that year. North American scrap receipts declined by 4% to a 12-year low with the continued improvement in the region's economy underpinning the decline in distress selling.

WORLD GOLD SUPPLY



Source: GFMS, Thomson Reuters

SUPPLY FROM ABOVE-GROUND STOCKS



Source: GFMS, Thomson Reuters

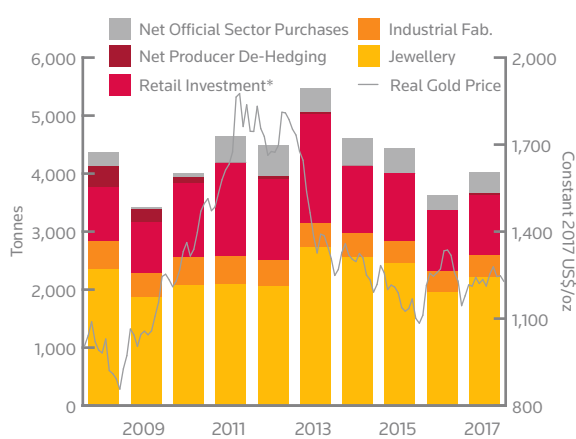
DEMAND IN 2017

- Total physical demand jumped 10% in 2017, the first increase in four years, largely on the back of a return to growth in jewellery fabrication, while higher industrial demand also contributed to the increase.
- Jewellery fabrication increased by 13% year-on-year to 2,214 tonnes, helped in the main by a recovery from India.
- Industrial demand rose 4% in 2017, the first increase since 2010, to 380 tonnes, as a stronger global economic environment drove demand higher. The electronics sector was the stand out, rising 5% last year to a three-year high and boosted by a rise in gold used in bonding wire production.
- Total Identifiable investment posted a 24% annual decrease in 2017 to reach 1,205 tonnes, as higher ETF flows were offset by weaker coin and bar offtake.
- Net official sector purchases rose by 36% to 366 tonnes, aided by Russia buying more than 200 tonnes for the third consecutive year and Turkey starting to make regular acquisitions.

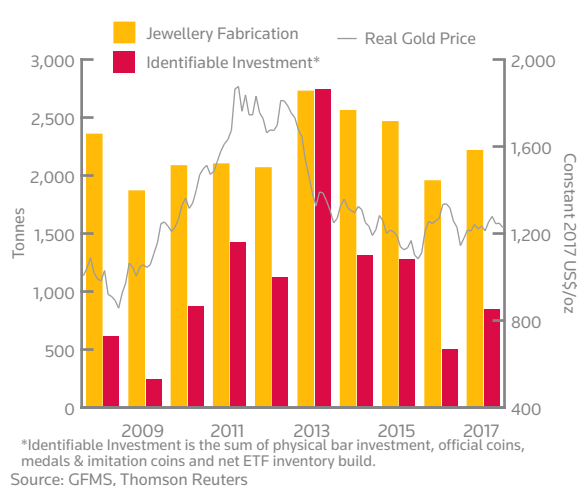
Total **physical gold demand** increased 10% last year, the first annual increase since 2013. The main driver of last year's increase was a 13% expansion in jewellery fabrication to 2,214 tonnes. Following an acute fall in 2016 on the back of considerable regulatory change, Indian demand surged 58% year-on-year as the market stocked inventory ahead of the Goods & Services tax (GST) that was implemented mid-year. Meanwhile, Chinese demand retreated 3%, the smallest fall since the market surged in 2013, signalling that the market has now broadly stabilised. Moreover, fabrication demand in most regions was stronger in 2017, with the Middle East, Europe and North America fabrication rising by 4%, 2%, and 1% year-on-year. Elsewhere, industrial demand also rebounded, returning to growth for the first time in seven years, while for retail investment, bar and coin demand both edged 1% and 3% lower respectively.

Following a precipitous fall in 2016 global **jewellery fabrication** increased 13% last year to 2,214 tonnes, pulled higher by a strong recovery in Indian consumption. Elsewhere it was mainly currency weakness that impacted demand as the average gold price in dollar terms was relatively stable, while a more robust economic footing also helped boost demand in the industrialised world. Despite the healthy rise, demand from this sector remained over 500 tonnes, or 18%, below the anomalous year of 2013. India contributed the most to the rise, surging 58%, the second highest level on record following the calamitous decline the previous year as the market struggled to absorb several regulatory changes. Both Europe and North America edged higher last year with the stable price and improved consumer confidence following through to higher demand. Jewellery fabrication in East Asia dipped just 2% last year to 865 tonnes, the fourth consecutive decline and the lowest level since 2012. A 3% decline in Chinese fabrication accounted for the bulk of the fall as the market continues to face structural changes with greater emphasis towards carat jewellery, which is driving down fine gold consumption. Demand in the Middle East was mixed with some markets in the region impacted by the introduced import tariffs on jewellery. Healthy gains were recorded in the UAE and Iran, but these were partially offset by further weakness from Saudi Arabia and Egypt.

WORLD GOLD DEMAND



JEWELLERY FABRICATION AND IDENTIFIABLE INVESTMENT



Industrial and dental applications rose 4% in 2017, the first increase since 2010, to 379.6 tonnes, as a stronger global economic environment drove demand higher. Offtake was buoyed by the electronics sector, which constitutes the bulk of total demand in this sector, continuing the recovery phase that developed in the final quarter of 2016 to record a 5% annual increase last year to an estimated 276.9 tonnes, a three-year high. Demand for gold used in **other industrial and decorative** applications rose 3%, while dental offtake continued the long term down trend, falling 3%.

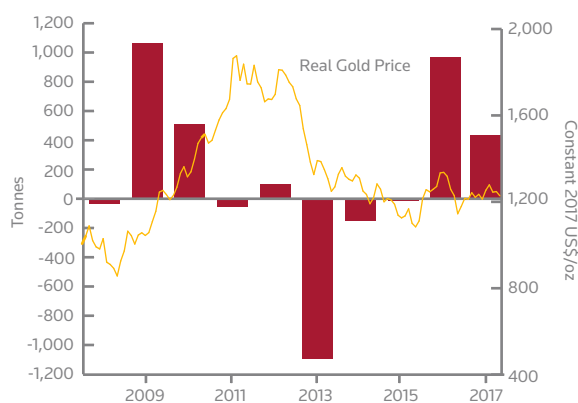
The year 2017 was the eighth consecutive year of strong **net official purchases** of gold, with activity rising by 36% from that in 2016 to total 366 tonnes. Once again, Russia took the top position as the largest purchaser of gold, acquiring 224 tonnes, its largest purchase on record. Meanwhile, Turkey recorded gross purchases of 86 tonnes, marking the first recorded increase in gold holdings from the central bank since adopting the Reserve Option Mechanism Policy in 2011. Gross sales fell in 2017 by 55% compared to 2016, with Venezuela prominently responsible. Reduced sales levels is a trend that is expected to continue into this year, with gross purchases from Russia, Turkey and China (which last reported a reserve change in October 2016) leading. We estimate that this year official sector purchases will continue to increase to 450 tonnes.

Total Identifiable investment, which includes physical bar and coin investment plus ETF movements posted a 24% annual decrease in 2017 to 1,205 tonnes. Measured in value terms, total identifiable investment fell by 23%, to \$49 Bn. The sizeable fall was mainly the result of lacklustre demand for coins, which at 248 tonnes was the lowest level since 2007, while bar demand also dipped 1% due to a lack of price action and competition from other asset classes. Meanwhile, ETF inventory recorded positive additions, with 177 tonnes added in 2017, so that by year-end total holdings stood at 2,262 tonnes, 9% year-on-year increase.

PRICE AND MARKET OUTLOOK

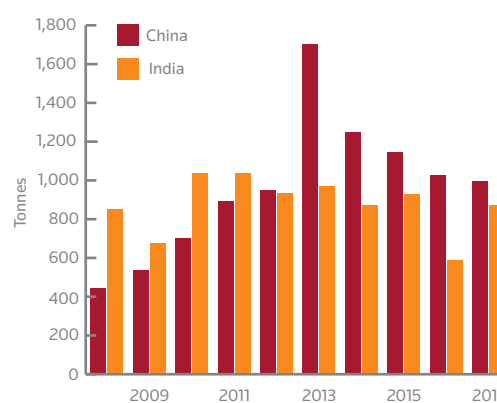
We expect gold to average \$1,360/oz this year and potentially briefly approaching \$1,500/oz later in the year as we believe that the geopolitical climate and equity markets will continue to support gold's role as a risk hedge. Uncertainty revolving around President Trump's politics, along with ongoing tensions in the Middle East and Brexit negotiations will remain gold's key drivers. Against this backdrop, we expect ETF demand to rebound this year to 350 tonnes, after a modest net increase of 177 tonnes over 2017. Retail investment is forecast to rise in 2018, following four consecutive years of declines, thanks to a pick-up in bar demand, supported by improving sentiment towards gold and rising price expectations. Another bullish factor is that we expect China to resume as a central bank buyer and consequently the official sector globally will acquire over 400 tonnes on a net basis. Not everything in the garden will be rosy though; we expect coin demand to slide further as this sector attracts many price sensitive investors who are likely to be discouraged by higher gold prices. Rising prices will also be a headwind to jewellery offtake and we expect this to fall by 3%, with the crucial Indian market dropping back. Furthermore, we expect mine production to rise this year, as 2017 proved to be a blip after 13 consecutive increases, supported by rising Russian output and a stabilisation of production from China.

GOLD; PHYSICAL SURPLUS / DEFICIT



Source: GFMS, Thomson Reuters

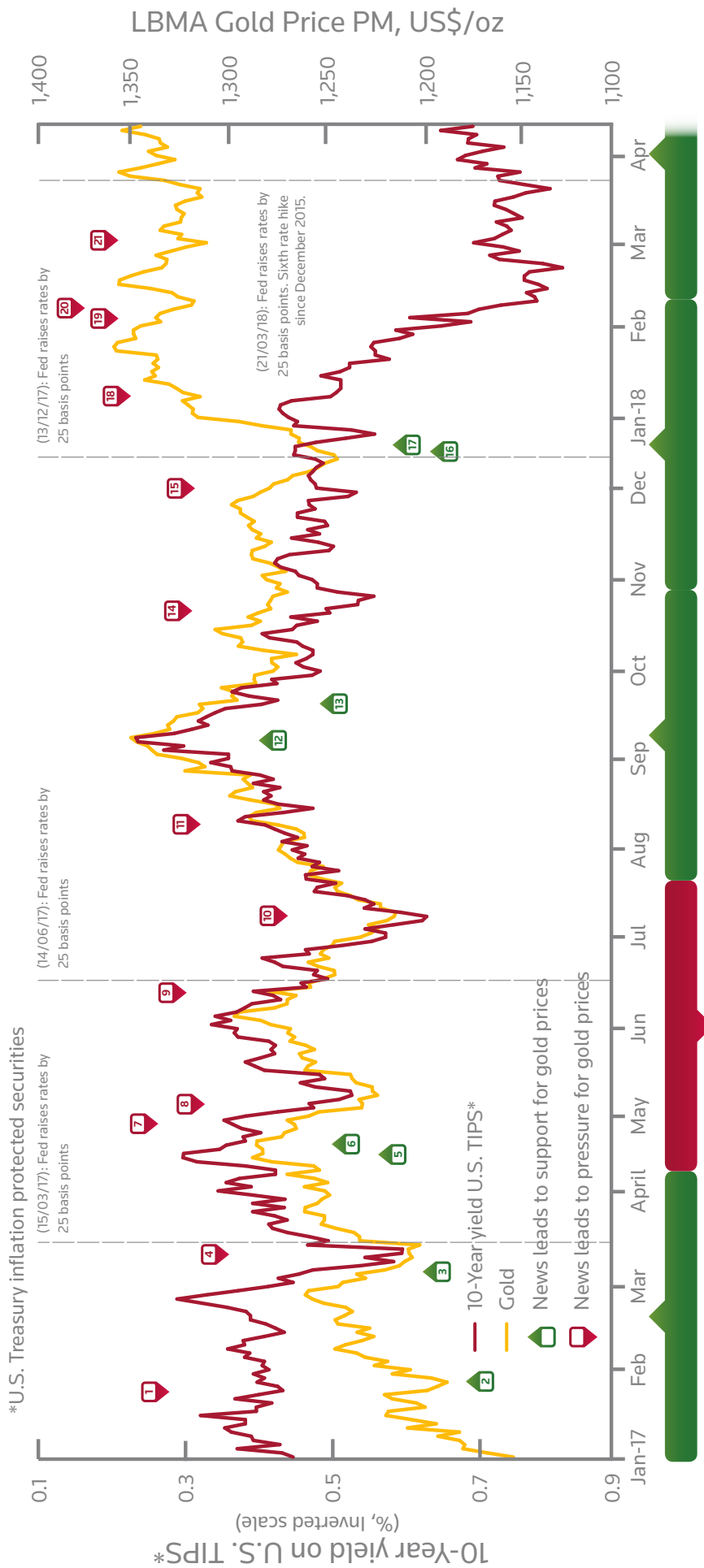
CHINA LEADS INDIA AS WORLD'S LARGEST GOLD CONSUMER*



Source: GFMS, Thomson Reuters

*Demand consists of jewellery fabrication, industrial fabrication and retail investment

GOLD PRICE & 10-YEAR U.S. TIPS* - DAILY



- 01** (26/01/17): S&P 500, Dow Jones, and Nasdaq hit record highs on rising inflationary expectations.
- 02** (31/01/17): DXY falls below 100 level after comments by Trump on currency manipulation.
- 03** (03/03/17): Speculators raise net long position to 14-week, investors cut short position by 36 tonnes in COMEX futures positions.
- 04** (10/03/17): Prices under pressure ahead of U.S. jobs data.
- 05** (14/04/17): Gold near five month peak, poised for best week since June on tensions in North Korea.
- 06** (21/04/17): U.S. 10-year Treasury yields near 5-month low; dollar index trends lower. Net managed long position rises by 65 tonnes.
- 07** (24/04/17): Risk-on sentiment drives equities higher after French election result. Macron and Le Pen to face each other on 7th May.
- 08** (05/05/17): Biggest weekly drop in two months on strong U.S. jobs data; U.S. rate hike expectations grow. Eurozone political risk drops.
- 09** (09/06/17): Euro declines after the ECB cuts its inflation forecast.
- 10** (07/07/17): Treasuries and U.S. dollar rise on strong U.S. non-farm payroll data.
- 11** (04/08/17): Signs of labour tightness provide Fed assurance that inflation will gradually rise to 2% target.
- 12** (06/09/17): CFTC charges Monex with US\$290 M precious metals fraud.
- 13** (25/09/17): North Korea accuses U.S. of declaring war; tensions rise.
- 14** (20/10/17): Prices fall as hopes of U.S. tax reform boost riskier assets.
- 15** (01/12/17): Gold touches 3-week low on upbeat U.S. data and Fed Yellen bullish view on the economy. Third quarter GDP revised up to 3.3%.
- 16** (15/12/17): Speculators cut net long position for 2nd straight week to total 250 t.
- 17** (20/12/17): U.S. Senate passes tax bill; estimates point to \$1.5 Tn deficit increase
- 18** (09/01/18): U.S. 10-year Treasury yield rises above 2.5% after Fed decision to cut bond purchase; real rates also rise.
- 19** (05/02/18): Jerome Powell is sworn in as new Federal Reserve Chairman.
- 20** (06/02/18): U.S. wage growth triggers market concerns. Investors unwind short volatility positions; VIX surges.
- 21** (02/03/18): Net managed money cut 92 tonnes to net long position.

Source: GFMS, Thomson Reuters

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2. INVESTMENT

- *Total identifiable investment, which includes physical bar investment, all coins and ETF inventory build, posted a 24% annual decrease in 2017, to 1,205 tonnes. Measured in value terms, total identifiable investment fell by 23%, to \$49 bn.*
- *Demand for physical bars remained stable, falling only 6 tonnes year-on-year. Demand from the North American region saw a more substantial decline.*
- *The retreat in total identifiable investment was mainly dragged down by the lacklustre demand for coins, totalling only 248 tonnes last year, the lowest level since 2007. While ETF inventory also recorded positive additions of 177 tonnes gold in 2017, it was still 67% smaller than the levels seen in 2016.*
- *While ETF inventory recorded another year of positive additions, with 177 tonnes gold added in 2017, this was still 67% smaller than the levels seen in 2016. Global ETF holdings increased by 9% to 2,262 tonnes by the end of 2017.*
- *Investor activity on COMEX continued to rise, underpinning the upbeat sentiment in gold trading last year. A total of 73 million contracts were traded, representing 226,438 tonnes of gold. The increase in turnover demonstrated COMEX' dominance in global commodity exchanges, with its market share increasing from over 70% in 2016 to over 80% the following year.*

OVERVIEW

Despite the Federal Reserve raising interest rates three times and taking early steps to reduce the balance sheet in 2017, the dollar index ended the year at 92.1, representing a 10% loss last year. Helped by the dollar weakness, as well as geopolitical concerns, gold rose 12%, outperforming silver. Demand for physical bars remained at similar levels, with demand falling mostly in the western world, but was partly offset by a pickup in some emerging regions. Global ETF holdings increased by 9% or 177 tonnes, to reach 2,262 tonnes at year end, while trading activities, notably on COMEX, continued to rise. Demand for coins, however, was lacklustre last year and the volume was the lowest since 2007. The continual increase in the gold price has kept bargain hunters on the sideline, as coin investors are usually the most price sensitive in the market. The improving sentiment over the economic outlook, particularly in the United States, have investors less interested in gold coins as their risk appetite increased. The relatively low premia in the secondary coin market also played an important role negatively impacting demand in the primary market.

Looking forward, we expect global investment in gold to continue to rise in 2018. The dollar index has remained weak, losing another 2.3% in the first three months in 2018. Demand for gold remained at high levels as financial markets have been gauging impacts brought by various influences. The potential trade war, the relationship between Russia and the western world, the development of internal conflicts in Syria, the continual political chess game between the United States and China, the potential for further deterioration of internal conflicts within the United States, and the possibility of further retreats in the global equity markets, all underpin gold's potential as a risk-diversifier.

IDENTIFIABLE INVESTMENT*

(tonnes)	2013	2014	2015	2016	2017
Retail Investment	1,871	1,162	1,160	1,043	1,028
of which bars	1,444	886	875	786	780
of which coins**	426	276	284	257	248
ETF Inventory Build	-879	-155	-117	539	177
Total Identifiable Investment	992	1,007	1,043	1,582	1,205
Indicative Value US\$ (bn) ***	45	41	39	64	49

*Excludes activity in the futures and OTC markets.

**Official Coins and Medals & Imitation Coins.

***Indicative value calculated on an annual basis using annual average LBMA Gold Price PM.

Source: GFMS, Thomson Reuters

ACTIVITY ON COMMODITY EXCHANGES

Total volumes of gold futures traded on **COMEX** rose by 26% in 2017, to 73 million contracts. This is equivalent to a nominal 226,440 tonnes. Open interest, at 1,539 tonnes by end-December, was up 17% compared to the end of 2016. The increase in turnover clearly demonstrated COMEX' dominance in gold trading activities among global commodity exchanges, increasing its market share from over 70% in 2016 to over 80% in 2017. The increase in gold trading activities on commodity exchanges also demonstrated a positive correlation between activity and the gold price. Indeed if we look at CFTC reports on managed money, which can be used as a proxy for investor activity on the exchange, net long positions started 2017 at relative low levels, as the gold price was forming a bottom at sub \$1,200 levels after the Federal Reserve raised interest rates at the end of 2016. Both the gold price and net long positions continued to build up steadily throughout the year, and peaked at 824 tonnes equivalent in mid-September, when the gold price was at \$1,327. While gold retreated thereafter, falling back to the \$1,260 levels for the rest of the year, managed net long positions also receded, but remained at levels higher than the average in the first half of the year, indicating that speculative interest remained strong for gold.

Trading volumes in China's commodity exchanges retreated as a whole in 2017, as market interest concentrated on black minerals including coal and iron ore, and gold was somewhat neglected. A lack of material appreciation in the domestic gold price, which only rose by 3% for the full year, also discouraged speculative interest. Trading volumes on the **Shanghai Futures Exchange** (SHFE) fell 44% in 2017, to a nominal 19,478 tonnes. Meanwhile, on the **Shanghai Gold Exchange** (SGE), China's only legal source of VAT free gold, total trading volumes remained steady, increasing by a modest 1.4% to a nominal 15,710 tonnes last year.

Precious metals trading volumes nosedived last year on **MCX** with total volume traded in the benchmark gold futures falling to 2,297 tonnes, the lowest since 2004; the contract was launched in 2003 and had peaked in 2008 at 14,024 tonnes. Year-on-year traded volumes declined by 56%. Deliveries to the exchange also declined, falling year-on-year by 15% to 4.79 tonnes, the lowest since 2005. The decline is primarily seen as an after effect of demonetisation as the liquidity crunch in the unofficial market had led to a drop in speculative transactions. To put this in perspective, pre-demonetisation average monthly volumes were 367 tonnes in 2016 and post that it has dropped to an average of 191 tonnes.

GOLD TRADED ON COMMODITY EXCHANGES

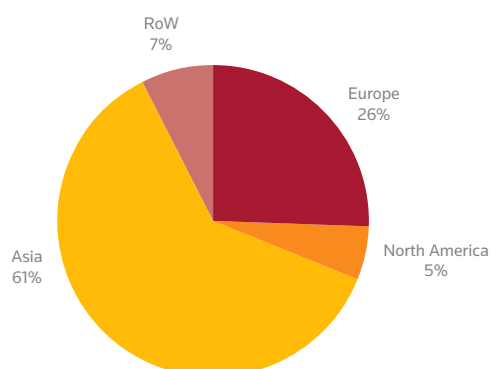
(total volume in nominal tonne equivalents)				Change y-o-y
	2015	2016	2017	
COMEX	130,135	179,047	226,440	26%
SHFE	25,317	34,760	19,478	-44%
SGE* ¹	7,288	11,793	11,754	0%
TOCOM	7,928	8,541	6,398	-25%
MCX	3,947	4,094	2,297	-44%
SGE Spot	4,727	3,699	3,956	7%
DGCX ¹	348	453	359	-21%
ICE Futures US	508	294	152	-50%
Borsa Istanbul ²	383	339	426	26%

*All SGE contracts excluding SGE Spot.

¹ Physically backed. ² 100% Physical Delivery

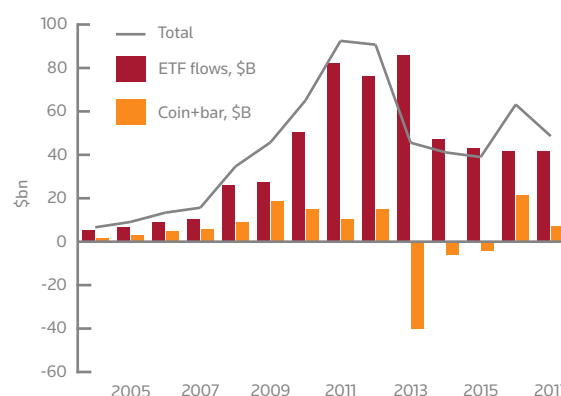
Source: Thomson Reuters, relevant exchanges

DEMAND FOR BARS AND COINS REGIONAL SPLIT (2017)



Source: GFMS, Thomson Reuters

DEMAND FOR PHYSICAL INVESTMENT, BARS + COINS + ETFs



Source: GFMS, Thomson Reuters

EXCHANGE TRADED FUNDS

Total ETF holdings increased by 8% in 2017, to a total of 2,262 tonnes at the end of the year. Geopolitical tensions over North Korea and the accelerated depreciation of the dollar index propelled the gold price higher, with global investors piling capital into the ETFs, though the pace of inflows decelerated over the year.

In value terms, total ETF holdings rose by 21% (or \$17 bn) to \$94 bn. Total net flows were \$7.3 bn for the full year. That is compared to adding 539 tonnes (or 34%), or \$78 bn of value in 2016, and total net flows of \$21.8 bn. After optimistic sentiment in late 2016 following the election of Donald Trump to the Presidency of the United States, the market had something of a reality check in the first quarter of the following year when Trump's health care reform bill failed to pass Congress. The U.S. equity indices trod water as the market began to worry whether Trump's tax cuts and infrastructure reforms might also meet the same obstacle. The weakness in the general equity markets, along with a weakening dollar, helped demand for gold. As a result, 103 tonnes of gold were added into global ETFs in the first quarter of 2017, the largest quarterly inflows recorded throughout the year.

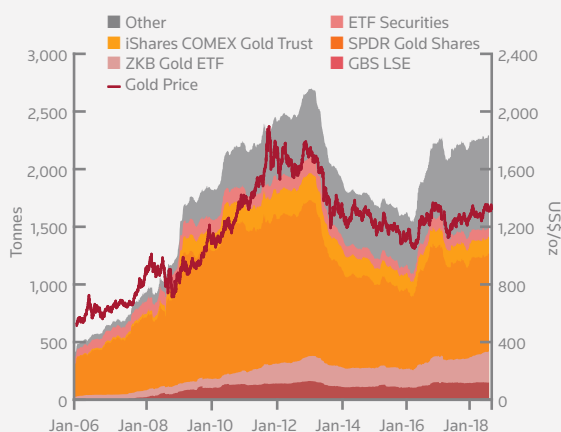
The Federal Reserve raised interest rates for the second time in June, but what was slightly surprising was that the central bank also announced its intention to reduce its balance sheet towards the end of the year. Both sets of news did little to help the dollar, as the dollar index just managed to rebound modestly, then followed with a free fall. Stronger than expected data from the EU region extended dollar weakness. A net total of 42 tonnes gold were added into the ETFs to conclude the second quarter.

Spooked by the continual tensions with North Korea, softer than expected inflation data in July, in addition to a somewhat surprising interest rate move by the Central Bank of Canada, all caused downward pressure on the dollar initially in the third quarter. Even when President Trump managed to extend the country's debt ceiling to the end of the year, halting the continuous falling of the dollar the rebound was modest. In the middle of September however, data showed that U.S. inflation in August ended a five-month streak of misses and might finally be getting back on track. Market expectation increased over a possible rate hike at the end of the year. Gold began trading downwards. Along with hawkish statements made by the Fed Chair Yellen, the dollar reverted from the previous downward trend and rebounded, bringing further pressures to the metal. ETFs inflows of 24 tonnes were recorded in the third quarter.

Gold marked a typical price reaction in the final quarter of the year. With the markets expecting the Fed to raise rates in December, metal prices suffered downward pressures towards the decision date, then quickly bottomed after the event (a classic example of "sell the rumour, by the fact"). The dollar continued its downward movement during the quarter, despite the successful passage through Congress of Trump's tax reform proposals. The dollar index ended the year at 92.1, a 10% loss during the year. On the other hand, gold ended the year on a high note, registering a 13% return. Only 8 tonnes of inflows were recorded in the final quarter.

Among the individual funds, SPDR Gold Shares, the largest gold ETF accounting for 37% of the total ETF holdings at the end of 2017 (compared to 40% at the end of 2016), posted inflows of only 15 tonnes, or less than 2%, last year. There were 181 tonnes of inflows recorded in the SPDR Gold Shares in 2016. Similarly, after recording a 427% increase (or 43.1 tonnes) of gold holdings in the Chinese gold ETFs in 2016, total gold holdings actually fell 7% at the end of 2017.

GOLD ETFs AND OTHER SIMILAR PRODUCTS



Source: GFMS, Thomson Reuters, collated from respective ETF Issuers' data

It was a year in which 2017 caught the investment community by surprise. In a year in which the Federal Reserve continued its interest rate normalisation programme, including details over reducing the balance sheet, yet the dollar fell off a cliff during the year. Turning to 2018, gold ETFs had absorbed an inflow of 31 tonnes, pushing total holdings to 2,293 tonnes by the end of the first quarter. The increase in inflows was in conjunction with the continual advancement of the gold price, which gained less than 2% during the quarter. The depreciation of the dollar continued, as the dollar index lost more than 2% in the same time period.

PHYSICAL BAR INVESTMENT

— Demand for bullion bars decreased by less than 1% year-on-year to 780 tonnes in 2017, with losses in demand from North America and Europe partly offset by increase in South America and Asia.

For the second year in a row physical bar investment in **Europe** slid lower, by 4% after a 5% drop in 2016, to the lowest level since before the global financial crisis (2007 to be precise) to 201 tonnes in 2017. Last year's decline came about despite a healthy start to the year with January and February the strongest months, at least on a year-on-year basis as the robust demand that had prevailed at the back end of 2016 rolled over into the New Year. The strong start was aided by a variety of factors but most significant among them were lower prices, concerns over the incoming Trump administration and high and rising equity prices. The crucial German market, which accounts for almost exactly half of demand, led the way at this stage. However, it also led the way into a summer slump and while there was a seasonal uptick in the closing months of 2017 demand was down in each of the last three quarters compared to a year earlier in this market. The decline was widespread across the continent as the economy saw a widespread upturn over the year and this improved the attractiveness of equities and other asset classes. The second largest European bar market, Switzerland, saw a steeper drop than most, as the rangebound price performance in Swiss franc terms led to investor apathy towards gold. A rare contrast to this negative backdrop was the UK where demand rose 3% to a four-year high fuelled by higher sterling prices, especially in the first half of 2017, and a subdued macroeconomic climate.

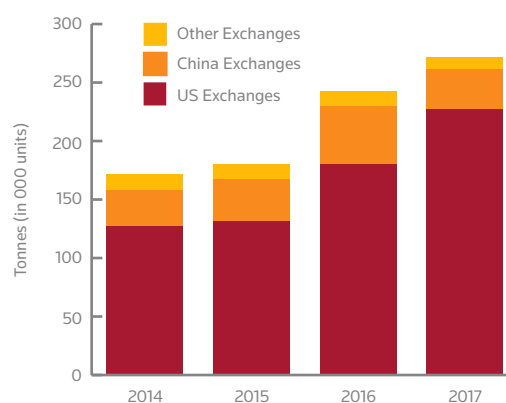
In **North America**, physical bar demand contracted by 25%, driven by a significant slump in the United States. Indeed, coin demand was even softer. The underlying reasons were similar with the prior strength of demand leading to an overhang of metal leading to a lack of fresh interest. This was particularly the case as equities recorded repeated record highs and the gold price performance neither encouraged those who were attracted by fresh highs or by bargain hunters as market volatility was low.

Indian physical bar investment demand last year was the second lowest since 2004. That said, year-on-year demand had increased by 7% to 93.9 tonnes. Moreover, 64% of the demand was during 2Q and 4Q, evidently due to buying for Akshaya Titya, and Dhanteras. Post demonetisation gold has been viewed as a safer bet than holding cash wherever income is unaccounted. More specifically following the addition of new Income Tax Act 269ST in which cash transactions of over Rs. 200,000/- were banned, flouting of the law attracted a penalty of the equivalent amount. Thus it rather made sense for people to hold unaccounted income in the form of gold instead of cash. The market is shifting away from the standard minted bars of 100 grammes and below to semi-refined bars; these are bars from melted jewellery, thereby leaving no trace of the origin either. Purchases via digital wallets are gaining interest across India. More importantly, savings through Sovereign Gold Bonds, which is not physically backed by gold, is seen to be gradually shifting investments away from the physical holding of gold. Last year it helped shift of approximately 10 tonnes.

Chinese investment demand increased by 7% in 2016 stimulated by events including Brexit, Donald Trump becoming the President of the United States, and the worry of yuan depreciation. However, with the absence of these major concerns last year, China's investment demand for gold slipped by 7% to 220 tonnes.

In 2017, speculation in cryptocurrencies hit a new high in the country, as speculators looked to book quick opportunistic profits. There is no question that the appreciation and market frenzy seen in the cryptocurrencies space last year was partly fuelled by Chinese capital and interests and impacted retail investment demand. Compared to cryptocurrencies, and to the equities market, Chinese investors found the

GLOBAL EXCHANGE ACTIVITY



Source: GFMS, Thomson Reuters

return of gold was a little lacklustre last year. While the international gold price advanced by double digits in 2017, the Chinese gold price only rose by slightly over 3% due to the appreciation of the yuan currency.

The emergence of various online trading applications in the last two years have certainly raised the market awareness of gold investment as well as market penetration, especially among the younger generations. However, many investors traded gold like derivatives, chasing short term trading profits rather than holding for a longer period of time and waiting for appreciation.

There was a relatively large scale gold rush in December 2017, when bargain hunters emerged in stores demanding bars and leaving many of the showcases empty. Investors speculated the gold price had bottomed following the Federal Reserve raising the interest rate in the December meeting. However it was probably too late to have a meaningful positive impact on demand for the full year though it did limit the decline.

Elsewhere in Asia, **Thai** demand rebounded strongly in 2017 after being moribund by a lack of price action for a significant proportion of the year. Following a weak October, demand in November was solid without being spectacular, but the market really started to boil in the first week of December when the local gold price dipped below the psychological level of 20,000 baht per baht bar (15.16 grammes), the first time since December 2016. The drop below this level was a clear buy signal to many investors and to those consumers wishing to prop up their precious metals holdings. Overall investment demand for the full year jumped 48% to 81.2 tonnes, a three-year high, but well short of the near 150 tonnes recorded in 2013.

Meanwhile **Indonesian** investment was muted with a stable gold price offering little incentive to invest, especially when other assets classes were delivering healthier gains. **Japanese** retail investment for gold was also underwhelming for most of the first eight months before roaring back to life in September last year. This changed briefly after the rise in tensions on the Korean Peninsula during the year with safe haven purchases driving demand higher temporarily, but this uptick in demand was not enough to offset a market dominated by sell side activity with the market slipping to disinvestment of 4.7 tonnes in 2017.

OFFICIAL COINS

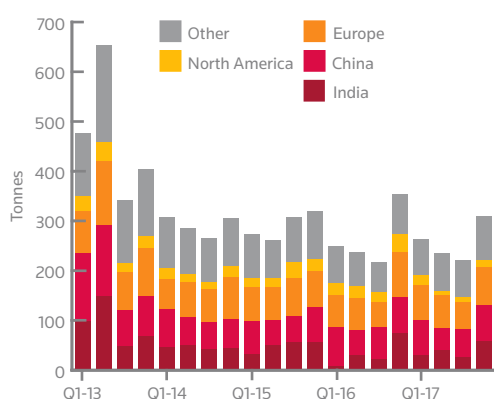
— *Global official coin minting declined by 10% year-on-year in 2017, marking the lowest level of fabrication since 2007.*

After two years of successive growth in gold coin fabrication, 2017 recorded a decline, falling by 10% or 21 tonnes to total 184 tonnes. While declines (on a year-on-year basis), were recorded for almost every quarter of the year (with the exception of the third quarter (Q3) which saw fabrication temporarily rise, rebounding by 24%). Declines were far from even, with the fourth quarter (Q4) recording the most significant drop, falling by 35% or 25 tonnes.

The fluctuations in fabrication levels in 2017 can largely be explained by looking at demand on a regional level and

the divergence that occurred between them, particularly in light of the outcome at the end of 2016 in which the President of the United States was announced as Donald Trump. Over the year, North American gold coin fabrication levels declined by more than 50% or 37 tonnes, to mark the lowest level of fabrication in the country since 2007, while Europe posted a 12% or six tonnes increase in fabrication levels over the same period. In the U.S. the appointment of President Trump led to improving economic sentiment for the country, with investors increasing their appetite for risk as equity markets reached new record highs. While in Europe, a Trump Presidency gave rise to heightened geopolitical concerns and growing uncertainty, leading to investors running for safe haven assets. (It is also important to

RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

mention that North American minting levels were also affected by the second hand coin market, in which low premia on these coins negatively impacted the primary market).

Elsewhere, the most noticeable increase in fabrication levels came from Africa, which recorded a 39% or 14-tonne increase to 29 tonnes, marking the highest level of demand that we have recorded for the region. Last year marked the 50th anniversary of the Rand Refinery issuance of the Krugerrand, its first investment coin and we attribute much of the increased demand to this, while safe-haven demand additionally lent support. In Asia, weakening local currencies reduced the appetite for coins, with gold in Chinese yuan rising by 3% over the year, while the Japanese yen price increased by 9% over the year to reach its highest level since June 2015.

Demand for medallions and imitation coins in **India** is estimated to have increased by 29%, driven primarily from gifting and seasonal purchase; that said 2016 was also the lowest since 2005. While it did break the sequence of four consecutive years of decline, at 59.5 tonnes it was still the second lowest for the decade. Medallions minted in South Korea which were imported under the bi-lateral agreement were also sold as investment coins specifically in some of the southern states in India. Since 2013 when coins were kept outside the retail gold loan market where gold was used as collateral, its demand has dropped significantly. Medallions are thus modified with a hook so that it could be classified as jewellery.

GOLD COMEX TRADING POPULARITY ON THE RISE COMPARED TO OTC

Over the Counter (OTC) transactions remained at similar levels in 2017 to the year before. A broad rule of thumb is that LBMA loco London volumes are roughly three times the transfer numbers. In order to estimate the global OTC volume we assume that loco London accounted for 74% of total volume last year, up from an estimated 70% in 2016 as China's OTC market contracted. Chinese authorities stepped up their efforts over supervisions and regulations of the market to manage risks, resulting in a smaller OTC market last year. As a result, while LBMA transfers increased by 5%, we estimate that the implied global OTC traded volumes remained at 21 billion ounces in 2017, at similar levels to 2016. To put this into context, global OTC transactions in 1997, the year in which the LBMA started making its daily transfer volumes publicly available, stood at approximately 31 billion ounces.

On the other hand, gold trading on COMEX continued to gain market share against the OTC, rising from 27% of annual OTC trading activity in 2016 to approximately 35% in 2017. Gold trading activities on COMEX were only 10% of the OTC in 2006. Theoretical advantages of trading on COMEX as opposed to OTC are central clearing, which implies no direct counter party risk, as well as the ability to trade on margin (although this latter carries its own risks). Trades on COMEX will continue on the rise compared to OTC.

OFFICIAL COINS (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
South Africa	8.7	23.2	20.0	23.8	23.7	27.5	21.5	27.7	35.2	49.0
Turkey	53.1	30.9	35.6	58.9	39.9	90.6	40.5	19.8	22.4	38.0
China	5.5	6.7	8.5	23.9	21.4	21.8	14.8	22.9	31.1	25.4
Canada	27.6	38.2	34.1	35.8	23.9	35.5	22.1	29.7	30.6	18.6
United States	33.7	50.5	44.5	36.5	27.5	34.1	21.8	32.9	38.4	13.3
Austria	24.9	33.4	17.9	21.1	12.4	20.3	15.0	23.5	17.4	12.8
Australia	9.6	11.0	8.4	10.6	10.0	16.2	11.6	9.9	10.9	8.2
United Kingdom	4.3	4.7	4.4	5.8	6.8	4.9	4.7	9.5	8.9	7.6
Iran	18.4	29.2	39.6	52.3	55.0	58.0	33.6	27.0	2.5	6.3
France	0.2	0.2	0.2	0.2	0.2	0.4	0.8	0.8	0.4	1.5
Mexico	2.5	0.3	2.3	0.2	1.4	1.4	1.2	1.3	0.9	1.4
Germany	5.5	5.0	5.0	4.7	5.0	4.2	4.2	0.8	1.0	0.8
Thailand	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	8.4	11.5	8.1	7.4	8.9	7.4	6.4	5.2	5.1	0.7
World Total	202.5	245.1	228.7	281.4	236.2	322.4	198.4	211.1	204.9	183.7

Source: GFMS, Thomson Reuters

PHYSICAL BAR INVESTMENT

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Europe										
Germany	109.1	128.7	121.7	154.5	104.1	112.5	97.0	109.2	103.2	99.9
Switzerland	88.8	97.1	92.4	115.9	80.5	65.1	44.6	44.5	41.2	38.6
Belgium	-0.1	12.2	18.7	23.8	19.2	21.0	20.4	20.3	17.2	15.3
United Kingdom	0.0	4.7	9.3	10.4	15.1	13.4	7.4	6.9	9.6	9.8
Other Countries	18.1	11.1	-4.0	46.4	37.4	41.4	41.4	40.5	39.1	37.5
Total Europe	216.0	253.7	238.1	350.8	256.2	253.4	210.7	221.4	210.3	201.3
North America										
United States	51.4	63.5	62.0	47.5	25.9	33.4	24.8	27.3	28.7	21.0
Canada	5.2	7.4	3.4	5.1	2.6	5.0	1.5	2.0	1.5	1.5
Mexico	5.3	3.3	2.8	2.9	2.8	0.1	0.1	0.1	0.1	0.1
Total North America	61.9	74.3	68.3	55.5	31.3	38.4	26.4	29.3	30.2	22.5
South America										
Venezuela	0.0	2.0	2.0	2.0	2.0	2.6	2.0	2.0	2.0	2.2
Other Countries	0.0	0.6	0.3	0.4	0.5	1.2	0.3	0.3	0.3	0.3
Total South America	0.0	2.6	2.3	2.4	2.5	3.8	2.3	2.3	2.3	2.4
Asia										
China	60.8	102.3	178.6	237.8	249.3	412.1	231.5	220.9	236.8	220.0
India	159.9	117.5	266.3	288.0	205.9	265.8	109.8	124.1	87.6	93.9
Thailand	42.6	-10.1	63.0	103.6	101.9	148.9	84.4	68.6	55.0	81.2
Vietnam	96.2	58.2	67.0	87.8	71.4	81.8	53.3	42.0	42.3	35.4
Iran	30.6	15.7	33.8	40.4	44.2	46.4	31.5	27.2	0.0	17.4
South Korea	-0.6	-16.2	1.2	6.0	5.5	14.2	16.0	20.6	15.6	16.6
Indonesia	2.9	-6.0	15.3	24.8	22.1	43.1	18.1	11.3	14.7	12.7
Pakistan	-4.4	-19.4	7.0	14.6	12.3	23.9	13.4	15.6	10.5	9.7
Saudi Arabia	13.5	10.9	14.5	17.4	16.3	17.8	14.6	14.5	11.2	9.3
Singapore	0.4	-0.3	0.9	3.9	5.2	8.4	8.7	6.3	7.0	7.1
Other Countries	-15.4	-26.7	-22.1	-1.7	17.2	53.7	39.6	48.9	47.7	33.8
Total Asia	386.5	226.0	625.6	822.6	751.3	1,116.1	620.9	600.0	528.5	537.1
Oceania & Other										
Australia	2.9	4.4	10.2	15.5	14.8	17.6	16.2	15.1	15.0	13.8
Egypt	0.4	0.7	1.2	0.7	0.8	15.2	9.9	7.4	-1.4	2.4
Total Oceania & Other	3.3	5.1	11.3	16.2	15.6	32.8	26.1	22.5	13.6	16.2
World Total	667.1	561.7	945.6	1,247.6	1,057.0	1,444.5	886.5	875.4	785.9	779.5
...of which:-										
Middle East*	61.4	35.1	65.8	93.1	85.0	113.1	88.1	72.2	30.2	50.6
East Asia*	211.4	167.3	333.9	486.2	475.4	736.1	428.3	396.3	400.2	390.4
CIS*	4.4	4.9	3.1	2.8	2.7	2.7	2.8	2.6	2.4	2.2
Indian Sub-Continent*	160.9	118.0	273.8	304.4	220.8	293.0	126.0	142.6	101.6	107.1

Source: GFMS, Thomson Reuters; *The key regional bullion markets

MEDALS AND IMITATION COINS (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
India	63.5	53.5	82.6	80.0	106.3	96.3	70.8	66.5	45.8	59.1
Other Countries	6.2	5.4	5.7	7.8	7.1	7.5	6.6	6.8	6.3	5.6
World Total	69.7	58.9	88.3	87.8	113.4	103.8	77.4	73.4	52.1	64.7

Source: GFMS, Thomson Reuters



3. MINE SUPPLY

- *Global mine production inched lower by 5 tonnes last year, or 0.1%, to a total 3,247 tonnes - the first annual drop since 2008.*
- *Environmental concerns and a crackdown on illegal mining were the driving force behind the drop in output in 2017.*
- *Russia and Suriname saw the largest production increases led by ramp-ups at the countries' largest operations, while higher grades and fresh ounces were behind strong gains in Canada.*
- *Average Total Cash Costs rose by 4% in 2017 to \$672/oz.*
- *The volume of delta-hedging contracted by 41 t, the largest volume of net de-hedging since 2010.*
- *We expect a cyclical peak in mine production to be reached in 2018 before slowing down over the near term.*

MINE PRODUCTION

SUMMARY

Global mine production in 2017 reached a total of 3,247 tonnes, five tonnes below the previous year driven by environmental concerns in China and a crackdown on illegal mining in Indonesia. Further efforts were also noted in Peru and Colombia, where police and military interventions to flush out illegal miners from key areas in the rainforest region led to a drop in output year-on-year. Elsewhere, Russian production showed the standout gain at the global level, supported by a ramp-up at Olimpiada, while production in the United States rose by eight tonnes supported by new projects and higher grades at two key operations.

Mining costs rose last year on a Total Cash Cost basis by 4% to an average of \$672/oz; while on an All-in-Sustaining Costs (AISC) basis the number increased by 5% to \$878/oz. Although there have been business improvements behind a small portion of this subset, most producers faced headwinds from the appreciation of producer currencies against the dollar and higher input costs.

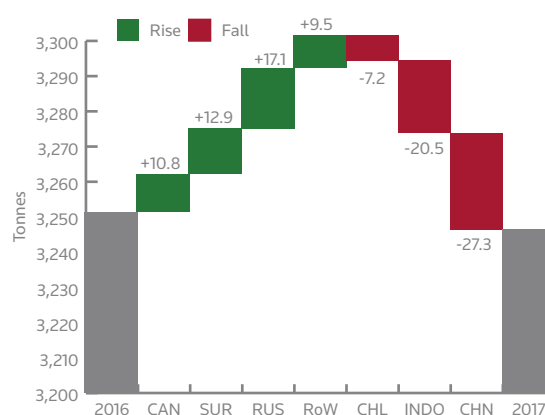
The producer community collectively reduced their hedge cover last year by 41 tonnes to leave the aggregate producer hedge book at 211 tonnes at end year. The largest individual hedge book expansion, responsible for 22% of gross hedging, was attributable to Petropavlovsk, which increased its hedge position by 11 t using forward contracts. Following the addition to the hedge book of 32 tonnes in 2016, the total supply of gold from the mining industry (mining plus/minus hedging) fell last year by 2.3% to 3,207 tonnes.

TOP 20 GOLD MINING COUNTRIES

Rank			Production (t)	
2017	2016		2016	2017
1	1	China	453.5	426.1
2	2	Australia	290.2	295.0
3	3	Russia	253.6	270.7
4	4	United States	222.0	230.0
5	7	Canada	165.0	175.8
6	6	Peru	168.5	162.3
7	5	Indonesia	174.9	154.3
8	8	South Africa	145.7	139.9
9	9	Mexico	133.1	130.5
10	10	Ghana	94.1	101.7
11	12	Uzbekistan	82.9	84.9
12	11	Brazil	84.0	79.9
13	13	PNG	62.8	61.9
14	15	Argentina	57.9	61.0
15	14	Dem. Rep. Of Congo	60.4	60.1
16	18	Kazakhstan	49.8	55.1
17	17	Mali	49.8	52.2
18	16	Colombia	57.1	50.6
19	19	Tanzania	49.7	49.1
20	22	Burkina Faso	40.9	49.1
Rest of the World			555.5	556.4
World Total			3,251.4	3,246.5

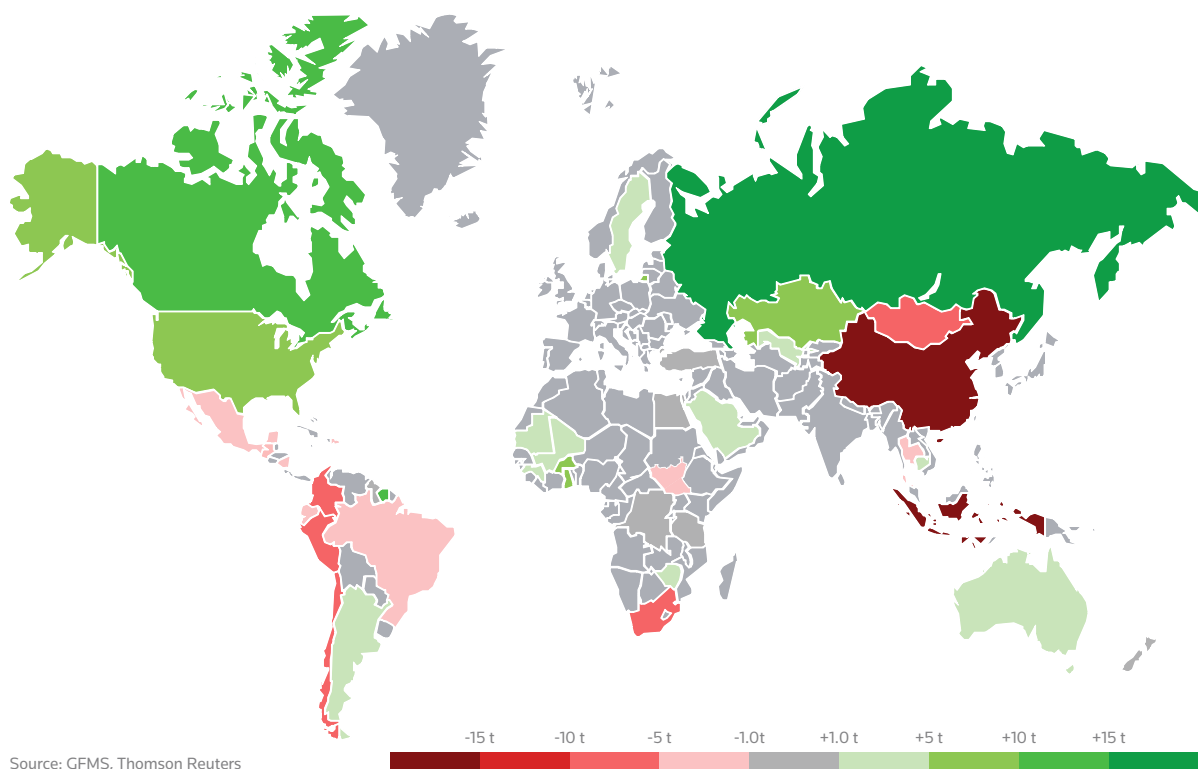
Source: GFMS, Thomson Reuters

YEAR ON YEAR VARIANCE



Source: GFMS, Thomson Reuters

MINE PRODUCTION WINNERS AND LOSERS, 2017 VERSUS 2016



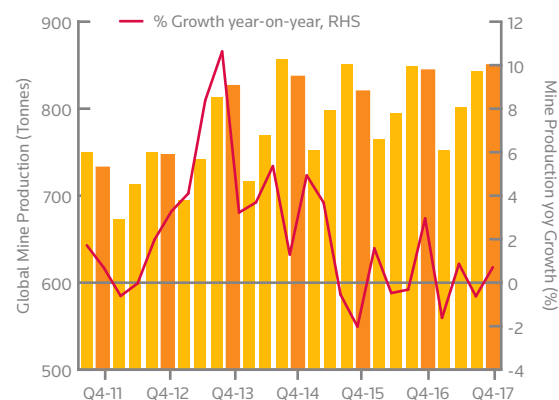
REGIONAL AND COUNTRY OVERVIEW

China, the world's number one producer and accounting for 13% of global mine production, took a step back in 2017, reducing mine supply by 6% to 426 tonnes as the government escalated efforts to fight pollution and increase environmental awareness. Previous estimates pointed to a 10% decrease in output, but losses decelerated during the fourth quarter led by higher than anticipated production from non-ferrous smelters. Year-on-year toll smelter production is estimated to have dropped by 14 tonnes, in tandem with a 12 tonne contraction in the country's integrated mining and refining industry. Environmental protection laws and resource tax policies also impacted domestic gold miners, particularly in provinces with a long history of mining such as Henan and Fujian, which account for 12% of the country's total production.

As a consequence, integrated miner/refiners now account for approximately 32% of Chinese gold production, compared to almost 50% in 2010. Amongst the main producers, Zhaojin Mining saw a muted change in mine-produced output on stronger output at Xiadian and Zaozigou, while smelter production contracted by 14.5% to 13 tonnes. Lingbao Gold Mining saw a fall in production from its mines due to delays as well as lower than expected recovery rates, together with a four tonne drop in output from the smelter business. In the current year, we expect Chinese mine production to inch higher following a number of plant upgrades implemented over 2017. Given the fragmented state of the Chinese mining industry, we continue to account for losses from smaller miners, though at a lower rate than last year.

In **Indonesia**, the region's second largest producer, output fell by 21 tonnes, or 11.7%. The introduction of a nine-month tax amnesty program by the Indonesian government, which hoped to repatriate billions of

GLOBAL GOLD PRODUCTION



dollars from overseas, saw artisanal production from Kalimantan and Sumatra fall sharply as many traders were reluctant to remain in the industry. GFMS estimates that this supply topped 100 tonnes in 2016, and struggled to exceed 60 tonnes in 2017. In addition, tighter environmental controls on mercury and cyanide caused artisanal and illegal mine production to fall. Although illegal mine production will prove difficult to eradicate altogether, jewellery fabricators have noted a drop in output from a number of artisanal fields.

Further losses were registered at Batu Hijau, where output is estimated to have contracted by five tonnes as the operation reached the end of Phase 6. Mining rates were also affected as the workforce transitioned from PT AMNT to Macmahon Holdings, a mining contractor, over the second half of the year. Meanwhile, higher output at Grasberg and Gosowong provided a partial offset year-on-year. At the former, output rose by 46% to 48 tonnes on higher grades (+69%) despite a 12-week export ban that ended in April 2017. With the final phase of the open pit near completion, Freeport expects production to reach 75 tonnes in 2018 before transitioning to the lower grade Grasberg Block Cave underground mine in 2019. However, market conditions and regulatory uncertainty are two potential headwinds that may reduce or defer capital in its underground development project. In addition, the company is currently seeking an extension of its copper export licence which expired in February 2018.

Total mine production in **Chile** fell by seven tonnes due primarily to the suspension of mining and crushing activities at Maricunga in August 2016. Production from the rinsing of heap materials placed on the pads prior to the suspension of mining activities amounted to three tonnes, or 48% below the same period last year. Lower throughput was also noted at El Peñón, where output dropped by two tonnes following the implementation of an optimization plan in 2017.

We estimate that **Colombian** gold output fell by six tonnes due to a drop in illegal mine production. This was due to two factors. First, the strong increase in coca cultivation areas in the lead up to the government's peace deal with the Revolutionary Armed Forces of Colombia (FARC). According to the UN Office on Drug and Crime (UNODC), coca cultivation areas rose by 52% in 2016 driven by the agreement which prioritises crop-substitution and economic subsidies for farmers to move away from coca production. Some of these areas, which were under the direct control of the FARC, also benefited from adjacent gold mines that facilitated money laundering activities. Secondly, with the complete disarmament achieved by mid-2017, we believe the upward trend in coca cultivation extended into 2017 and consequently affected production from illegal mines. In addition, a government clampdown in the province of Chocó, a region rich in natural resources and focal point of the Colombian armed conflict, saw the seizure of over nine mines. Last year, 38 operations against illegal mining (up from 11 in 2016) resulted in the seizure of 45 illegal mines.

The theme continued in **Peru**, where output fell by six tonnes chiefly due to a government crackdown in La Pampa - a prolific illegal gold mining and trade area since the opening of the Transoceanic Highway in 2012. However, illegal mining routes proved resilient as noted by stronger flows to Bolivia year-on-year. In the country's formal sector, lower leach tonnes placed at Yanacocha resulted in a four tonne drop output, somewhat mitigated by fresh ounces from Buenaventura's Tambomayo gold mine. The operation reached commercial production in the third quarter of 2017 - one quarter behind schedule - due to bottleneck issues in the tailings filtration process. The company expects to produce almost four tonnes in 2018

LARGEST MINE ADDITIONS YOY

(tonnes)			Production	Change
Mine name	Country	2016	2017	yoy
1 Grasberg	Indonesia	33.0	48.3	+15.3
2 Merian	Suriname	3.2	16.0	+12.7
3 Olimpiada	Russia	25.4	31.3	+5.9
4 Bald Mountain	United States	4.0	8.8	+4.7
5 Long Canyon	United States	0.7	5.4	+4.7
6 Pyhäsalmi	Finland	5.6	9.4	+3.8
7 Gosowong	Indonesia	5.6	9.4	+3.8
8 Haile	United States	0.0	3.7	+3.7
9 Fosterville	Australia	4.7	8.2	+3.5
10 Ma'aden	Saudi Arabia	7.0	10.4	+3.4

Source: Company Reports

LARGEST MINE LOSSES YOY

(tonnes)			Production	Change
Mine name	Country	2016	2017	yoy
1 Cadia Hill	Australia	23.5	17.0	-6.6
2 Oyu Tolgoi	Mongolia	9.3	3.6	-5.8
3 Batu Hijau	Indonesia	24.9	20.0	-4.9
4 Chatree	Thailand	4.2	0.0	-4.2
5 Paracatu	Brazil	15.0	11.2	-3.8
6 Yanacocha	Peru	20.4	16.6	-3.7
7 Red Lake	Canada	10.1	6.5	-3.6
8 Bulyanhulu	Tanzania	9.0	5.5	-3.5
9 Hidden Valley	PNG	5.0	2.2	-2.8
10 Maricunga	Chile	5.5	2.8	-2.6

Source: Company Reports

WORLD GOLD MINE PRODUCTION

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Europe										
Russia	186.4	200.9	195.0	204.4	214.9	232.7	247.5	249.5	253.6	270.7
Turkey	11.4	14.5	16.6	24.1	29.6	33.5	31.0	27.5	26.0	26.1
Finland	1.7	3.8	5.6	6.4	8.9	8.6	7.6	8.2	8.8	9.0
Sweden	4.9	5.5	6.3	5.9	6.0	6.4	6.4	6.3	6.6	7.8
Bulgaria	2.8	3.3	2.5	3.4	4.3	4.6	5.4	5.4	4.7	5.5
Poland	0.8	0.8	0.8	0.7	0.7	1.1	2.6	2.7	3.5	3.6
Other	3.3	2.9	2.3	2.1	3.2	4.8	4.3	3.8	2.9	3.7
Total Europe	211.2	231.7	229.1	247.1	267.6	291.6	304.7	303.5	306.1	326.5
North America										
United States	233.6	221.4	229.7	233.5	232.4	229.6	208.7	216.2	222.0	230.0
Canada	95.0	96.0	103.5	107.8	107.8	133.6	152.5	162.5	165.0	175.8
Mexico	50.8	62.4	79.4	88.6	102.8	119.8	118.1	141.3	133.1	130.5
Total North America	379.4	379.9	412.5	429.9	443.1	483.0	479.3	519.9	520.1	536.3
South America										
Peru	195.5	201.4	184.8	189.6	184.4	187.7	173.0	177.9	168.5	162.3
Brazil	58.7	64.7	67.5	67.3	67.3	80.1	83.0	81.8	84.0	79.9
Argentina	40.3	48.8	63.5	59.1	54.6	50.1	59.7	63.8	57.9	61.0
Colombia	26.0	27.4	35.9	41.9	45.6	49.6	55.5	56.1	57.1	50.6
Chile	39.2	40.8	38.4	44.5	48.6	48.6	46.8	44.0	43.2	35.9
Dominican Republic	0.0	0.3	0.5	0.5	4.1	26.5	35.6	31.1	38.0	35.3
Suriname	17.9	20.4	20.5	20.2	20.1	18.6	18.2	17.0	20.5	33.4
Venezuela	24.3	24.8	24.9	25.5	21.8	22.9	23.2	24.2	24.8	25.4
Guyana	10.5	11.9	12.8	14.4	14.4	14.4	14.4	15.7	21.0	20.4
Ecuador	14.0	14.0	17.2	17.6	17.6	17.4	17.8	17.6	15.1	13.8
Nicaragua	2.9	2.6	4.9	6.3	6.9	8.7	8.8	8.0	8.7	7.7
Bolivia	8.4	7.2	6.4	6.5	6.4	6.1	6.3	6.1	6.3	6.4
French Guiana	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.8	2.7
Honduras	1.9	2.6	2.4	1.9	1.9	2.0	2.8	2.6	2.4	2.6
Guatemala	8.0	9.0	9.4	12.1	6.6	6.5	6.3	5.8	4.1	1.6
Other	3.5	3.9	4.4	4.8	5.2	4.3	3.2	3.1	2.3	2.4
Total South America	454.2	483.0	496.6	515.2	508.4	546.7	557.6	557.7	556.7	541.3
Asia										
China	292.0	324.0	350.9	371.0	411.1	432.2	478.2	454.1	453.5	426.1
Indonesia	135.9	204.5	184.1	165.1	131.0	152.7	158.4	176.3	174.9	154.3
Uzbekistan	72.2	70.5	71.0	71.4	73.3	77.4	81.0	83.2	82.9	84.9
Kazakhstan	22.0	22.5	29.9	36.7	40.0	42.6	46.1	48.2	49.8	55.1
Philippines	35.6	37.0	40.8	37.1	41.0	40.3	42.8	46.7	48.7	47.9
Kyrgyzstan	18.4	17.0	18.5	19.7	11.3	20.2	19.2	18.4	19.7	20.4
Mongolia	16.5	14.1	13.9	12.4	12.8	17.8	30.5	31.3	20.5	14.7
Saudi Arabia	4.0	5.1	4.5	4.6	4.7	4.5	5.2	5.6	7.4	10.8
North Korea	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Laos	4.7	5.4	5.5	4.4	6.7	7.2	5.6	5.7	7.0	6.3
Japan	6.9	7.7	8.5	8.7	7.2	6.4	7.1	7.7	6.5	6.1
Tajikistan	1.7	1.4	2.0	2.2	2.4	2.7	3.4	4.5	5.0	5.5
Armenia	0.5	1.4	1.6	2.1	2.1	3.5	4.7	4.4	4.7	4.9
Malaysia	3.8	4.2	5.2	5.0	5.3	5.1	4.5	4.2	3.6	3.0
Azerbaijan	-	0.4	2.1	1.8	1.6	1.6	2.9	3.2	2.9	2.6
Vietnam	2.7	3.1	3.4	3.7	3.9	4.1	2.6	2.4	2.4	2.4
Georgia	1.1	0.8	3.6	3.2	3.5	2.0	2.5	2.3	2.3	2.1
Myanmar	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Other	7.7	10.4	9.9	8.3	9.8	9.8	9.7	8.5	9.9	5.6
Total Asia	633.7	737.5	763.5	765.4	775.7	837.9	912.4	914.8	909.6	860.9

WORLD GOLD MINE PRODUCTION

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Africa										
South Africa	233.8	219.5	199.9	190.8	163.5	168.9	159.2	151.0	145.7	139.9
Ghana	80.4	90.3	92.4	91.0	95.7	107.4	107.4	95.1	94.1	101.7
Dem. Rep. of the Congo	7.2	10.0	17.0	22.0	26.1	25.3	40.0	45.7	60.4	60.1
Mali	47.0	49.1	43.9	43.5	50.3	48.2	47.4	49.0	49.8	52.2
Tanzania	35.6	40.9	44.6	49.6	49.1	46.6	45.8	46.8	49.7	49.1
Burkina Faso	6.9	13.8	25.3	34.1	31.3	35.0	38.5	38.0	40.9	49.1
Zimbabwe	8.9	9.8	16.3	19.0	19.5	19.6	18.8	22.0	21.8	23.3
Ivory Coast	5.3	8.6	7.3	13.4	14.0	13.6	18.0	22.2	22.6	22.7
Guinea	23.9	22.5	20.4	19.7	18.4	19.0	21.0	20.0	19.6	22.4
Egypt	0.0	0.0	4.7	6.3	8.2	11.1	11.8	13.7	17.1	16.9
Sudan	2.7	4.0	10.1	22.5	27.9	20.1	21.5	16.5	15.5	14.5
Ethiopia	3.8	5.5	6.6	11.5	12.0	12.0	12.0	12.0	12.0	12.0
Mauritania	6.8	8.4	9.1	8.7	8.2	10.0	10.1	9.3	7.6	9.6
Namibia	4.3	2.4	2.7	2.1	2.3	2.0	2.4	7.0	7.6	8.4
Senegal	0.1	5.2	4.5	4.3	6.8	6.5	6.7	5.8	6.8	7.4
Zambia	1.9	3.1	3.4	3.5	4.2	5.2	4.8	4.2	4.6	4.4
Other	17.6	16.7	18.6	31.0	28.3	20.7	16.6	17.3	18.9	20.2
Total Africa	486.2	509.7	526.8	572.9	565.9	571.3	582.0	575.6	594.9	613.6
Oceania & Other										
Australia	215.2	223.5	256.7	258.7	250.4	267.1	274.0	279.2	290.2	295.0
PNG	70.3	70.6	69.7	63.5	57.2	62.4	56.3	57.2	62.8	61.9
New Zealand	13.4	13.4	13.7	11.6	10.2	12.4	11.3	12.2	9.4	9.6
Fiji	1.1	1.1	2.1	1.6	1.6	1.4	1.3	1.4	1.5	1.3
Solomon Islands	0.1	0.1	0.1	1.7	2.0	2.0	0.8	0.3	0.1	0.1
Other	1.7	0.9	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total Oceania & Other	301.8	309.6	342.3	337.3	321.6	345.2	343.8	350.3	364.0	368.0
World Total	2,466.5	2,651.3	2,770.9	2,867.7	2,882.2	3,075.7	3,179.7	3,221.9	3,251.4	3,246.5

Source: GFMS, Thomson Reuters

Russia, which contributes 83% of European output, added 17 tonnes in 2017. This rise came despite a significant rouble appreciation (+13%), which hurt producers with weaker revenue growth relative to the cost of production. However, the rouble strengthening was fully offset by strong operational results at Polyus, where higher grades, improved mill performance and a lower power tariff in the Far Eastern Federal District allowed production to rise by 10% to 67 tonnes. The majority of the increase was seen at Olimpiada, the world's fifth largest primary gold mine, due to a 15% increase in processed grades. Looking ahead, we expect Polyus to show year-on-year gains on the back of a ramp-up at Natalka and consolidate its position as one of the world's top four producers by 2019. We expect the bracket in 2019 to be composed of Newmont, Barrick, Goldcorp and Polyus, with Barrick the only producer with lower ounces against 2017.

Production in the **United States** rose by eight tonnes supported by new project ramp-ups (Long Canyon and Haile) and higher grades at Barrick Nevada and Bald Mountain operations. Gains were partially countered by a two tonne drop at Barrick's Turquoise Ridge on lower grades and throughput at Twin Creek's mill. Ore mined at Turquoise Ridge is normally processed at Newmont's Twin Creeks' mill, however, a small tonnage of low grade material was processed at Barrick's Goldstrike operation after being rejected by Newmont.

Elsewhere, hyperinflation and the run-away parallel exchange rate in **Venezuela** continued to support illegal mining in the jungle state of Bolivar. In early 2016, the government passed an executive decree to open up the Orinoco Belt to mining activities to reinforce their grip around existing operations and replenish central bank coffers. According to reports, the zone contributed eight tonnes of gold last year, compared to less than one tonne in 2016. Further gains were posted in **Suriname**, where output jumped by 13 tonnes, or 63%, led by the first full year of production at Merian.

CORPORATE ACTIVITY IN 2017

In the most recent gold merger and acquisition activity, a number of strategic investments were made as companies remained bullish towards gold. Several of the larger deals in the precious and base metals sector concerning gold producing assets were registered in the Americas, with activity focused in United States, Argentina, and Chile. A total of 19 deals with a market valuation greater than US\$100 M were registered in 2017, of which two were newly formed joint ventures.

The biggest announced deal in the gold sector in 2017 came late in the year with the announcement of First Quantum Minerals' option to acquire 50% of the controversial Pebble copper-gold project for US\$1.5 Bn. The Pebble project, located in Alaska's Bristol Bay and currently owned by Northern Dynasty Minerals, found support from President Donald Trump given the deposit's vast resources of copper, gold, molybdenum and silver. Should the mine's environmental footprint be reduced, the Trump Administration will look to reverse the Obama-era Environmental Protection Agency (EPA) decision to prohibit all mining activity in the region. However, in late January 2018, the EPA suspended the process to remove those restrictions after the risks to Bristol Bay were deemed unacceptable.

In Argentina, meanwhile, Shandong Gold Mining acquired a 50% stake in Barrick's Veladero gold operation in an all-cash deal valued at US\$960 M. We estimate that in 2017, Veladero produced a total of 22 tonnes of silver, together with 20 tonnes of gold. The news came almost six months after an investor group, comprised of Shandong Gold Mining and Zijin Mining, was rumoured to be planning to acquire the mine. In addition, Barrick and Shandong will explore the joint development of the Pascua-Lama deposit.

Similarly, Goldcorp raised its interest in the Cerro Casale gold project in Chile to form a 50/50 joint venture with Barrick after buying Kinross' 25% stake in the property. The project has 361 tonnes of proven and probable reserves of gold according to Goldcorp. The deal, valued at an estimated US\$600 M, which includes a 100% interest in the Quebrada Seca project, will look to realise synergies within the Maricunga Gold Belt to develop the Cerro Casale and Caspiche gold deposits.

2017 TOP 10 GOLD PRODUCERS

Rank			Output (t)	
2017	2016		2016	2017
1	1	Barrick Gold	171.6	165.6
2	2	Newmont Mining ¹	163.3	163.8
3	3	AngloGold Ashanti	112.8	116.8
4	5	Kinross Gold ²	84.2	81.0
5	4	Goldcorp	89.4	79.9
6	7	Navoi MMC ²	75.5	77.0
7	6	Newcrest Mining	76.7	71.1
8	9	PJSC Polyus	61.2	67.2
9	8	Gold Fields ²	63.0	62.6
10	10	Agnico Eagle	51.7	53.3

¹ Includes production from Duketon until 10th March 2016, and Batu Hijau until 2nd November 2016; ² Estimate

Source: Company Reports; GFMS, Thomson Reuters

2018 MINE PRODUCTION OUTLOOK

Based on limited updated guidance, we expect mine production to post year-on-year gains in 2018 to a new record high of 3,265 tonnes. We expect Asian countries such as Indonesia, Mongolia and China to contribute to gains in the current year, accompanied by Russia, Australia and Canada. In addition, we estimate Panamanian mine production to rise by five tonnes led by fresh ounces from First Quantum Minerals' Cobre Panama project. By end-2017, development of the project had advanced to 70% completion with construction activities at the process plant currently underway. Similarly, following the commissioning of B2Gold's Ferkola operation in Q4 2017, we estimate that output in Mali will increase by five tonnes to a total of 57 tonnes. More broadly, there are relatively few new projects and ramp-ups expected to begin producing this year. These include: Tasiast in Mauritania, Cerro Moro in Argentina, Kibali in DRC, and Tambomayo in Peru. On the other hand, United States, Tanzania and South Africa are expected to show strong declines year-on-year.

PRODUCTION COSTS

Total Cash Costs (TCCs) net of by-product credits rose year-on-year in 2017 from \$649/oz to \$672/oz led by higher fuel costs, lower grades and mixed changes across producer currencies. Higher production costs were posted predominantly in South Africa, where despite an increase in processed grades, costs rose by 18% to \$1,010/oz. As a result, the global dollar gross margin contracted by 3% to \$585/oz. In tandem with this net change, the average All-In-Sustaining-Cost (AISC) posted another net increase, rising by \$41/oz to \$878/oz. Under this cost metric, we estimate that 7% of global production was underwater by end-December 2017.

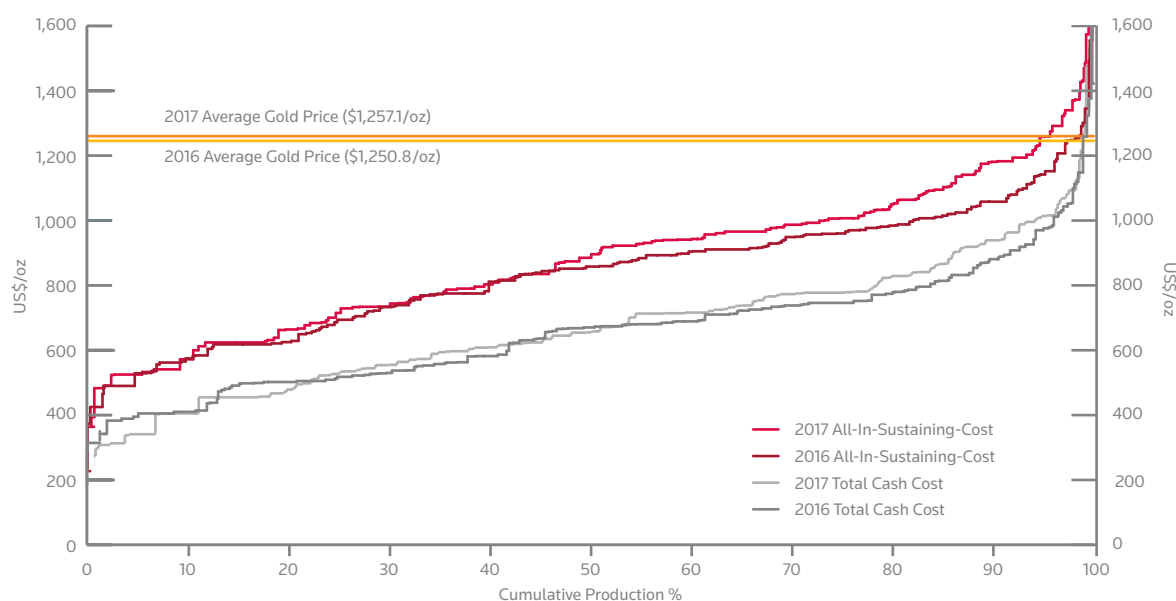
Amongst the operations with the highest production costs, TCCs at the Kloof Driefontein Complex rose by 29% to \$893/oz due to a 9% drop in processed grades and a stronger rand. The change was mainly driven by higher unit costs at the Driefontein operations, which saw production drop by 7% due to a higher proportion of lower grade ore processed. Higher fixed costs on lower output were also registered at Beatrix, where TCCs surged by 25% to \$1,017/oz due to lower throughput from the depletion of available surface reserves. The closure of Cooke 4 shaft in Q3 2016 resulted in a drop in production from the Cooke operations, and led to a \$357/oz increase in TCCs to \$1,476/oz after accounting for a weaker U.S. dollar, above inflation wage increases and increased electricity tariffs.

Tanzania continued to experience high cost inflation, with year-on-year total cash costs increasing by 3%, to \$608/oz. Costs rose at North Mara and Bulyanhulu due to lower capitalised development costs and lower output, though were partially offset by a build up in unsold ounces at Buzwagi. At the latter, higher grades also helped reduce costs as mining activities centred around the bottom of the pit. However, lower stripping costs and the optimisation of cyanide usage saw gains capped by a drop in copper sales. Of the top twenty largest producing countries, Brazil was the worst performing country, with total cash costs up by 20% due to losses at Tucano-Amapari. Total cash costs rose sharply in Peru, by 36%, where production declined once again on lower output at Yanacocha and Lagunas Norte.

COST OF PRODUCTION, TCC AND AISC

(US\$/oz)		2016	2017
North America	Total cash costs	639	651
	All-in Sustaining costs	804	843
South America	Total cash costs	588	618
	All-in Sustaining costs	777	825
United States	Total cash costs	598	591
	All-in Sustaining costs	732	751
Australia	Total cash costs	662	662
	All-in Sustaining costs	840	857
South Africa	Total cash costs	857	1,010
	All-in Sustaining costs	1,031	1,187
Other	Total cash costs	613	622
	All-in Sustaining costs	820	846
World	Total cash costs	649	672
	All-in Sustaining costs	837	878

Source: GFMS, Thomson Reuters



Source: Company Reports; GFMS, Thomson Reuters

PRODUCER HEDGING

The delta-adjusted hedge book contracted by 41 tonnes in 2017, a 16% decrease on the hedge book total at the end of 2016. The majority of producers included in the global hedge book reduced their hedge positions during the period, with de-hedging by 41 companies outweighing net hedging undertaken by 25 companies. As a result, the hedge book stood at a total of 211 t at end-2017.

Of the net de-hedgers, PJSC Polyus saw the largest hedge book reduction as the company exercised 25 t of barrier options, followed by Fresnillo plc and Evolution Mining with a combined 16 tonnes.

Australian-based companies accounted for 24% of the year's gross de-hedging, down from 37% in the previous year, with a total of 11 companies delivering into forward sales or collar structures, while nine others were net hedgers. Resolute Mining, Citigold, and Newcrest were amongst the largest net hedgers in Australia.

Turning to net hedging, the largest individual hedge book expansion, responsible for 22% of gross hedging, was attributable to Petropavlovsk, which increased its hedge position by 11 t using forward contracts. Petropavlovsk has been a key player in the hedging space since early 2013 when the board decided to hedge up to 50% of budgeted production to provide cash flow stability as the company continued with its capital investment programme. Over February and March of last year, the company added to its existing forward sales contracts due in 2017, and simultaneously hedged a portion of its 2018 and 2019 production. The last hedge was announced in late April, and ranks as the largest single hedge since 2013, spanning beyond the usual 12 to 18 month period they have been accustomed to cover. We expect Petropavlovsk's footprint in the global hedge book to gradually contract on a delta-adjusted basis as the group sees it appropriate to use a combination of forwards and less costly put options contracts to replace positions at higher gold prices.

At the end of 2017, the delivery schedule for 2018 amounted to 113 tonnes with approximately 32 tonnes due to expire in the first quarter. Prior to end-March, eight companies announced new hedging arrangements totalling nearly 20 tonnes. With hedge ratios dropping, gold in Australian dollars trending higher (currently above the 2016 average), we expect the first quarter print to show net hedging of almost 10 tonnes.

CORPORATE HEDGE BOOKS

(delta-hedging) Company	% of Gross Hedging	Change (tonnes)
Petropavlovsk PLC	22%	+11
Teranga Gold Corporation	12%	+6
Harmony Gold Mining	7%	+4
Resolute Mining Limited	7%	+4

Company	% of Gross De-hedging	(tonnes)
PJSC Polyus	27%	-25
Fresnillo plc.	10%	-9
Evolution Mining Limited	7%	-7
Minera Frisco, S.A.B. de C.V.	7%	-6

Note: Delta-adjusted volumes are calculated on the basis of published company data. As such disclosures are not exhaustive, the GFMS calculated position may not exactly correspond to the delta position reported by the company. In addition, GFMS values the contracts on a spot delta basis, whereas some companies report positions on a forward delta basis. This can lead to minor discrepancies between the calculated and reported delta-adjusted volumes. Where published data was unavailable, an estimate based on the scheduled expiry of contracts has been made.

Source: GFMS, Thomson Reuters

WATERFALL CHART: DELTA-ADJUSTED HEDGE BOOK SENSITIVITY



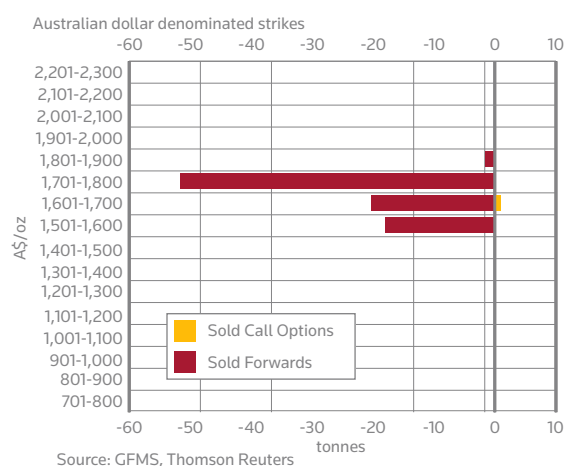
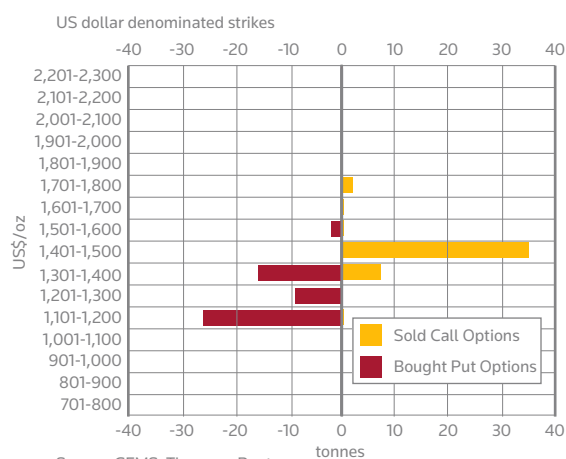
PRODUCER HEDGE BOOKS END-2017

(koz)			Net Nominal		Delta-adjusted
Company Totals	Forwards	Options	Total	Options	Total
PJSC Polyus	-	3,660	3,660	870	870
Newcrest Mining	611	-	611	-	611
Harmony Gold	442	-	442	-	442
Regis Resources	403	-	403	-	403
Petropavlovsk PLC	400	-	400	-	400
Evolution Mining	363	-	363	-	363
Northern Star Resources	271	-	271	-	271
OZ Minerals	267	-	267	-	267
Fresnillo plc.	-	1,425	1,425	252	252
Saracen Mineral Holdings	246	-	246	-	246
Teranga Gold Corporation	188	-	188	-	188
Atlantic Gold	182	-	182	-	182
Perseus Mining	151	-	151	-	151
Resolute Mining	144	-	144	-	144
Ramellius Resources	143	-	143	-	143
B2 Gold Corp	129	4	133	-	129
Silver Lake Resources	124	-	124	-	124
Acacia Mining	-	225	225	113	113
Rye Patch Gold	126	-	126	-	126
Citigold Corporation	100	-	100	-	100
OceanaGold	-	288	288	88	88
Westgold Resources Limited	86	-	86	-	86
Independence Group	78	-	78	-	78
Yamana Gold	-	264	264	68	68
Gold Fields Ltd	-	128	128	62	62
Roxgold	50	-	50	-	50
Sumitomo Metal Mining	-	348	348	57	57
Others	715	310	1,025	55	770

Source: GFMS, Thomson Reuters; Company Reports

*Where companies have not reported hedge positions, we have made reasonable estimates based on available data. Totals may not add due to rounding. Negative numbers indicate a long contract position.

DISTRIBUTION OF HEDGE COVER BY STRIKE PRICE



4. SUPPLY FROM ABOVE-GROUND STOCKS

- *Total above-ground gold bullion stocks, or much of the accumulated historical mine production, rose another 2% to 190,400 tonnes.*
- *In value terms, total above-ground stocks stood at \$7.9 Tr last year, a 15% rise compared to 2016, based on the respective year-end gold prices.*
- *Total inventory of fabricated products, excluding coin fabrication, nudged up 1%, or 1,400 tonnes, to 113,500 tonnes in 2017. This is equivalent to 60% of total above-ground stock.*
- *Jewellery above-ground stock holdings was the largest component of our above-ground stock series, representing 47%. It increased holdings by 1,000 tonnes to a total of 90,200 tonnes last year.*
- *Private sector bullion stocks recorded the largest rise in our above-ground stock series, increasing by 4% to reach 41,300 tonnes.*
- *Private investment and official sector holdings combined accounted for about 43% of total above-ground bullion stocks. Due to a continued rise in net official sector purchases, gold bullion held by central banks books rose 1% to 31,900 tonnes, or 17% of total.*

SCRAP SUPPLY

- *Global scrap supply fell 7% last year to 1,210 tonnes, a two-year low. A lack of a significantly higher gold price reduced consumers' willingness to scrap their gold valuables. Annual declines were recorded in most key regions, led by a 35% drop from the Indian Sub-Continent, but the Middle East, Europe, North America and East Asia were all weaker.*

Gold scrap supply fell 7% last year reaching 1,210 tonnes. It was the first annual decline since 2014. Falls were seen across the board with only a few exceptions as a stable dollar gold price and stronger domestic currencies kept gold prices contained, with the lower price failing to illicit tightly held stocks. At 55%, Asia accounts for the largest share of scrap supply. It was therefore unsurprising that the 12% reduction recorded in recycled gold flows from this region were a significant driver in pushing the global total down last year.

In **India**, scrap sales last year declined 33% year-on-year to 87.7 tonnes, a similar level to that recorded in 2015. A significant portion of the increased volume though was credited to the auction of collateralised jewellery; however its share from this segment fell acutely.

The **Chinese** gold price only advanced by slightly more than 3% in 2017 due to the yuan appreciation, with the average renminbi price just 2% higher year-on-year, and this modest increase did little to drive consumer liquidations. A key driver of the recycling volumes last year was the result of destocking from the supply chain, with the rationalisation of the Chinese jewellery market in recent years (see the country chapter for greater detail) encouraging slow moving pure 24-carat items to be recycled and exchanged for the fashion focussed 18-carat or 22-carat items. While scrap supply remained at elevated levels in 2017 our analysis suggests these flows slipped 4% year-on-year.

Japanese gold scrap flows surged again in 2017 as a result of the significant inflows of smuggled bullion into the country. Total scrap flows in Japan last year jumped almost 13% to a record high 70.4 tonnes. The sizeable increase was somewhat surprising given that in local terms the average yen gold price rose just 4% in 2017 to 4,535 yen per gramme. The modest price increase, and a lack of volatility for the bulk of the year, was unlikely to have been enough to stimulate significant consumer liquidation. What drove the high level of scrap receipts last year (and for a large part in 2016) was the unofficial flows of gold bullion entering Japan. This gold is smuggled into the country and after avoiding the 8% consumption tax payable on gold transactions is sold, often at a slight discount, into the supply chain.

Elsewhere in Asia, a stronger domestic currency in **Thailand** saw the local gold price retreat last year, driving down scrap receipts by 12% year-on-year to an 11-year low. Elsewhere, static prices for the most part limited recycling opportunities, with heavy falls also recorded in **Vietnam** and **Indonesia** last year. Scrap collection from the Middle East as a bloc dipped 9% over 2016 volumes.

European gold scrap flows eased by 4% last year to 326 tonnes, reversing most of the prior years increase. Crucial to this decline was a sharp drop in supply from what had been the largest source of supply in the region in 2015 and 2016, namely **Turkey**. The Turkish market saw a drop in flows of a fifth, to a three-year low, and occurred despite a rise of 22% in the annual average Turkish lira price due to the weakness in the currency. This result appears to be largely a function of a drop in near market stocks. Consequently the **Italian** market regained its former traditional place as the biggest source of European scrap, despite its own 2% drop last year. In fact, minor drops were the order of the day for most European markets, such as France and Germany, as euro denominated gold prices were unusually stable and hence failed to provide impetus for surges in flows. Two key exceptions existed to this overall trend, these were in **Russia** and the **United Kingdom**. In both these countries receipts rose healthily, by 5% and 10% respectively. In Russia this represented a partial rebound in flows as the rouble denominated gold price gradually rose on an intra-year basis following a slump in 2016. In the United Kingdom scrap flows rose to a five-year high, unquestionably aided by the highest annual average sterling gold price since that year. This followed a sharp devaluation of the currency in mid 2016. Flows were particularly strong in April and August last year as the price spiked above £1,000 per oz., however supply ebbed near year-end and so far in 2018 as prices have softened and become less volatile.

For the sixth successive year **North America** has generated less scrap than in the previous twelve months. Last year scrap flows dropped by 4% to a 12-year low of 86 tonnes of gold, albeit the pace of decline continued to slow. This was the slowest rate of decline since 2012. Clearly the continued improvement in the regions economy underpins this tough trend for refiners, as distress selling has faded away. Two other factors also contributed to the decline however. First is the continuing downtrend in returns from industrial scrap due to miniaturisation and thrifting in electronic application. Second, the US dollar gold price average last year was marginally lower than in the previous year but arguably just as important was the lower level of volatility as highlighted by the peak of 2016 not being matched. Receipts were particularly weak in 2017 in **Mexico**, with flows dropping by 11% as the dramatic upturn in flows in late 2016 when locally denominated prices surged completely unwinding and supply falling to a ten-year low.

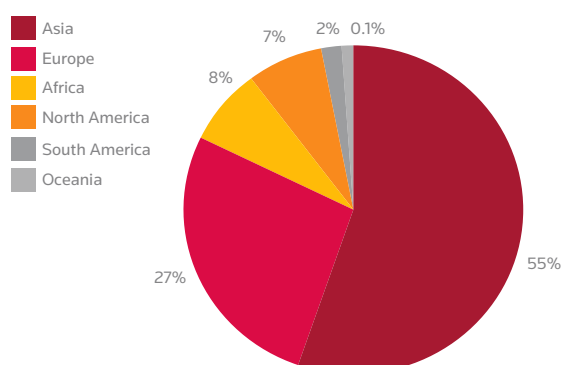
VISIBLE SUPPLY OF GOLD TO THE MARKET

	2015		2016		2017	
	tonnes	share	tonnes	share	tonnes	share
Mine Production	3,222	71%	3,251	71%	3,247	73%
Above-Ground Stocks	1,318	29%	1,338	29%	1,210	27%
- Scrap	1,180	-	1,306	-	1,210	-
- Hedging Supply	21	-	32	-	-	-
- ETF Inventory Drawdown	117	-	-	-	-	-
Total	4,540	-	4,590	-	4,457	-

Source: GFMS, Thomson Reuters

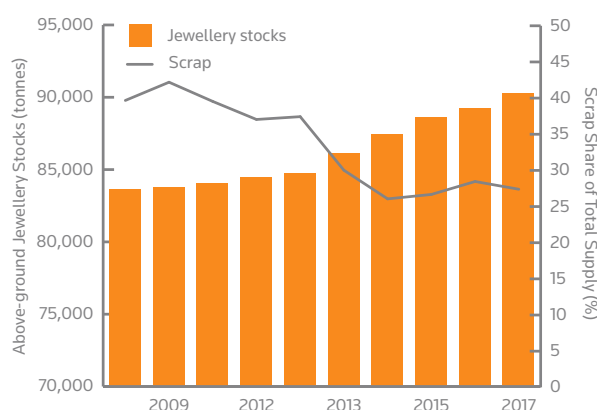
Note: This is "visible supply" and therefore for the purposes of this table, the withdrawal of metal via ETF growth or via de-hedging has been treated as zero.

SCRAP SUPPLY BY REGION 2017



Source: GFMS, Thomson Reuters

ABOVE-GROUND JEWELLERY STOCKS & RETURN OF SCRAP



Source: GFMS, Thomson Reuters

SUPPLY OF GOLD FROM FABRICATED OLD GOLD SCRAP

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Europe										
Italy	61.0	78.0	98.0	116.5	122.6	85.5	75.4	68.9	70.4	69.2
Turkey	199.0	217.2	122.0	78.0	72.3	56.3	41.4	72.4	77.3	61.7
United Kingdom	38.7	59.4	69.8	76.0	69.0	41.0	31.2	30.4	38.2	41.9
Russian	21.4	28.7	26.4	23.5	24.2	18.6	29.8	37.9	34.1	35.7
Germany	24.4	32.7	44.1	45.5	40.3	31.1	23.8	23.1	24.7	24.4
France	21.2	24.9	29.2	40.3	33.5	26.7	21.5	22.0	23.0	22.8
Spain	10.6	20.1	31.9	32.7	35.9	23.5	18.7	15.7	17.3	16.4
Portugal	1.1	1.5	8.6	15.5	16.0	11.2	9.1	9.4	9.7	9.4
Other Countries	39.3	55.3	66.6	76.1	73.3	53.3	45.1	43.7	44.8	44.2
Total Europe	416.7	517.8	496.6	504.1	487.1	347.1	296.1	323.4	339.5	325.8
North America										
United States	93.5	124.0	143.0	159.9	149.4	105.8	83.5	63.8	58.7	58.7
Mexico	28.1	40.8	45.6	47.6	54.1	37.2	27.2	24.5	27.1	24.1
Canada	6.9	9.2	11.1	10.8	9.8	6.7	5.7	5.1	3.5	3.3
Total North America	128.5	174.0	199.7	218.3	213.3	149.7	116.3	93.3	89.4	86.1
South America										
Brazil	7.5	11.4	16.1	22.2	24.6	16.0	9.8	6.8	7.4	7.8
Other	29.0	39.8	48.9	49.8	50.2	15.9	15.1	15.2	16.1	17.0
Total South America	36.5	51.2	65.0	72.0	74.8	31.9	24.9	22.0	23.6	24.8
Asia										
China	70.3	116.3	133.2	143.6	165.6	176.3	197.7	225.0	232.5	222.8
India	89.5	115.5	81.0	58.5	113.0	100.8	74.2	87.5	131.4	87.7
Japan	53.6	35.3	43.9	55.1	42.2	36.2	26.1	36.5	62.1	70.4
Indonesia	72.5	79.9	64.9	58.3	49.0	36.2	36.3	46.1	55.1	38.6
South Korea	56.3	57.1	48.8	47.2	37.8	26.1	27.7	29.4	31.0	32.4
UAE	59.4	70.6	110.0	71.4	73.4	57.0	51.4	43.5	42.2	27.4
Thailand	51.7	66.0	44.7	52.4	43.6	30.6	25.7	24.6	27.6	24.2
Vietnam	12.2	51.5	49.8	41.1	36.4	28.2	26.2	22.8	27.5	22.1
Iran	26.0	32.2	32.7	32.4	32.9	24.3	22.1	17.7	17.3	17.4
Saudi Arabia	69.4	57.3	44.1	37.1	33.5	23.6	20.8	16.8	16.0	16.1
Taiwan	33.6	34.9	27.5	19.5	15.4	12.0	11.1	10.7	12.7	14.2
Kazakhstan	2.5	3.1	3.0	3.1	3.2	2.9	7.9	11.5	14.1	14.1
Pakistan	35.5	53.9	50.4	42.7	47.2	37.2	28.8	22.5	24.0	11.7
Malaysia	18.4	19.3	22.2	19.2	16.7	13.3	12.4	10.9	10.4	9.5
Lebanon	6.2	15.1	19.7	14.9	12.7	10.8	9.7	8.9	7.9	8.5
Other	81.9	104.6	107.0	96.5	91.6	70.9	61.5	51.1	51.9	52.8
Total Asia	738.8	912.4	882.8	793.0	814.0	686.3	639.6	665.3	763.7	669.8
Africa										
Egypt	35.8	65.0	48.0	47.6	53.6	43.2	39.9	35.1	47.4	55.4
Morocco	6.4	9.7	9.3	12.0	11.3	9.4	9.0	8.8	9.3	9.2
Algeria	3.6	5.8	6.1	7.9	7.6	6.8	6.6	6.8	7.4	7.5
Other	19.3	25.6	28.4	31.3	28.6	21.0	19.8	19.5	20.9	20.0
Total Africa	65.0	106.1	91.8	98.8	101.0	80.4	75.2	70.1	85.0	92.1
Oceania										
Australia	2.0	3.1	6.8	12.0	10.2	7.6	6.7	5.5	5.3	11.0
Total Oceania	2.0	3.1	6.8	12.0	10.2	7.6	6.7	5.5	5.3	11.0
World Total	1,387.5	1,764.6	1,742.7	1,698.0	1,700.4	1,302.9	1,158.9	1,179.7	1,306.4	1,209.6
...of which:-										
Middle East*	449.8	531.1	453.8	352.3	341.4	263.6	224.7	226.3	238.5	217.2
East Asia*	386.0	479.9	454.2	451.9	425.0	372.6	377.6	419.1	473.8	449.4
CIS*	26.7	35.3	32.8	30.1	31.2	25.0	41.0	52.9	52.3	54.0
Indian Sub Continent*	132.5	176.9	138.3	107.7	166.5	143.3	107.4	112.4	157.9	102.1

Source: GFMS, Thomson Reuters

* The key regional bullion markets



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5. OFFICIAL SECTOR

- For the eighth consecutive year central banks provided a substantial source of demand in the gold market in 2017, with net official sector activity rising by 36% to 366 tonnes.
- The Central Bank of Turkey (CBRT) returned to purchasing gold for the first time last year since adopting the Reserve Option Mechanism policy in October 2011, purchasing 86 tonnes.

PURCHASES

For the sixth year in a row, the **Russian** Central Bank maintained its position as the largest purchaser of gold, with reported holdings increasing by 224 tonnes. While acquisitions were made in every month of the year, the pace of purchases varied markedly month-to-month, with fluctuations in the local gold price appearing largely responsible. Gold purchases ranged from 7.2 tonnes in April (gold's monthly average price rose by 60 roubles/oz month-on-month), to 34.6 tonnes in September (gold's monthly average price declined by 91 roubles/oz month-on-month). It is important to note however, the pace of Russian purchases at 18.6 tonnes per month, reached its highest level this century. Given western sanctions limiting the country's ability to export gold, this figure is partially due to a significant increase in domestic production and a continued desire to diversify its reserves away from US Treasuries.

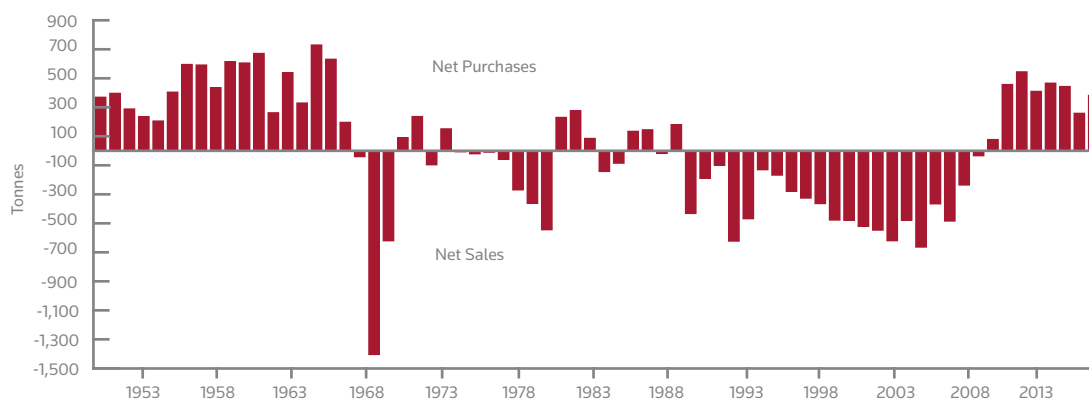
Another major acquirer of gold was **Turkey**, who purchased 86 tonnes of gold over the year. In prior years the CBRT had reported increases in gold holdings to the IMF, however, prior to May 2017 this merely reflected changes to commercial bank holdings held at CBRT. This reporting method was adopted as part of the Reserve Option Mechanism Policy which began in October 2011 which involves deposits at the CBRT by domestic banks and which does not reflect changes to official sector holdings. Since May 2017 the CBRT has purchased gold every month, following a period of economic and political instability and an apparent decision to diversify exchange holdings.

Meanwhile, buy-side interest was posted from other CIS countries, with **Kazakhstan** the third largest acquirer globally purchasing 43 tonnes, its highest level since 2014. This marked the seventh consecutive year of demand from the country. Elsewhere in the CIS, **Kyrgyz Republic** and **Tajikistan** bought 2.4 tonnes and 1 tonne respectively in 2017. The fourth largest purchaser, of 4.6 tonnes, was **Columbia** with acquisitions spread over the last quarter of the year. Other acquirers (above 1 tonne) included **Mongolia**, **Indonesia**, **Jordan** and **Thailand**.

SALES

In 2017, **gross official sector** sales declined by 55% or 70 tonnes to total 58 tonnes, the lowest level of sales since 2014. Over the past seven years, the average level of sales on a monthly basis (2011-2017) has, at 17 tonnes, stayed well below

HISTORICAL NET OFFICIAL SECTOR PURCHASES & SALES



Source: BIS; IMF; GFMS, Thomson Reuters

that of historic levels (2000-2010 sales at 138 tonnes), where western central banks started to liquidate some of their gold reserves (much of it accumulated during periods of the gold standard). Additionally, a significantly higher gold price over the recent decade has further supported the desire to hold gold in reserve.

Over the past year, the largest sales of gold came from **Venezuela**, marking the country's second consecutive year as the largest gross seller. Sales amounted to 25 tonnes; however, transactions over the first eleven months were split between small purchases and sales, it wasn't until the final month of the year that the scales decisively tipped, with a sale of 23 tonnes. Venezuela has long been in economic turmoil with soaring inflation, a weakening local currency and heavy foreign debt payments (further unsupported by low crude oil prices). In August of last year, financial sanctions set by the United States further limited the manoeuvrability of the country to transfer money through international banks and 2017 marks the fourth consecutive year of net sales for Venezuela. Meanwhile, in October last year, a swap agreement contract with Deutsche Bank (according to Reuters), involving \$1.2 bn in cash being exchanged for \$1.7 bn worth of gold in guarantee, was left to lapse.

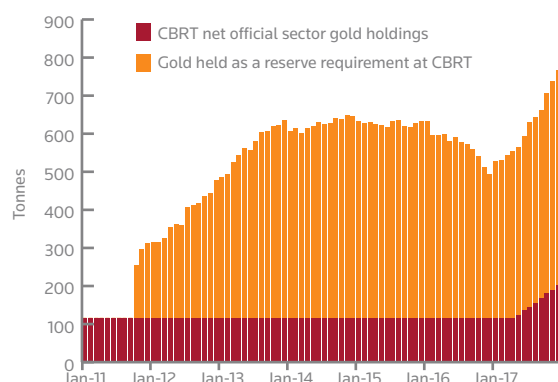
The second largest seller of gold was **Germany**, which sold four tonnes over the year, spread between five months, continuing (alongside the **Czech Republic** which sold less than one tonne), and their regular pattern of small scales sales as part of their retrospective official coin programmes. Elsewhere, sales were recorded from **Argentina** (two tonnes) with **Malaysia**, **Burundi** and **Mexico** all responsible for sales of less than one tonne each.

OUTLOOK

Repatriation of gold reserves by central banks has become a common theme over the last few years, with Germany, the second largest gold holder in world (with total reserves standing at 2,274 tonnes at the end of 2017), announcing in August last year that it had completed its four year repatriation operation (which was first announced in 2013). A total of 674 tonnes of gold were moved from the Banque de France and the Federal Reserve Bank of New York, back to its own vaults. The move was originally set to be completed by 2020. Adding to this theme, the Hungarian Nation Bank (MNB) announced in March this year that it intends to take back all its gold reserves (3 tonnes or 98,900 ounces) currently stored in the Bank of England.

Central bank transactions, or net official purchases for the remainder of the year, are forecast to further exceed levels set in 2017 at 450 tonnes. Gross sales levels, which have remained far below 2010 levels over the last seven years, are expected to remain weak. Gross purchases are likely to remain dominated by Russia, particularly in light of the threat of fresh sanctions from the West, as they continue to diversify away from the U.S. dollar. China, which continues to hold a very low level (just over 2%) of gold in its foreign exchange reserves (compared to most European countries which hold 60%-80% in gold) is similarly expected to build holdings (despite not reporting a change since October 2016).

TURKISH NET OFFICIAL SECTOR HOLDINGS



Source: GFMS, Thomson Reuters

GOLD AND OTHER RESERVES (END - 2017)

	Gold Reserves (tonnes)	Total Reserves (US\$ bn)*	% Held in Gold*
United States	8,134	452.8	75.2%
Germany	3,374	200.6	70.4%
IMF	2,814	n/a	n/a
Italy	2,452	151.6	67.7%
France	2,436	156.8	65.1%
China, P.R.: Mainland	1,843	3,236.0	2.4%
Russian Federation	1,839	433.1	17.8%
Switzerland	1,040	811.2	5.4%
Japan	765	1,264.3	2.5%
Turkey	565	107.8	21.9%

Source: IMF

*Gold valued using market prices

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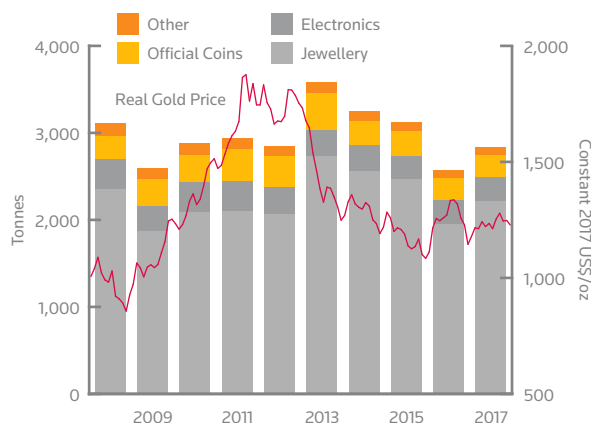
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6. FABRICATION DEMAND

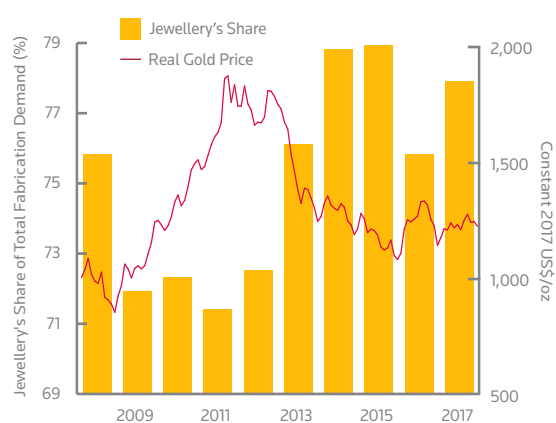
- Global fabrication rose 10% in 2017, the first increase since 2013, rising to an estimated 2,841 tonnes.
- The bulk of the increase was due to a 13% jump in jewellery fabrication last year, pulled higher by a strong recovery in Indian consumption. Elsewhere it was currency weakness that impacted demand as the average gold price in dollar terms was relatively stable.
- Jewellery fabrication, excluding the use of scrap, saw a higher increase, rising 25%, equivalent to an increase of 335 tonnes of new gold demand.
- Jewellery fabrication in East Asia declined for the fourth year in succession, retreating 2% year-on-year to a five-year low. A 3% drop in Chinese fabrication last year accounted for the bulk of the drop in volumes terms although several markets in the region were weaker on an annual basis.
- Indian jewellery fabrication rebounded strongly last year after a precipitous decline in 2016, increasing to the second highest level on record in 2017 to 718 tonnes, due in part to higher stocking ahead of the introduction of the Goods & Services Tax (GST).
- Jewellery fabrication in Europe and North America was broadly stable in 2017, rising 2% and 1% respectively, with the modest gain in the gold price, coupled with a stronger economic footing boosting consumption. Demand in the Middle East as a bloc returned to growth in 2017, rising by 4% to 270.9 tonnes, boosted in the main by stronger demand in Iran with several markets in the region recording sizeable falls.
- Global official coin minting declined by 10% year-on-year in 2017, marking the lowest level of fabrication since 2007.
- Industrial demand rose 4% in 2017, the first increase since 2010, to 379.6 tonnes, as a stronger global economic environment drove demand higher. The electronics sector was the stand out, rising 5% last year to a three year high and boosted by a rise in gold used in bonding wire production.
- Ongoing substitution losses pushed dental and medical demand to a record low 29.4 tonnes, a decline of 3% year-on-year, but the fall was the lowest this decade.
- Other industrial and decorative demand rose 3% in 2017 to 73.2 tonnes, driven higher predominately by a rise in offtake from Europe and Asian markets.

WORLD GOLD FABRICATION



Source: GFMS, Thomson Reuters

JEWELLERY'S SHARE OF TOTAL FABRICATION DEMAND



Source: GFMS, Thomson Reuters

WORLD GOLD FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Europe										
Turkey	236.7	111.3	109.0	136.3	114.2	178.1	155.8	111.9	100.5	121.7
Italy	186.7	134.6	126.3	103.3	95.9	92.3	96.0	94.3	88.3	88.7
Russian	76.0	57.5	61.0	66.2	72.2	74.3	70.1	51.8	46.9	46.4
Switzerland	58.2	37.5	40.8	47.9	47.8	46.0	44.3	40.9	34.4	33.0
Germany	49.1	38.1	40.8	38.8	36.4	36.8	36.3	32.3	31.6	31.5
United Kingdom	15.6	15.2	13.9	15.5	15.2	13.9	15.4	20.2	19.4	16.5
Austria	26.3	34.6	19.1	22.3	13.7	21.5	16.2	24.7	18.5	14.0
France	13.0	11.0	11.1	10.1	8.4	7.6	7.8	7.4	6.9	7.9
Spain	19.3	13.6	8.4	7.1	6.3	5.8	5.5	5.6	5.2	5.2
Greece	7.4	6.2	6.2	4.5	4.0	3.5	3.9	4.0	3.8	3.9
Poland	5.8	4.4	2.9	2.7	2.4	2.2	2.5	3.0	2.9	2.8
Netherlands	3.3	2.9	3.0	2.8	2.6	2.4	2.3	2.3	2.2	2.2
Portugal	3.6	2.9	2.3	1.7	1.4	1.4	1.7	1.5	1.4	1.5
Czech Republic	1.8	1.6	1.5	1.3	1.2	1.1	1.3	1.0	0.9	0.9
Belgium	1.1	1.0	0.9	0.9	0.9	0.8	0.9	0.9	0.8	0.8
Luxembourg	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Slovakia	0.1	0.1	0.2	0.2	0.2	0.0	0.0	0.1	0.1	0.1
Other Countries	11.0	8.4	8.0	7.4	6.9	7.1	7.5	7.3	7.0	6.8
Total Europe	717.1	483.1	457.4	470.8	431.4	496.4	467.7	409.2	371.0	383.9
North America										
United States	177.1	173.1	179.1	166.7	146.9	160.0	150.4	164.1	168.1	145.0
Canada	40.1	48.4	43.7	44.9	32.4	44.5	31.7	40.1	40.7	28.6
Mexico	23.0	18.9	18.2	13.2	13.2	7.7	8.5	9.1	8.9	9.4
Total North America	240.2	240.4	241.0	224.9	192.6	212.2	190.6	213.4	217.7	183.1
South America										
Brazil	25.0	24.9	29.5	27.7	29.5	32.9	34.0	24.2	22.9	23.3
Chile	3.2	2.8	2.9	2.2	2.2	2.4	2.4	2.3	2.3	2.4
Costa Rica	1.3	1.1	1.2	1.3	1.3	1.0	1.2	1.7	1.7	1.7
Other Countries	16.0	11.5	10.5	8.6	8.3	7.8	8.6	9.2	8.7	8.6
Total South America	45.5	40.3	44.0	39.7	41.3	44.2	46.3	37.4	35.6	36.0
Asia										
India	708.1	571.0	783.4	761.0	736.0	715.8	770.6	811.7	505.8	782.8
China	382.7	431.3	522.5	650.7	697.7	1,288.6	1,013.4	920.0	787.6	771.2
Japan	163.7	140.5	157.5	147.2	126.1	124.2	118.6	102.2	99.3	99.6
South Korea	107.8	90.6	92.6	88.5	86.1	83.9	81.5	79.2	77.8	79.8
UAE	46.3	35.9	32.9	31.9	29.7	37.8	41.6	45.1	45.0	55.7
Indonesia	66.2	50.8	44.7	48.1	52.8	60.9	53.3	49.7	44.9	45.0
Iran	54.1	60.2	72.4	84.1	86.7	93.3	61.6	56.1	35.1	42.1
Malaysia	56.3	45.0	44.8	41.1	38.7	48.6	44.7	39.4	33.8	30.2
Singapore	30.6	26.3	28.3	26.6	24.8	28.3	29.0	29.1	27.0	27.7
Saudi Arabia	85.0	53.5	46.6	36.8	32.5	41.4	37.3	40.9	31.6	26.5
Thailand	44.0	30.5	27.4	24.9	21.8	29.8	27.1	27.4	23.9	24.3
Taiwan	27.5	23.1	26.1	24.0	22.5	22.2	21.3	20.2	21.1	22.8
Pakistan	43.8	29.7	26.1	22.1	20.6	24.6	20.9	22.6	16.1	19.4
Vietnam	21.5	16.0	14.7	13.6	11.9	12.8	13.9	15.5	15.7	16.8
Sri Lanka	4.5	3.8	3.7	3.2	3.1	3.5	3.5	3.2	7.1	11.2
Kuwait	13.5	11.4	10.6	10.2	9.6	10.3	11.0	10.8	9.8	10.6
Jordan	8.7	9.6	9.9	9.2	8.6	9.5	11.4	12.5	10.5	10.0
Uzbekistan	10.9	8.8	10.4	11.4	10.9	11.1	11.2	9.7	8.7	8.9
Lebanon	8.8	6.5	6.0	6.6	7.8	10.7	10.3	13.8	9.0	8.6
Kazakhstan	10.9	8.8	10.4	11.4	10.9	11.1	10.5	8.4	7.4	6.0
Bahrain	8.7	6.5	5.7	5.1	4.6	5.8	5.6	5.8	5.1	5.5

WORLD GOLD FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Israel	8.7	7.2	6.3	5.5	5.1	5.9	6.9	6.0	5.4	5.0
Iraq	4.6	3.8	3.7	3.8	3.9	5.0	4.9	5.1	4.1	3.8
Oman	6.0	4.5	4.1	3.5	3.2	3.8	3.6	3.7	3.3	3.0
Myanmar	3.5	3.0	2.6	2.3	2.3	2.7	2.4	2.6	2.7	2.8
Nepal	4.5	3.5	3.5	3.3	3.5	3.9	3.0	2.9	2.1	2.4
Philippines	3.3	3.1	2.9	2.3	2.1	2.4	2.4	2.5	2.3	2.3
Bangladesh	5.8	4.6	4.2	3.8	4.4	4.5	6.0	4.5	3.7	2.1
Hong Kong	15.6	14.7	15.8	16.5	6.8	4.2	3.6	3.0	2.1	1.9
Qatar	2.7	2.1	1.9	1.6	1.7	2.1	1.9	2.1	1.9	1.7
Other Countries	24.5	17.8	16.6	12.5	9.4	8.6	6.7	5.9	5.1	4.9
Total Asia	1,982.6	1,723.6	2,038.0	2,113.0	2,085.6	2,717.1	2,439.5	2,361.4	1,854.6	2,134.2
Africa										
South Africa	16.4	28.3	24.6	27.4	27.2	30.8	24.9	30.7	37.7	51.7
Egypt	64.5	44.9	43.3	30.2	38.7	41.8	41.5	38.6	27.5	23.6
Morocco	9.5	7.6	7.0	6.8	6.6	6.5	6.8	6.8	6.2	6.4
Libya	4.8	3.9	3.5	2.4	2.3	2.5	2.7	2.3	2.0	2.5
Other Countries	11.5	9.9	9.4	9.2	8.8	9.2	9.5	9.3	8.6	8.7
Total Africa	106.6	94.7	87.7	76.0	83.5	90.8	85.3	87.7	82.0	92.8
Oceania										
Australia	14.0	14.6	12.0	13.9	13.3	19.6	14.8	13.3	13.9	11.2
Total Oceania	14.0	14.6	12.0	13.9	13.3	19.6	14.8	13.3	13.9	11.2
World Total	3,104.1	2,594.9	2,878.4	2,936.7	2,846.30	3,578.9	3,244.3	3,122.4	2,574.9	2,841.3
...of which:-										
East Asia*	925.9	877.5	982.4	1,088.0	1,095.7	1,711.0	1,413.5	1,292.9	1,140.1	1,126.2
Indian Sub-Continent*	766.7	612.5	820.9	793.4	767.6	752.3	803.9	844.9	534.7	817.9
Middle East*	563.8	369.2	363.8	373.3	351.6	449.5	395.8	354.1	290.2	319.0
CIS*	103.4	78.1	84.2	90.9	95.9	98.5	93.6	71.7	64.5	62.8

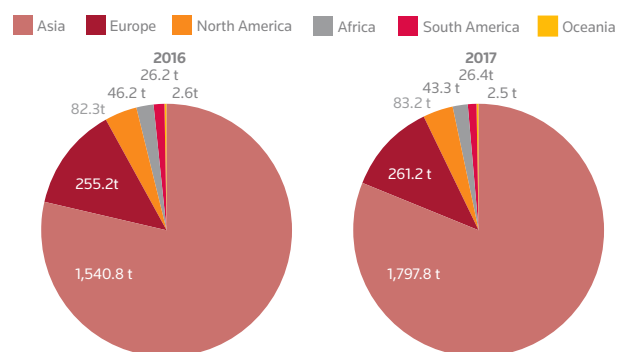
Source: GFMS, Thomson Reuters *The key regional bullion markets

CARAT JEWELLERY

INDIAN SUB-CONTINENT

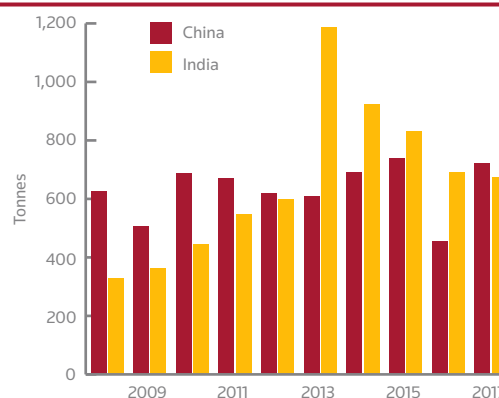
Post demonetisation there has been a significant capacity build up from the retailers in the organised segment. The demand from the retailers who have moved their business to formal transactions and have been expanding their presence this year has resulted in higher fabrication volumes. As a result we estimate that full-year fabrication demand

GLOBAL JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

CHINESE AND INDIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

GOLD FABRICATION IN INDUSTRIAL AND DEVELOPING COUNTRIES (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Industrial Countries*										
Jewellery Fabrication	486.9	372.1	357.9	329.7	303.2	309.1	315.8	313.7	295.8	292.5
Electronics	277.0	229.6	274.4	262.1	232.4	228.3	222.1	202.9	199.9	206.4
Dentistry	51.5	48.9	44.6	39.3	35.1	32.9	30.7	29.0	27.7	26.9
Other Industrial	45.9	38.6	41.0	39.3	37.6	37.1	37.3	36.8	35.5	36.6
Official Coin	107.9	147.2	116.6	116.9	87.6	116.5	81.5	107.9	108.2	63.2
Medals	1.8	1.8	1.9	3.3	2.3	2.4	2.4	2.3	2.3	2.3
Sub Total	970.9	838.1	836.3	790.6	698.3	726.3	689.8	692.6	669.3	627.8
Developing Countries*										
Jewellery Fabrication	1,868.5	1,494.3	1,725.4	1,769.4	1,762.7	2,416.9	2,243.4	2,149.9	1,657.5	1,921.9
Electronics	57.4	65.3	71.6	79.9	77.4	78.1	74.8	64.5	64.5	70.6
Dentistry	4.2	3.8	3.8	3.6	3.5	3.4	3.3	2.9	2.6	2.5
Other Industrial	42.6	40.2	44.5	46.0	46.2	48.1	42.6	39.5	35.5	36.7
Official Coin	94.6	97.9	112.1	164.5	148.6	205.9	116.9	103.2	96.8	120.5
Medals	68.0	57.1	86.5	84.5	111.1	101.5	75.0	71.1	49.8	62.4
Sub Total	2,135.2	1,758.6	2,043.9	2,147.8	2,149.5	2,854.0	2,555.8	2,431.0	1,906.7	2,214.6
World Total	3,106.1	2,596.7	2,880.1	2,938.3	2,847.8	3,580.2	3,245.6	3,123.6	2,576.0	2,842.4

Source: GFMS, Thomson Reuters

*Industrial and Developing countries consistent with IMF definitions

JEWELLERY CONSUMPTION * (INCLUDING SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
India	599.8	471.4	657.6	618.3	552.0	612.7	662.1	674.5	463.1	623.7
China	340.6	376.3	453.8	550.9	608.7	1,025.4	823.7	743.1	621.8	594.9
United States	188.1	150.3	121.4	111.5	104.2	122.0	128.2	135.3	136.0	144.7
Turkey	153.2	75.2	67.4	70.1	61.5	73.3	68.2	49.3	41.2	39.4
UAE	100.0	74.6	71.6	62.1	55.5	68.6	59.9	55.3	46.2	52.1
Iran	45.8	39.9	42.3	41.3	43.4	47.9	35.7	35.4	39.7	44.9
South Korea	53.2	47.6	43.4	43.1	44.3	42.1	42.2	41.8	41.3	40.4
Hong Kong	17.0	16.4	20.6	28.4	26.3	73.7	56.9	47.3	37.2	40.1
Indonesia	59.9	45.0	37.8	42.2	46.7	53.7	47.7	40.1	34.2	36.2
Russian Federation	92.4	56.7	60.1	64.7	69.6	73.3	70.6	34.1	30.2	34.0
Saudi Arabia	110.9	81.8	71.6	55.7	47.1	59.0	52.8	57.5	38.1	29.0
Egypt	74.3	56.7	53.4	33.8	39.7	45.1	46.9	40.9	27.9	23.2
Kuwait	23.6	19.1	18.1	16.9	16.1	21.2	24.9	23.1	20.1	22.6
United Kingdom	37.2	31.8	27.3	22.6	21.4	23.4	27.6	27.4	25.2	21.6
Bangladesh	5.8	4.6	4.2	12.3	15.2	15.6	16.2	16.5	18.1	19.8
Israel	28.1	26.6	25.7	21.9	21.5	25.3	23.3	24.8	20.2	19.8
Japan	31.2	22.3	21.3	16.6	16.7	21.4	20.0	19.7	19.8	19.1
Italy	49.1	41.4	34.9	27.6	22.3	20.2	18.8	18.1	17.6	17.2
Vietnam	21.5	16.4	15.6	14.2	12.6	13.5	14.2	15.8	16.3	17.1
Canada	22.3	18.6	17.5	16.3	15.7	16.3	16.7	16.9	16.2	15.4

Source: GFMS, Thomson Reuters

*Fine gold content of all new jewellery sold at the retail level (excluding the exchange of old for new jewellery), calculated by taking jewellery fabrication, plus imports less exports and adjusting for retail stock movements.

increased by 58% last year, while consumption increased at a relatively slower pace of 35%. That said, 2016 demand was the lowest in more than a decade, and thus 2017 fabrication volumes are only the second highest in our series. The growth in the formal business has been strong enough that some of the larger retail stores, with the focus of increasing per store sales, have offered lucrative schemes to attract more consumers but that has been at the cost of a loss in business for small and mid-sized retailers. Also this growth has been financed through the formal channel and the informal cash market crumbled in the first half of 2017. Indeed, the share of jewellery retailers in the formal market is likely to have crossed 50% as against one-third in 2016.

INDIAN JEWELLERY FABRICATION AND CONSUMPTION

(tonnes)	Q1-17	Q2-17	Q3-17	Q4-17
Fabrication	173.5	194.6	158.0	192.0
Consumption	113.6	185.4	133.9	190.8
Average Price (Rs./10g)	29,110	28,924	29,113	29,452

Source: GFMS, Thomson Reuters

EAST ASIA

Jewellery fabrication in East Asia dipped just 2% last year to 865.5 tonnes, the fourth consecutive decline and the lowest level since 2012. A 3% decline in Chinese fabrication accounted for the bulk of the decline as the market continues to face structural changes with greater emphasis towards carat jewellery which is driving down fine gold consumption. It should be noted though that the fall last year was a vast improvement on recent years and suggests the Chinese market has now broadly stabilised. A stronger domestic currency in Thailand delivered a drop in the average gold price last year and this helped deliver a modest gain in both consumption and fabrication volumes last year. Vietnam was also on the winner list, rising for the fifth consecutive year as they lack of available gold investment products has seen consumers turn to 24-carat jewellery items as a means of storing wealth. Elsewhere, Singapore, Indonesia, and Malaysia were negatively impacted by a drop in export demand, the latter declining 11% last year. Competition from platinum accounted for the 2% fall in Japanese fabrication last year.

EUROPE

After two consecutive years of fresh all time lows for European jewellery fabrication, last year saw a modest recovery as offtake grew by 2%. That said, fabrication was still the second lowest on record. Central to this improved performance was undoubtedly the widely spread improved economic performance across the continent in general and higher consumer confidence in particular. The star performer last year was Russia, although Turkey also grew strongly, which increased by 7%, as the rouble price eased and the economy started to stabilise but even after this rise, fabrication was still a third below the 2014 level. Across much of western Europe, including Germany, France and Italy, the long-term downtrend was halted although gains were patchy at best. The only significant loser in 2017 was the UK, where persistently higher sterling gold prices following a marked devaluation in mid-2016 caused a 18% drop in fabrication.

NORTH AMERICA

Jewellery fabrication in North America crept up 1% to 83 tonnes in 2017. Last year, the jewellery sector in the United States continued to improve with revenues rising and fewer store closures. The bridal sector has continued to grow and seen a rapid rise in demand for synthetic diamonds too. Despite the jewellery sector generally competing with fancy electric gadgets and exotic holiday destinations, retailers have adopted to the new age by having a stronger presence online and providing more customised options. Jewellery consumption rose 6% to 145 tonnes. Almost half of that demand was served by imports, which for the first time since 2008 were higher than domestic fabrication.

CARAT JEWELLERY FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Europe										
Turkey	183.2	80.0	73.0	77.0	73.8	87.1	114.8	91.6	77.6	83.2
Italy	172.6	123.3	116.0	93.8	86.2	82.6	86.2	84.9	79.3	79.7
Russian	53.2	34.9	39.4	45.1	49.2	51.9	49.8	33.3	29.5	33.0
Switzerland	35.0	20.1	21.1	29.4	31.1	30.1	28.7	25.4	19.3	17.4
Germany	19.0	14.8	15.1	15.4	14.7	14.7	14.7	14.0	13.3	13.2
United Kingdom	10.0	9.2	8.2	6.9	6.7	7.3	8.9	9.0	8.8	7.2
France	12.0	10.1	10.2	9.2	7.6	6.5	6.3	6.0	5.8	5.8
Spain	17.6	12.3	7.4	6.2	5.4	4.9	4.6	4.7	4.4	4.4
Greece	7.0	5.8	5.8	4.1	3.7	3.5	3.9	4.0	3.8	3.9
Poland	5.4	3.7	2.6	2.3	2.0	1.8	2.1	2.7	2.5	2.6
Portugal	3.3	2.8	2.2	1.6	1.3	1.3	1.5	1.4	1.3	1.4
Netherlands	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	0.9	1.0
Other Countries	13.4	10.4	9.6	8.9	8.3	8.3	8.9	8.9	8.6	8.4
Total Europe	532.7	328.3	311.6	300.9	290.9	301.1	331.4	286.8	255.2	261.1
North America										
United States	77.0	63.0	66.0	60.3	53.7	61.4	63.8	66.8	66.1	66.9
Canada	12.1	9.8	9.3	8.7	8.2	8.7	9.3	10.1	9.7	9.6
Mexico	18.9	17.3	14.4	11.5	10.6	5.1	6.3	6.5	6.5	6.6
Total North America	108.0	90.1	89.7	80.5	72.5	75.2	79.3	83.4	82.4	83.1
South America										
Brazil	19.2	17.7	22.6	19.4	19.3	21.6	25.1	16.0	14.7	14.8
Chile	3.2	2.8	2.9	2.2	2.2	2.4	2.4	2.3	2.3	2.4
Costa Rica	1.3	1.1	1.2	1.3	1.3	1.0	1.2	1.7	1.7	1.7
Dominican Republic	4.3	2.8	2.5	1.9	1.8	1.2	1.5	1.8	1.7	1.7
Colombia	1.4	1.2	1.1	1.2	1.1	1.1	1.3	1.5	1.5	1.5
Other Countries	9.5	6.5	5.9	4.4	4.2	4.2	4.5	4.7	4.3	4.2
Total South America	38.8	32.1	36.1	30.3	29.8	31.5	36.1	27.9	26.1	26.4
Asia										
India	623.2	503.4	685.0	667.0	618.2	607.4	690.0	736.2	454.4	718.1
China	329.6	363.6	444.3	547.4	598.8	1,188.3	923.2	832.6	691.4	673.9
UAE	44.6	34.0	31.0	29.8	26.9	34.4	38.7	41.5	41.7	53.1
Indonesia	64.8	49.6	43.4	46.8	51.4	59.5	51.9	48.2	43.5	43.5
South Korea	56.0	48.0	43.8	43.2	42.6	41.7	41.4	41.0	40.7	40.4
Iran	35.7	31.0	32.8	31.8	31.7	35.3	28.0	29.1	32.6	35.8
Malaysia	56.2	45.0	44.8	41.1	38.7	48.6	44.7	39.4	33.8	30.2
Saudi Arabia	85.0	53.5	46.6	36.8	32.5	41.4	37.3	40.9	31.6	26.5
Thailand	41.2	28.0	24.7	22.2	19.1	27.0	24.4	24.6	21.1	21.5
Pakistan	43.8	29.7	26.1	22.1	20.6	24.6	20.9	22.6	16.1	19.4
Vietnam	21.5	16.0	14.7	13.6	11.9	12.8	13.9	15.5	15.7	16.8
Singapore	10.2	7.9	8.9	9.7	10.4	15.0	15.9	17.6	16.0	15.9
Japan	17.5	14.4	14.3	12.9	13.3	14.5	13.3	13.0	13.0	12.7
Sri Lanka	4.5	3.8	3.7	3.2	3.1	3.5	3.5	3.2	7.1	11.2
Kuwait	13.5	11.4	10.6	10.2	9.6	10.3	11.0	10.8	9.8	10.6
Jordan	8.7	9.6	9.9	9.2	8.6	9.5	11.4	12.5	10.5	10.0
Lebanon	8.8	6.5	6.0	6.6	7.8	10.7	10.3	13.8	9.0	8.6
Uzbekistan	9.6	7.6	9.2	10.2	9.7	9.9	10.1	8.6	7.8	8.0
Bahrain	8.7	6.5	5.7	5.1	4.6	5.8	5.6	5.8	5.1	5.5
Kazakhstan	9.6	7.6	9.2	10.2	9.7	9.9	9.3	7.4	6.5	5.1
Israel	8.1	6.6	5.7	4.9	4.5	5.3	6.5	5.6	5.0	4.8
Iraq	4.6	3.8	3.7	3.8	3.9	5.0	4.9	5.1	4.1	3.8
Taiwan	9.1	5.8	5.3	4.6	4.6	4.9	4.5	4.0	3.4	3.4
Oman	6.0	4.5	4.1	3.5	3.2	3.8	3.6	3.7	3.3	3.0

CARAT JEWELLERY FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Myanmar	3.5	3.0	2.6	2.3	2.3	2.7	2.4	2.6	2.7	2.8
Nepal	4.5	3.5	3.5	3.3	3.5	3.9	3.0	2.9	2.1	2.4
Philippines	3.3	3.1	2.9	2.3	2.1	2.4	2.4	2.5	2.3	2.3
Bangladesh	5.8	4.6	4.2	3.8	4.4	4.5	6.0	4.5	3.7	2.1
Qatar	2.7	2.1	1.9	1.6	1.7	2.1	1.9	2.1	1.9	1.7
Armenia	5.6	3.1	2.5	1.9	1.9	2.0	1.9	1.8	1.5	1.5
Syria	15.0	11.4	11.1	7.7	4.8	3.7	2.4	2.0	1.6	1.4
Other Countries	15.6	14.3	14.5	15.0	5.5	3.2	2.8	2.5	2.2	2.1
Total Asia	1,576.4	1,342.1	1,576.3	1,633.8	1,611.4	2,253.2	2,046.8	2,003.4	1,540.8	1,798.0
Africa										
Egypt	62.4	44.0	42.1	28.7	37.5	40.7	40.6	37.8	26.9	23.0
Morocco	9.5	7.6	7.0	6.8	6.6	6.5	6.8	6.8	6.2	6.4
South Africa	7.4	5.1	4.5	3.7	3.5	3.3	3.4	3.0	2.5	2.7
Libya	4.8	3.9	3.5	2.4	2.3	2.5	2.7	2.3	2.0	2.5
Algeria	3.1	2.5	2.4	2.1	2.1	2.3	2.3	2.2	2.0	2.1
Tunisia	1.8	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.5	1.4
Other Countries	6.7	5.9	5.5	5.4	5.2	5.4	5.6	5.5	5.1	5.2
Total Africa	95.5	70.5	66.5	50.7	58.5	62.1	62.9	59.2	46.2	43.3
Oceania										
Australia	4.0	3.2	3.2	2.9	2.8	2.9	2.7	2.8	2.6	2.5
Total Oceania	4.0	3.2	3.2	2.9	2.8	2.9	2.7	2.8	2.6	2.5
World Total	2,355.4	1,866.4	2,083.2	2,099.0	2,065.9	2,726.0	2,559.2	2,463.6	1,953.3	2,214.4
...of which:-										
East Asia*	628.5	598.3	664.2	761.0	800.7	1,420.5	1,140.7	1,043.5	885.8	865.6
Indian Sub-Continent*	681.8	544.9	722.6	699.4	649.8	643.9	723.4	769.4	483.3	753.2
Middle East*	486.9	304.7	283.9	256.8	251.0	294.8	316.8	302.1	260.5	270.9
CIS*	78.0	53.1	60.2	67.4	70.4	73.7	71.1	51.1	45.2	47.6

Source: GFMS, Thomson Reuters *: The key regional bullion markets

MIDDLE EAST

Jewellery fabrication across the Middle East recorded a 4% annual increase in 2017 to an estimated 270.9 tonnes, the first increase since 2014. While the bloc as whole returned to growth last year the performance was far from uniform with several markets in the region falling to multi-year lows, influenced mainly by economic pressures that impacted consumer spending. Firstly to the winners, and there were several last year, with the UAE as the beating heart of the region, jumping 27% in 2017 boosted by a final quarter surge ahead of the introduction of the Good & Services Tax (GST) which was introduced at the start of this year. Prior to this late flourish; fabrication demand in the main had been strong as the introduction of a 5% import tariff on jewellery imports in early 2017 generated an increase in domestic fabrication. Jewellery fabrication in Iran jumped 10% last year, the second consecutive double-digit increase, due in part an improving economy but also greater stability following Rouhani's election win. Briefly other markets that saw growth, included Kuwait and Bahrain, with domestic offtake boosted by the increased costs in the UAE associated with the import tariff.

On the other side of the ledger there were a number of markets that declined last year, most notably Saudi Arabia which succumbed to a weaker economy, falling 16% last year to a record low. A similar pattern emerged in Egypt with offtake there sliding 14% year-on-year. The acute devaluation of the Egyptian pound in late 2016 has pushed local gold price out of reach for many and this is negatively impacting consumption volumes. Elsewhere, Iraq, Oman, and Jordan were also moderately weaker in 2017.

CARAT JEWELLERY FABRICATION (EXCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Europe										
Italy	111.6	90.3	70.0	49.8	46.2	58.6	66.2	66.8	60.9	61.5
Turkey	100.2	24.8	18.5	29.0	30.8	51.4	88.5	45.7	29.7	46.1
Switzerland	35.0	20.1	21.1	29.4	31.1	30.1	28.7	25.4	19.3	17.4
Russian	43.2	21.2	27.4	34.6	38.2	43.9	31.9	8.9	9.1	11.7
Germany	13.3	9.8	10.0	10.4	9.7	11.6	12.7	12.0	11.2	11.1
France	10.0	8.1	7.7	6.2	4.6	4.5	5.0	4.6	4.3	4.3
United Kingdom	4.4	4.8	3.4	2.4	1.7	4.3	6.8	6.9	5.9	3.9
Greece	5.1	2.8	2.5	0.8	0.6	2.1	2.8	2.8	2.5	2.7
Spain	11.1	3.7	0.5	0.5	0.2	1.9	2.3	2.7	2.1	2.3
Poland	2.8	1.5	0.2	0.1	0.5	0.7	1.3	1.8	1.5	1.6
Netherlands	0.9	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.9
Other Countries	8.8	5.2	2.6	1.1	0.6	4.3	6.2	6.2	5.8	5.7
Total Europe	346.3	193.0	164.6	165.0	164.9	214.1	253.1	184.6	153.3	169.3
North America										
United States	57.0	41.0	39.5	34.4	27.3	33.4	35.3	40.0	41.5	42.5
Canada	7.6	5.3	4.6	4.2	4.6	5.3	6.3	7.1	7.9	7.9
Mexico	7.8	4.5	1.3	0.4	2.0	4.7	4.8	4.5	4.3	4.5
Total North America	72.4	50.8	45.4	39.0	33.9	43.4	46.4	51.6	53.7	54.9
South America										
Brazil	12.6	8.1	9.3	6.7	6.5	6.4	16.2	10.0	8.0	7.8
Chile	2.3	2.1	2.1	1.3	1.3	1.6	1.7	1.5	1.4	1.4
Other Countries	5.3	2.8	1.9	2.1	1.8	2.9	3.9	5.1	4.4	4.2
Total South America	20.2	13.0	13.3	10.0	9.7	11.0	21.7	16.5	13.8	13.5
Asia										
India	533.7	387.9	604.0	608.5	505.2	506.6	615.8	648.7	323.1	630.4
China	264.9	262.7	334.6	438.4	468.1	1048.4	762.6	643.9	494.5	484.8
UAE	32.0	19.3	9.4	14.7	15.2	24.6	29.6	33.7	33.9	49.0
Indonesia	33.5	20.8	20.6	24.5	33.9	46.8	39.8	35.0	28.3	29.3
Iran	15.3	11.7	15.0	14.3	15.7	23.0	16.8	19.8	22.5	25.8
Malaysia	48.6	36.0	36.3	33.9	32.3	43.0	39.6	35.0	29.4	25.7
South Korea	25.2	7.3	10.3	13.1	18.9	26.6	25.4	23.8	22.2	21.9
Saudi Arabia	38.8	22.4	21.1	14.5	12.5	27.6	24.6	31.0	22.0	17.0
Thailand	24.7	11.4	11.5	9.7	8.8	20.7	18.8	18.7	13.9	15.7
Singapore	5.8	3.4	5.0	5.5	6.9	12.8	13.8	15.8	13.9	13.7
Vietnam	13.0	4.6	4.5	6.8	6.0	7.7	9.1	11.0	10.2	12.1
Pakistan	14.8	3.9	6.3	6.0	3.8	11.7	6.9	9.8	1.9	11.0
Sri Lanka	1.5	1.1	1.3	0.9	0.9	1.6	2.1	2.4	6.4	10.3
Kuwait	8.1	6.9	7.0	7.1	7.1	8.5	9.3	9.3	8.3	9.2
Jordan	7.0	8.7	8.5	7.8	7.2	8.5	10.2	11.6	9.2	8.6
Lebanon	7.2	4.5	4.2	5.3	6.7	8.6	8.2	12.1	7.7	7.1
Uzbekistan	8.3	5.9	7.6	8.7	8.1	8.5	8.8	7.1	6.1	6.3
Bahrain	5.5	3.0	2.8	2.5	2.5	4.2	4.1	4.5	3.9	4.2
Kazakhstan	8.3	5.9	7.6	8.7	8.1	8.5	8.0	5.4	4.0	2.6
Israel	2.2	1.7	1.0	0.9	1.0	2.6	3.6	3.3	2.8	2.5
Taiwan	2.9	1.1	1.2	1.5	2.7	3.6	3.5	3.2	2.5	2.4
Myanmar	2.4	1.8	1.6	1.4	1.5	2.1	1.9	2.1	2.1	2.2
Iraq	0.2	0.0	0.2	0.7	1.3	3.2	3.2	3.7	2.5	2.2
Oman	2.8	1.8	1.6	1.5	1.4	2.4	2.4	2.7	2.1	1.7
Philippines	1.8	1.6	1.6	1.0	0.9	1.5	1.5	1.7	1.5	1.4
Nepal	2.8	1.6	1.7	1.7	2.2	2.8	1.8	2.3	1.2	1.4
Other Countries	28.7	19.1	17.1	19.8	8.6	13.0	11.1	9.3	7.6	5.3
Total Asia	1,139.8	855.9	1,143.4	1,259.4	1,187.1	1,878.7	1,682.3	1,606.5	1,083.4	1,403.6

CARAT JEWELLERY FABRICATION (EXCLUDING THE USE OF SCRAP)

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Africa										
Egypt	28.4	6.5	15.1	3.9	5.1	17.2	19.4	19.3	7.7	5.1
South Africa	6.0	3.8	3.2	2.1	2.0	2.2	2.4	2.0	1.3	1.6
Other Countries	11.4	5.8	6.1	4.8	4.7	6.6	7.9	7.5	5.4	6.3
Total Africa	45.8	16.1	24.4	10.8	11.8	26.0	29.7	28.8	14.3	13.0
Oceania										
Australia	3.2	1.9	1.5	0.5	0.5	1.4	1.0	1.9	0.7	0.3
Total Oceania	3.2	1.9	1.5	0.5	0.5	1.4	1.0	1.9	0.7	0.3
World Total	1,627.6	1,130.5	1,392.4	1,484.8	1,407.7	2,174.5	2,034.2	1,890.0	1,319.2	1,654.6
...of which:-										
Indian Sub-Continent*	555.7	396.0	614.8	618.3	513.7	524.9	630.8	666.7	335.2	654.3
East Asia*	434.4	359.4	434.5	549.5	583.6	1,220.7	919.9	792.9	621.0	610.9
Middle East*	256.5	117.3	110.4	105.7	108.2	183.1	221.3	198.0	153.6	179.8
CIS*	64.9	35.7	44.6	53.3	55.7	62.4	50.1	22.8	20.0	21.5

Source: GFMS, Thomson Reuters; *The key regional bullion markets

INDUSTRIAL DEMAND

- Gold demand for industrial and dental applications rose 4% in 2017, the first increase since 2010, to 379.6 tonnes, as a stronger global economic environment drove demand higher.

- Gold demand in the electronics sector benefitted from a surge in semi-conductor demand, with gold bonding wire production increasing for the first since 2010.

- Global semi-conductor sales surged 21% in 2017, supported by a jump in demand for memory devices and sensors. Demand from the Americas surged 35% last year though all markets recorded healthy gains.

- Elevated gold prices, societal change, and substitution-led losses drove dental demand to a record low, sliding 3% to 29.4 tonnes.

ELECTRONICS

Gold demand in the electronics sector, which constitutes the bulk of total demand for industrial and dental applications (73% as of 2017) continued the recovery phase that developed in the final quarter of 2016 to record a 5% annual increase last year to an estimated 276.9 tonnes, a three-year high. The healthy increase marked the first annual rise from this sector since 2010 having been impacted for much of this last decade by a sluggish global economy combined with substitution and miniaturisation in industrial practice. More affordable alternatives, primarily copper and palladium-copper and increasingly silver and aluminium, are being used in a wider range of mainstream applications and have continued to erode the market share of gold used in bonding wire production.

Last year may well be a turning point for the electronics market, as a more robust economic footing globally and significant growth from a myriad of applications boosted demand for semi-conductor chip fabrication, an essential component for the operation of all modern electronic devices. As mentioned above, gold used to play a significant role in the fabrication of semi-conductors through the use of bonding wires which are used to make the interconnections between an integrated circuit (IC) or other semi-conductor device and its packaging. Only a decade ago gold dominated this space taking over 90% market share. However due to substitution losses this has now fallen closer to 30% of total as more affordable alternatives have been implemented. So why the uptick in gold demand in 2017? Gold's market share is likely to have fallen slightly again last year, but demand was boosted by a global surge in demand for semi-conductor fabrication which lifted total production of bonding wire fabrication. We estimate that gold bonding wire production increased 5.3% in 2017 to just over 60 tonnes.

According to the Semiconductor Industry Association (SIA), the semi-conductor industry posted sales totalling \$412.2 billion in 2017, the industry's highest-ever annual sales and a 21.6% increase year-on-year. In 2017, the memory market outperformed the entire semiconductor market. Semiconductor memory stocks rose 80.5%, whereas semiconductor stocks rose 35% in 2017. Within the category, DRAM (dynamic random access memory) grew 76.7% and NAND grew 46.6% — the highest growth rate for both memory subcategories in ten years. Much of the revenue increase was based on higher prices and increased demand for memory chips, relative to tight supply. And in a clear sign that the market is not slowing down, fourth-quarter semi-conductor sales were 22.5% higher than the total from the fourth quarter of 2016 and 5.7% more than the third quarter of 2017. Global sales during the fourth quarter of 2017 and during December 2017 were the industry's highest-ever quarterly and monthly sales, respectively. On a regional basis, sales were stronger in all major markets, led by a 35% increase from the America's but were augmented by healthy double-digit rises from China, Europe, Asia Pacific and Japan.

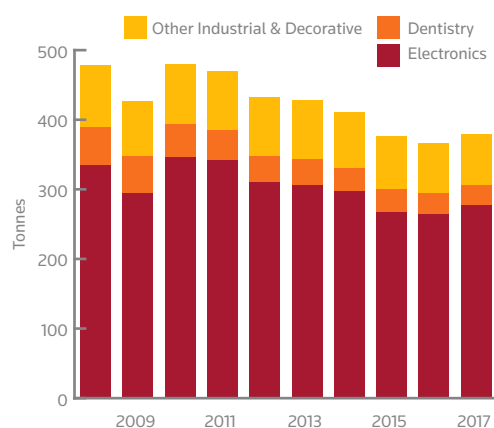
Robust demand from the smart phone segment and from the auto industry has lifted offtake for semiconductors. In the case of the latter, demand for enhanced safety features and more advanced electronics within the dash of the vehicle such as touch panels has contributed to the rise. Demand for PCs (personal computers), mobile, and data centres, also performed better than they did in 2016. Last year also saw the emergence of broader end products as the market moves towards AI (artificial intelligence) and IoT (Internet of Things), an industry segment that is expected to drive growth in the coming years.

Returning to our analysis and looking on a regional basis, Asia, which accounts for over 68% of gold consumption in the electronics sector, recorded a 6% increase year-on-year, with China the stand out registering a 12% annual increase. This growth in China was largely on the back of bonding wire production, both from international joint ventures and domestic producers. Demand in Europe and North America both benefited from the firmer economic footing and stronger industrial demand to register modest gains. Looking ahead, demand in early 2018 remains robust and expectations are high that further growth is possible this year, but it is unlikely that the growth rate will match the level seen in 2017. Industry analysts are forecasting semi-conductor production to ease to single-digit expansion this year and this will undoubtedly lead to a slowdown in the growth rate of bonding wire fabrication and gold consumption.

DENTISTRY

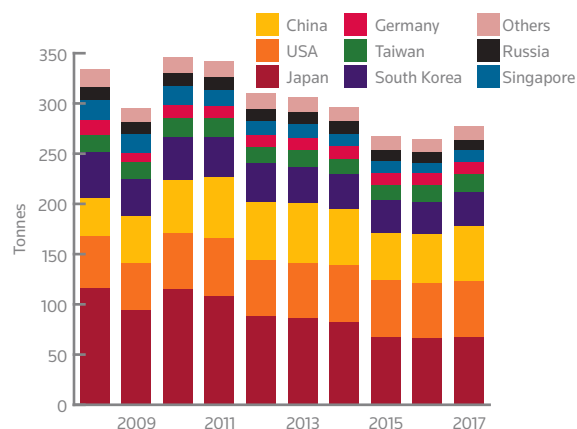
Gold used in dental applications continued its secular downward trend, slipping less than 3% year-on-year to a new record low of 29.4 tonnes. This fall, the lowest in over a decade, may suggest the majority of big falls are behind us with several markets recording only modest declines. For over a decade gold's market share in this segment has been eroded by substitution to lower cost and cosmetically pleasing applications such as base metal alloys or ceramics for both price and cosmetic concerns, with the latter having the greater impact on demand trends in western markets. On a regional basis, Japan remains easily the largest market in this industry segment, contributing just less than

GLOBAL INDUSTRIAL DEMAND



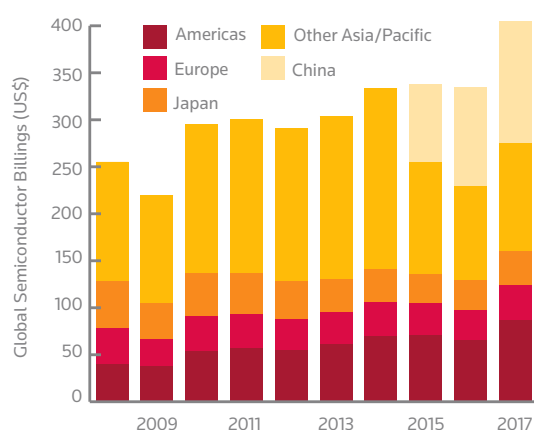
Source: GFMS, Thomson Reuters

GLOBAL ELECTRONICS DEMAND



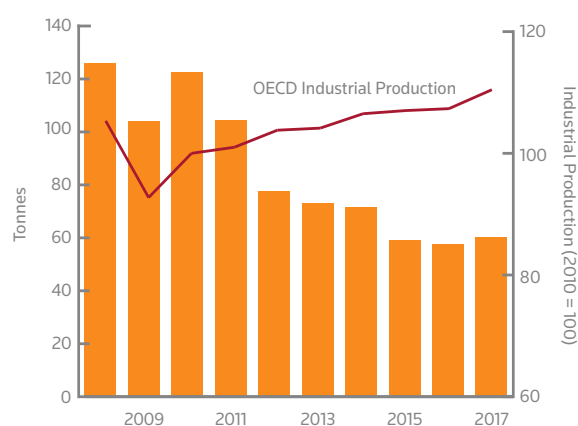
Source: GFMS, Thomson Reuters

GLOBAL SEMI-CONDUCTOR BILLINGS



Source: SIA

FABRICATION OF GOLD BONDING WIRE



Source: GFMS, Thomson Reuters; OECD

50% of the global total as gold is still commonly used in the fabrication of a dental alloy known as Kinpala which consists of gold, palladium and silver. Japanese demand was on track for growth midway through the year but dipped towards year's end, to deliver a 3% decline, following the bi-yearly adjustment in October to the medical rebate for the use of Kimpala, as that limited stock building by dentists. Elsewhere, demand in North America recorded a modest uptick, while in Europe gold used in this sector dipped 5%.

OTHER INDUSTRIAL & DECORATIVE

In 2017 gold consumed in the other industrial & decorative segment (OID) gained 3% year-on-year to an estimated 73.2 tonnes, ending three consecutive years of decline. The stability in the average dollar gold price, and particularly the lack of volatility last year, did not generate significant fluctuations in demand as has been the case previously. Last year it was economic drivers that boosted global offtake with an uptick in demand for luxury goods, a clear sign of returning consumer confidence; increasing demand for plating salts such as potassium gold cyanide (PGC). These products are mainly used to gold plate a myriad of consumer items such as highend branded pens, sunglasses, handbags buckles and clasps. Demand in this segment had previously been a casualty of the global economic slowdown in recent years. European offtake in this sector rose 2% last year, the first rise in several years, with a 5% increase in Swiss fabrication boosting the regional total. Germany also recorded modest gains last year, edging 3% higher.

Turning to Asia, and Chinese demand rebounded strongly last year jumping 6% year-on-year, the first annual increase since 2013, as the market has worked through a glut of inventory due to overstocking. The stronger economic footing saw export demand recover, while domestic consumption was also reportedly more robust. A rise in demand for plating salts was largely responsible for the healthy growth in South Korea and Japan, with demand in these markets rising 10% and 5% respectively. India's other industrial and decorative gold demand was broadly steady last year following several years of rationalisation. In particular jari thread production, where the market has moved towards more affordable alternatives such as silver or electroplated gold jari as gold prices have trended higher. Most of these changes have already taken place and are now well entrenched in society. As a result, total offtake drifted lower in 2017. Moreover, plated jewellery has enjoyed solid growth in recent years as gold prices have trended higher, attracting the attention of the lower income earners who may not be able to afford the genuine article. While demand in this segment was moderately stronger last year the dip in jari demand left the market largely unchanged on a year-on-year basis.



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CHINA

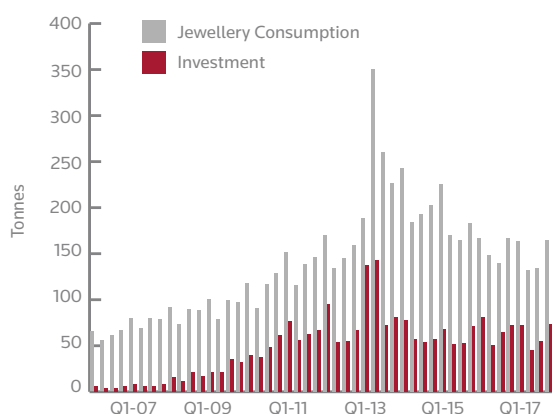
- China's total gold demand (excluding central bank purchases) amounted to 991 tonnes in 2017, a 3% year-on-year decline from the previous year.
- Jewellery fabrication, which accounts for 68% of China's total gold demand, fell 3% to 674 tonnes in 2017. This has been the fourth consecutive annual decline since the peak in 2013, and was 43% below that peak level.
- After increasing by 7% in 2016, demand for gold bars retreated by 7% in 2017, amounting to 220 tonnes. A lack of a significant appreciation in the gold price in domestic terms, along with the speculation on cryptocurrencies gaining traction last year, meant that gold was somewhat neglected. The emergence of online gold investment platforms helped to increase market penetration, however, and offset some of the losses.
- We expect China's demand for gold to continue to fall in 2018, due to the structural change in the jewellery industry. On the other hand, investment demand will largely depend on the strength of the yuan.

China's gold demand peaked in 2013, when bargain hunters emerged and purchased gold (whether in jewellery pieces or in bar form) after the international gold price broke below \$1,500 per ounce level in quick fashion. Despite the bargain hunting activities, the international gold price continued drifting lower until 2016, leaving many of those bargain hunters who picked up gold during that frenzy still out of the money today. This has certainly discouraged investors (particularly those who were burnt in 2013) from putting more money into gold, with many unlikely to reinvest unless a significant uptrend is already identified.

Jewellery is the segment that has the biggest appetite for gold in China, contributing over two-thirds of the country's total gold demand year after year. The sector's demand for gold dropped for a fourth consecutive year in 2017, to 674 tonnes, some 43% below the peak in 2013. Nevertheless, after falling at a 17% compound annual average from 2013 to 2016, it seems that the jewellery sector may have finally stabilised in 2017 by falling just 3% year-on-year. The decrease has also been the smallest annual decline recorded since the record level of 2013.

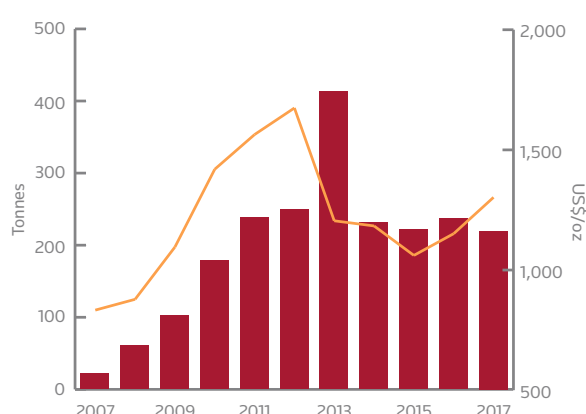
The fall in gold consumption in the Chinese jewellery industry is the combination of consumers still losing money today after purchasing gold in 2013 as the fall-out from that poor investment decision shook their confidence, and the shift in sales strategy by retailers from chasing high volumes (at lower margins) in the past to now focusing on selling higher margin products. In addition, the lower affinity to gold adopted by the younger Chinese generation compared to their predecessors has also played a major role in the decline in gold demand. The slowly improving economy was also positive for the country's jewellery consumption recovery. After retreating by 8% in the first half of 2017, jewellery fabrication volume rebounded and increased by 3% year-on-year in the second half of the year. This was the first year-on-year increase recorded in a six-month time frame since 2013.

CHINESE JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

CHINESE DEMAND FOR GOLD BARS



Source: GFMS, Thomson Reuters

Given that the entire Chinese jewellery industry has been undergoing a series of downturns and consolidation since 2013, fabricators have been desperately trying to find the next hot trend as the market's interest in 24-carat gold products has waned. This desperation has accelerated the industry's development, with many new products being developed and tested in the market to gauge the potential appetite of consumers. For example, 9-carat products were introduced into the market for a brief period in 2015, but failed miserably.

Demand for pure gold products (24-carat), while remaining the dominant form of gold jewellery, has continued to see its share slide since 2013. On the other hand, the 18-carat or K-gold segment has been strong in recent years, as lower purity in the gold content can enhance the hardness and permit more sophisticated designs, often adopted by the Chinese younger generations. Initially, the most popular colour in the 18-carat segment was in the yellow-gold colour, reflecting the historical affinity to the yellow colour of the general Chinese community. However, the fabrication technique often used by local manufacturers has resulted in quality issues, with the yellow colour starting to fade for some customers within months of purchases. In order to tackle the colouring issue, fabricators introduced 22-carat gold to the market towards the end of 2016, and it became an instant hit. While the designs of the 22-carat segment may be less sophisticated compared to the 18-carat, the higher gold purity usually helps the yellow-gold colour last for at least two years. Therefore, the 22-carat segment has become the de-facto for carat gold jewellery in yellow-gold, while rose gold has become the majority segment for 18-carat. White gold remains a relatively less popular colour in jewellery in the Chinese culture.

We estimate that a total of 75 tonnes of gold were used to fabricate 18-carat and 22-carat jewellery in 2017, a 25% year-on-year increase. It also represented an 11% market share.

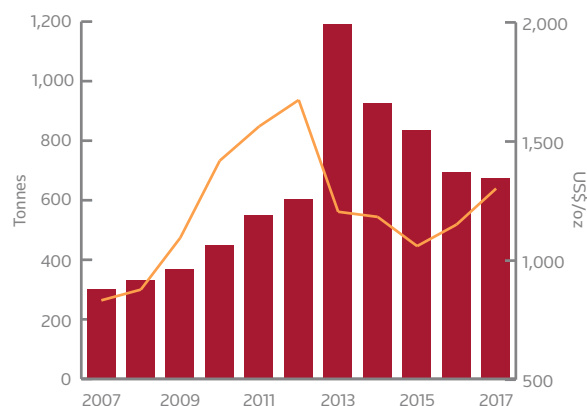
Another segment that has also been rising at a fast pace in recent years is the Three-Dimensional (3D) hard gold. Most of this 3D hard gold is still 24-carat (with Au purity at least at 99.9%), and its emergence has attempted to solve the 'softness' problem experienced in pure gold jewellery. By going through a more sophisticated fabrication technique relying on electroplating, the hardness of the 3D hard gold can be enhanced by a factor of four compared to traditional pure gold, and to a level closer to that of 18-carat products. Most of the 3D hard gold jewellery is hollow, meaning the pieces can be large in dimension but still be very light weight (thus cost less), satisfying the needs of the Chinese community.

Total fabrication volume of 3D hard gold has grown more than ten-fold in recent years, mostly due to the very low initial base, and the improvement in techniques that has resulted in better end-products. However, the designs of 3D hard gold are fairly limited, only suitable for designs that have no edge. Indeed, currently over 80% of gold pendants in China are already a product of 3D hard gold, and the proportions in gold rings, earrings and bracelets is also growing. Assuming all else the same, a 3D hard gold jewellery piece consumes about 50%-75% less gold than a similar pure gold piece and helps explain why China's consumption of gold continues to retreat.

Fabrication volume of 3D hard gold grew by approximately 35% in 2017, a pace even faster than the carat segment. We estimate that total gold used in this particular segment makes up approximately 10% of total gold consumed in China's jewellery industry, and the volume is about 90% of gold consumed in the K-gold sector. According to industry participants, many believe that 3D hard gold will continue to be the bright spot in the sector, and will outperform the carat segment in 2018.

The emergence and acceptance of both the carat products and 3D hard gold, aside from consumers getting tired of the traditional products and wanting something new, has been driven largely by fabricators as they try and survive in a cut throat environment.

CHINESE JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

After years of consolidation and bankruptcies, industry participants have realised that price wars are meaningless, and the only way to survive is to rely on new technology that could make designs more sophisticated, and importantly, difficult for competitors to follow. Retailers are also focusing on selling high margin products that in general would require less gold as opposed to the model that used to focus on quantity selling in the past. For retailers, the gross margin of pure gold pieces may range from 10%-15%, while the gross margin of carat gold pieces and 3D hard gold are usually more than double that. As a result, it is not difficult to understand why retailers are so eagerly pushing non-pure gold products. From the perspective of inventory management, filling the showcases with carat pieces and 3D hard gold instead of pure gold pieces is also helping to reduce costs, thus freeing up cash flows. Many jewellery retailers chose to expand their market presence in 2017, by expanding their outlets into the rural areas and other 4th tier cities. The increase in retail outlets throughout the country has also helped lessen the blow of using less gold as industry participants continue shifting from marketing pure gold jewellery pieces to lighter products that contain less fine gold.

While a few Chinese jewellery fabricators have already purchased 3D printers from Italy, this remains at a very early stage, and costs remain too high to produce on a large scale. Some fabricators are now using the 3D printing technology to fabricate artware made from gold and this expected to be in the market in 2018.

INVESTMENT DEMAND

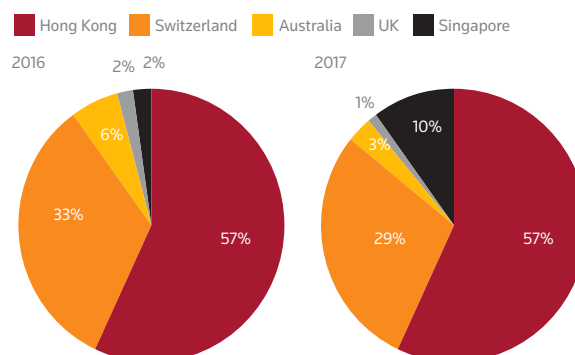
After increasing by 7% in 2016 (the first annual increase since 2013) on the back of the surprise Brexit vote, the sharp retreat in the gold price after Donald Trump won the United States Presidential election attracted bargain hunters, but with the continual worry about the appreciation of the yuan, China's investment demand for gold retreated in 2017, falling 7% to 220 tonnes.

Similar to jewellery, the trend in bar investment has been heading towards the lighter scale. For example in the past it was more common for single orders taking out 500 grammes or even 1 kilogramme bars, but this size has become few and far between now, as most orders are now in the 5-10 grammes range. Therefore, while the number of bar sales increased, the total weight of those bars sold actually decreased.

After a somewhat sluggish demand for gold bars in the first two quarters of 2017, demand finally picked up in the second half, particularly in the fourth quarter, after the Federal Reserve raised interest rates in December. The public consensus was that the gold price would likely bottom after the event, and thus there was a small scale gold rush in the market, leaving some retailers' cupboards empty. It was probably too late to make a real significant impact for the year as a whole, however.

Another important aspect that many people failed to consider is that while the international gold price rose 13% in 2017, the Chinese gold price only rose by a mere 3%, due to the appreciation of the yuan. Therefore, gold hardly enticed much interest, and this may remain the case unless the yuan exchange rate falls sharply, or the gold price climbs in a significant way in short order. On the contrary, cryptocurrencies were quite popular in China in 2017, as many speculators punted in this segment trying to make a quick fortune. Some so called cryptocurrencies were even being sold through pyramid schemes in the country. While it is difficult to estimate how much money was poured into the cryptocurrency space from China alone in 2017, some industry experts estimated that approximately a third to a half of the market capitalisation of the cryptocurrencies was from Chinese money, and that half of the global mining capacities for cryptocurrencies are located in China.

CHINESE GOLD IMPORTS BREAKDOWN (THE MAJOR SOURCES)



Source: GFMS, Thomson Reuters

China gold ETFs ended 2017 with total tonnage of 49.5 tonnes, a 7% year-on-year decrease. Contrary to other gold ETFs trading in the western world, the Chinese gold ETFs can also invest in short term bonds or money market funds. Similar to the market in physical gold bars, demand picked up notably during the final quarter, with the domestic gold ETFs increasing total tonnage by 11.1 tonnes in the fourth quarter.

After a good year in 2016 when the annual growth rate reached 36%, demand for gold coins took a sharp downturn in 2017 with fabrication sliding 18% year-on-year to 25.4 tonnes. Sales of gold coins fell even more, by over 30% in 2017. The Chinese market lost interest in gold coins last year, and sales were so lacklustre that gold coins have become a more popular gifting item to wedding couples (instead of gifting cash in the traditional Chinese culture) in a wedding event, as well as gifts reimbursed to guests by the hosts in a dinner event, because there were already high stockpiles of coins and distributors needed to create demand somewhere. Sellers and distributors have had to offer promotions, for example offering free silver coins when making gold coin purchases, to push sales. According to available statistics, approximately 10% of the collection programmes released last year appreciated by an average of 200%-300% in the secondary market, but the rest were all underwater, and are now selling by an average of 10% or lower than the initial official price.

A bright spot in China's gold investment scene in recent years is the emergence of trading gold through various online applications on smart phones. This has enabled many casual investors to trade physical gold with simply a few clicks on their smartphones. In addition, the minimum trading unit per trade is usually in milligrammes, meaning it is very trading friendly. We believe the emergence of these trading platforms has enhanced the convenience of gold trading, and has helped increased market penetration within the country. While in the past this segment was mostly operated by private small enterprises, many banks joined the party in 2017, jumping from only several banks operating in this field in 2016 to over ten in 2017. Even Chinese mining companies such as Zijin have their own gold investment application for retail investors.

What is so special or different about these gold investment online applications is that these platforms usually pay cash dividends to investors for holding physical gold over a period of time. For example a bank, through its online applications, offers investors a cash return of 1% per annum for holding their gold purchase on a one-year term.

While gold bar investment has been expanding from the traditional channels to online trading platforms in the last two years, the increased convenience in buying has also been met with expedient selling. Many short term speculators simply employ the 'buy low, sell high' trading strategy flipping gold like an equity stock, as the cash yield offered by banks has not been attractive enough to hold onto the metals for a long period of time. On the other hand, there is one private enterprise called G-Banker which provided a chain of services from gold trading to scrap collecting to gold leasing activities. Their asset under its management grew by approximately five tonnes of gold in 2017, but we consider this company to be an exception rather than the norm in the industry. They offered six percent cash yield per annum for investors willing to sit on their hands for a year, which is quite attractive for many investors who are risk averse. The reason they can offer attractive yields is that they lend the physical gold that investors purchased to small and medium sized jewellery retailers for a return in double digits per annum. However, every trading platform has its own practice and not every platform (especially the banks) will lend the physical gold in the platform to a third party. Therefore we estimate that total net investment on these platforms remained relatively small scale in 2017.

Basis to the most popular gold contract trading on the Shanghai Gold Exchange (SGE), AU (T+D), China's gold premia averaged \$9.8 per ounce in 2017, compared to the annual average of \$6.4 in 2016. Indeed, the Chinese premia only averaged \$2.7 per ounce in the first ten months of 2016. The surge in the gold premia in the last two months was mainly due to the sudden depreciation of the yuan, which lost 2.5% of value against the dollar during that period. The People's Bank of China (PBOC) was certainly nervous at that time, as they knew that high premia would attract high import volumes, meaning further yuan outflows. After averaging over \$30 per ounce premia in December 2016, the domestic premia decreased steadily in 2017 as the yuan began to appreciate, and bottomed in September 2017 averaging less than \$6 per ounce. The soft imports in the final quarter prompted the Chinese premia to break above \$9 towards the end of the year, despite the yuan continuing to trend upwards.

BULLION FLOWS

Turning the focus to China's gold imports, the country imported a total of 1,091 tonnes of gold in 2017 from the five sources (Hong Kong, Switzerland, U.K., Australia and Singapore) that we regularly track, a 17% decrease from 1,316 tonnes in 2016. Last year Hong Kong, as the major entrepôt for the region, remained the largest source of supply for Chinese bullion imports, but its market share of China's total gold imports slipped. After increasing from 53% in 2015 to 60% a year later, Hong Kong's market share declined slightly to 57% in 2017, with the market share dipping notably in the fourth quarter. While costs of importing gold through the Hong Kong hub are lower due to an already well established infrastructure, the long term trend is that Shanghai will become an increasingly important hub for Chinese gold shipments.

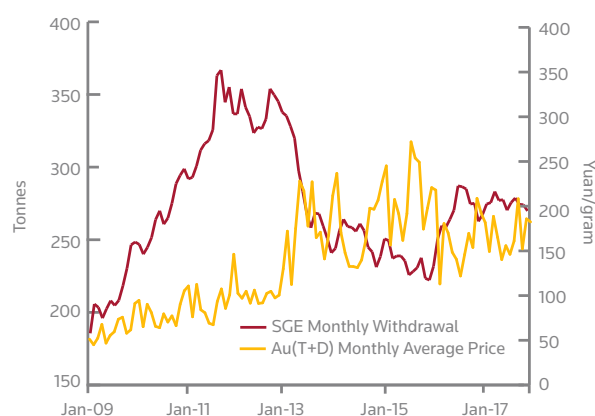
When Chinese banks order gold bullion, say from Switzerland and ship through Hong Kong into the mainland, it takes two weeks in general for the gold to be physically delivered. However, if the gold is already at the Free Trade Zone (FTZ) in Shanghai, it takes just two days to be imported into the country, hence providing more flexibility. It is worth noting that banks do not need import permits when shipping gold into the FTZ as permits are only needed when gold are transported from the FTZ into other parts of the country. In addition, as the FTZ operates using the offshore yuan exchange rate, it sometimes presents a profitable arbitrage opportunity for Chinese banks as they operate under the onshore exchange rate. Therefore, banks increasingly prefer to use Shanghai as a shipping hub for gold. If this trend persists, it should also benefit trading activities at the Shanghai Gold Exchange's (SGE) International Board in the long run.

The major drag on import volumes in 2017 mainly took place in December, as China's gold imports in the first eleven months of 2017 only declined by seven percent on an annual basis. In December 2016, when the Chinese gold price commanded a premium of more than \$30/oz over the international benchmark, Chinese banks imported a huge volume of gold from overseas, taking advantage of the enormous arbitrage opportunity. At that time even though the import permits were not yet in place, banks ordered shipments to be delivered to the FTZ in Shanghai first, as they were confident that permits would be issued in January. As a result, over 218 tonnes of gold bullion were shipped into China that month, with the majority shipped directly to the FTZ. During that month, 158 tonnes of gold were shipped from Switzerland, leaving Hong Kong's market share to only 24%. The Chinese market took the next two months to digest the excessive physical inventories imported in December 2016.

A year later, the Chinese gold premia averaged \$9.1/oz in December 2017. While premia at such levels are attractive enough to import gold to benefit from arbitrage trading, that was a far cry from the levels seen in December 2016. As a result, China's gold imports were only 66 tonnes in December 2017, a 70% decline year-on-year.

At the 2017 annual average of \$9.8 per ounce the Chinese premia were certainly not low by historical standards, considering that arbitrage trades conducted by Chinese banks become profitable as long as the premium is above \$3-4 per ounce. While the lower import volume in 2017 was certainly a factor, we also doubt if demand was really strong enough to support premia at such levels. In order to explain this, we may find the answer by examining China's unofficial flows. We were aware of significant volumes of gold coming out of China unofficially again last year (mainly in the first half), often first to Hong Kong and being offered at a slight discount to the spot market. This material, we estimate in volumes north of 500 tonnes, was in bar form and consisted of predominately LBMA international kilobars but also Chinese branded bars. Many of these bars were then re-cast in Hong Kong or other refining destinations, before eventually flowing back to other Asian regions (including China)

SGE WITHDRAWALS



Source: GFMS, Thomson Reuters

and to other terminal markets. According to customs data, Hong Kong's gold shipments to Switzerland, Thailand, Singapore, and the United Arab Emirates in particular, all had notable increases in 2017. These Chinese gold outflows have drawn down physical inventories available in the country, and hence the rise in premia.

Hong Kong's jewellery consumption rose 8% in 2017 to an estimated 40.1 tonnes, the first annual increase since 2013. According to data released by the Hong Kong government, jewellery, watches and clocks, and valuable gifts sales value amounted to 75.0 billion Hong Kong dollars (\$9.6 billion) in 2017, a rise of 5.2% compared to 2016. In a clear sign of improving consumer sentiment, the industry has enjoyed strong consecutive year-on-year monthly growth since the third quarter of 2017. In the first half of 2017, the year-on-year monthly average growth stood at 1.2%, while in the second half of the year the average growth rate jumped to 9.7%. This impressive expansion of the industry was mainly due to the increase in inbound tourism, and the effort of domestic jewellery retailers in marketing new product ranges.

In 2017, visitor numbers to Hong Kong increased 3.2% year-on-year to 58.5 million, after consecutive falls in the previous two years. The increase in Chinese travellers to Hong Kong contributed almost 92% of the annual increase last year. The largest year-on-year rise in tourist visitors from China was recorded in the fourth quarter last year with several festivals and holiday periods encouraging greater regional travel. Moreover, the more intensified political environment between China and Korea in 2017 saw a greater number of Chinese tourists shift their travel preference, and Hong Kong was a beneficiary of that decision.

Several of the larger jewellery retailers have been adjusting their strategies to attract more domestic consumers in a bid to diversify their income sources. For example, several of the major retailers have closed some of their flagship outlets in the main shopping areas in order to reduce the intra-group competition in the area. Some have also moved their outlets and resources to residential areas in the hope of making their product more accessible, but also to benefit from the significantly lower rental costs for space in the non-commercial areas.

Besides the relocation of outlets, jewellery retailers are also tuning their production strategies to focus more on fabricating fashionable products in order to attract the younger generations as well as attracting higher labour charges. A main focus of Hong Kong's jewellery industry has been to expand their target customers to the younger generations. The young generation in Hong Kong and on the Chinese mainland demand more fashionable and "personalised" products, thus favouring a product which is different from others. The market share of K-gold jewellery has also been increasing as this segment offers more choices of colour and design options. Although the gold content on each K-gold made jewellery piece is less than pure gold, those products are actually developing a new market niche outside the pure gold market.

For the **Taiwanese** market, total gold demand increased by 5.1% in 2017, to 28.9 tonnes, mostly due to a strong increase in demand from the industrial sector. According to the Ministry of Economic Affairs of Taiwan, exports of electronics rising 15.5% year-on-year while exports of Information and communication technology (ICT) products soared 10.7% year on year. According to the Industrial Economics and Knowledge Centre of Taiwan (IEK), Taiwan's integrated circuit (IC) production grew 2.7% year-on-year. Although the competition in the ICT market is extremely competitive between Taiwan and South Korea, Taiwan continued to maintain growth in 2017 due to global expansion in this sector. For example, the largest ICT producer Taiwan Semiconductor Manufacturing Company (TSMC) successfully took orders from Qualcomm and will solely produce next generation iPhone's A12 orders.

The jewellery retail sector is classified under "Home Appliances & Supplies Retail" according to the industrial classification of Taiwan. Based on the Department of Statistics, Ministry of Economics of Taiwan data, this sector slipped 4.1% year on year. However, our research would suggest that jewellery consumption fell by more than this last year, retreating 9.2% compared to 2016, with weak consumer sentiment impacting luxury products across the board. Besides the weak retail market, a drop in marriage numbers in 2017 was one of the reasons why jewellery consumption dropped by such a large magnitude. The number of marriages in Taiwan last year fell to 138,000, a drop of 6.7% compared to 2016. Marriage and weddings in particular are one of the main traditional drivers of gold demand in Taiwan and the lower marriage numbers significantly reduced the overall demand of jewellery. In addition, the trend of renting a set of gold jewellery for weddings has also been increasing in Taiwan, and this too has been a factor in driving down gold jewellery consumption.

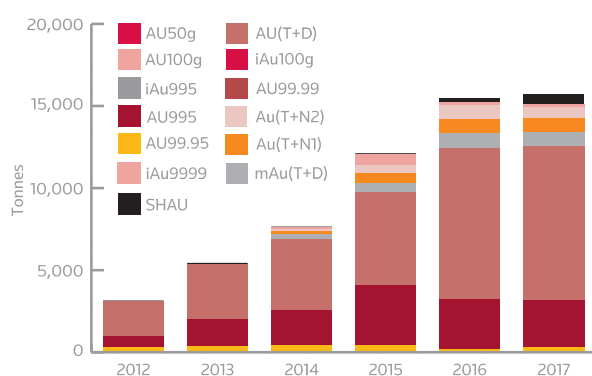
CHINA MARKET OUTLOOK

Bullion shipments from Hong Kong and Switzerland (over 85% of market share in a normal month) into mainland China combined to reach a total of 249.5 tonnes in the first two months of 2018. In contrast, bullion shipments from these two sources totalled just 119.5 tonnes in the corresponding period of 2017, as the extraordinarily strong imports in December 2016 dragged down Chinese import volumes in the next two months resulting in a lower base in 2017. China's gold imports in the first two months this year were also 70% higher than the corresponding period in 2016, when the average premia was only \$2.4/oz. The extraordinarily weak import numbers in Q4 2017 (lowest volume in the fourth quarter since 2012), combined with seasonality (the average Chinese gold premia in the first quarter this year was \$7.8/oz) also contributed to the strong number. We expect China's gold import volumes to remain flat or to increase modestly in 2018, but if the yuan depreciates against the dollar in a meaningful fashion, which could further widen the price gap between the Chinese gold price and its overseas benchmark, then imports will certainly increase.

Barring any unforeseen circumstances that would cause huge market panic, China's gold demand is likely to have already peaked in the anomalous year of 2013, and is very unlikely to return to those elevated levels in the near future, regardless of the state of the domestic economy. The reality is that the Chinese community is shifting from treating gold jewellery as a safe haven asset to a fashionable complementary, especially among the younger generations. The carat gold segment will continue taking market share away from the pure gold segment, both from the supply and demand perspective. Suppliers are more eager to promote non-pure gold jewellery, simply because of higher margins. Consumers also like non-pure gold items because of their more sophisticated designs, and are likely to come with a cheaper price tag. Therefore, even if China's economy continues to improve and the stronger consumer sentiment stimulates more sales in the jewellery sector, the use of fine gold will continue to fall.

Investment demand is always less predictable than fabrication demand, as market sentiment changes from time to time. The severe decline in sales of gold coins compared to coin fabrication volume indicated that there are excessive inventories, and this will possibly have a negative impact on coin fabrication volume in 2018. The general Chinese consensus was initially bearish on the gold price starting in 2017, as most of them thought the increment in interest rates in the United States would provide support to the dollar and thus creating pressures on the gold price. Ironically the dollar plummeted and gold price ended the year 13% higher. However, given that the yuan also appreciated in 2017, the Chinese gold price only rose by 3% in 2017, a rather lacklustre return. Therefore, the yuan exchange rate also plays a key role in Chinese appetite for gold in 2018. If the Chinese gold price continues its current upswing and provide a reasonable return on an annual basis, more people will catch on eventually. While the online gold trading applications have been growing at a fast pace in the last two years, there are too many players in the industry already, and we are expecting further consolidations to take place in 2018, and those who lack sufficient financial capital will likely be forced out.

SGE GOLD CONTRACTS TRADING IN TONNES EQUIVALENT



Source: GFMS, Thomson Reuters

SGE GOLD PRICE PREMIUM/DISCOUNT



Source: GFMS, Thomson Reuters

INDIA

- *Indian gold imports increased by 72% year-on-year to 879.8 tonnes on stocking ahead of the Goods and Services Tax that came into effect from July 2017.*
- *Fine gold from dore increased to 225.1 tonnes, rising 85% year-on-year to record volumes.*
- *Total consumption increased year-on-year by 30% to 781.9 tonnes, attributed to a 35% surge in jewellery consumption.*
- *Jewellery fabrication increased to the second highest level on record at 718 tonnes due to higher stocking.*

The commotion following the demonetisation of high value currencies that the Indian gold and jewellery industry experienced in 2016 settled much sooner than expected as by the end of Q1 2017 the trade had become vibrant and relatively more transparent. The retail consumption (jewellery and investment) was firm, rising 30% year-on-year to 767.7 tonnes, attributed to a 15% increase in investment demand and a 35% increase in jewellery offtake. This growth was comforting for the trade as the industry continued to be challenged with new regulations in the form of limiting cash transaction to Rs. 300,000 (later reduced to Rs. 200,000), removing the incentive of operating refining from excise free zones, the Goods and Services Tax (GST) of 3% on gold from 1st July, lack of clarity on the GST calculation, bringing the sector under the Prevention of Money Laundering Act effective 3rd August (rescinded on 6th October), imports from South Korea at zero percent customs duty, implementation of the amended Insolvency and Bankruptcy Code 2016, regulations to curtail round tripping, cancelling nominated agency licences for Four Star and Five Star Export Houses, and anxiety on how soon hallmarking will be made mandatory. While these factors challenged the trade in its transition, consumer sentiment was strong on better farm yields in 2016, hope that the monsoon in 2017 would be good (which to their surprise was below normal, discussed in detail later), stellar returns from the equity market, and lower inflation.

BULLION TRADE

The **Gross official gold imports** in 2017 increased 72% year-on-year to 879.8 tonnes, driven largely by an increase in jewellery fabrication and investment demand at lower prices. In value terms it increased to the highest since 2013 at \$36 Bn, bringing back the concerns related to the widening current account deficit. The growth was driven by a 90% increase in net imports, i.e., for domestic consumption.

Net imports in 2017 stood at 663.3 tonnes with bullion, at 438.2 tonnes, taking the lion's share and the rest from doré. Moreover, 61% of the total was in the first half; evidently this was stocking ahead of the GST. Taking a look at each quarter reveals the highest contribution was from Q2 at 215.2 tonnes, and the lowest in Q3 at 86.6 tonnes. Monthly trends suggests the highest import was in May at 98.4 tonnes and the second highest in March at 83.8 tonnes; the lowest was in September at 20.8 tonnes. The reasons for the swings are touched upon later in this section.

Import of **gold from South Korea and Indonesia** at concessional duty, due to bilateral and multi-lateral agreements respectively, added to supply from this source by 34.7 tonnes. These were imported in the form of jewellery, medallions and articles.

GROSS INDIAN BULLION IMPORTS*

(tonnes)	2010	2011	2012	2013	2014	2015	2016	2017
Gross Imports*	1,123	1,211	969	783	826	904	511	870
Local Price (Rs./10g)	18,386	24,003	29,730	29,310	28,278	26,488	29,395	29,135

*Includes duty paid, duty free and fine gold from doré

Source: GFMS, Thomson Reuters

These imports largely happened in Q3 before the government took steps to curb it. Until the restrictions the domestic premia were under pressure and remained in discount for almost all of the third quarter.

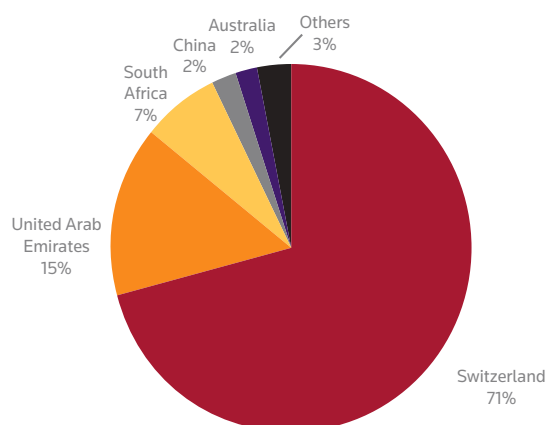
Looking into **bullion trade flows** it took nine bullion banks, two trading houses, two refiners, and jewellers to supply 655 tonnes of bullion compared to 389 tonnes in 2016. Last year supplier countries' share of gross imports remained similar to the trend seen in the previous year. However, the trending change is in terms of tonnage; as shown in the chart indexed to 2011, the trend of supplier countries has been lower, and is attributed to the substitution by imports of doré. This trend is of significance as the total market size of bullion to cater to domestic demand has shrunk to just 438 tonnes, the second lowest this decade. To put this in perspective, towards the fourth quarter it took only the top four supplier banks to supply 80% of the volumes for domestic consumption.

On the **domestic front**, gold bullion was imported by 13 banks and nominated agencies. Amongst nominated agencies the star export houses lost their licence to import for domestic consumption following a notification from the Directorate General of Foreign Trade (DGFT) in October 2017. The trend in imports was volatile with respect to bank volumes as the imports on consignment were highly dependent on local market premia; nevertheless their share of total domestic demand was approximately 70%. One of the important trends was the rise in the gold metal loan business thanks to formalisation and consolidation in the jewellery business; this is touched upon later in this chapter. Also the move by the DGFT increased the volume share held by banks to 88% in the fourth quarter.

Taking a look at **regional deliveries**, there has been a notable shift in domestic flows post GST. For instance pre-GST Delhi's share was 38% and declined to 27% post the tax implementation. In a similar vein, the market share of Chennai increased to 27% from 14%, and that of Mumbai from 1% to 9%. Pre-GST a jeweller would buy gold in cash and hand carry gold to the fabricator in different regions, for instance Mumbai, to avoid local taxes in Mumbai. Post-GST the formalisation of businesses and the single tax has given more reason for jewellers to rather take direct delivery of the metal in Mumbai.

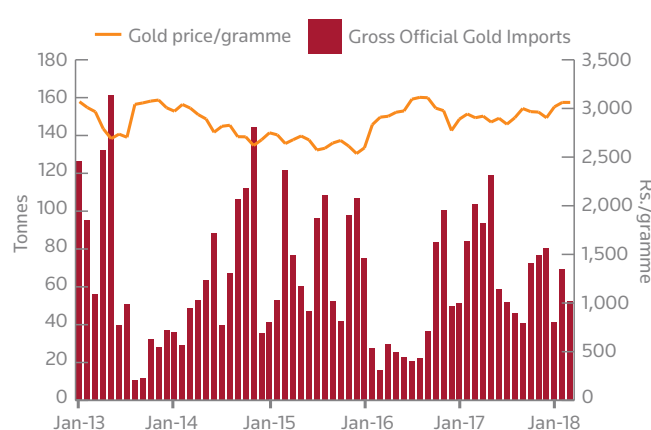
Looking at **imports for exports**, supplies are from licensed importing banks, nominated agencies and the fabricators importing directly for re-export. In aggregate 216.4 tonnes were imported duty free for exporting which includes genuine trade, and round tripping, either to take advantage of the interest arbitrage or to inflate the balance sheet. Banks in aggregate supplied 46.0 tonnes, nominated agencies including star export houses imported 131.6 tonnes and others (direct import by jewellery fabricators for exports) 38.8 tonnes. The 'others' category would have ended at approximately 5.5 tonnes if not for the cancellation of nominated agency licences for star export houses in mid-October, following which their numbers moved into this category. The ban on the export of jewellery and medallions of purity more than 22-carat failed to cap round tripping other than the logistical difficulties experienced for a month. Our estimate is that approximately 157 tonnes were used for round-tripping, up from 125 tonnes in 2016, 41.3 tonnes were genuine jewellery exports, up from 38.6 tonnes in 2016 and the remaining 18.1 tonnes was moved to the domestic market unofficially before re-exporting within the 90 day period.

SHARE OF SUPPLYING COUNTRIES



Source: GFMS, Thomson Reuters; GTIS; Ministry of Commerce

GROSS OFFICIAL GOLD IMPORTS (TONNES)



Source: GFMS, Thomson Reuters

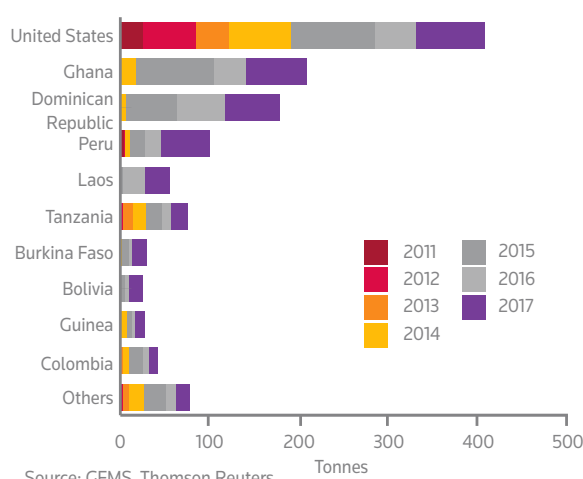
On the **refining front**, supplies from domestic mining and refining from copper concentrates together contributed approximately nine tonnes. In addition to this, refining of 392.3 tonnes of imported doré resulted in the addition of 225.1 tonnes of fine gold to supply, rising to the highest level of imports since doré refining started in 2011. About twenty refiners in total imported from 18 countries last year. Outliers were Burkina Faso, Peru and Bolivia with exports from these regions surging more than 300% year-on-year as refiners scouted for new supplies in order to reduce dependence on Ghana following a crackdown by Ghanaian revenue officials.

The import of gold using the **Merchandise Export Import Scheme** had a material impact on the share of the banks who were not importing using this scheme. Imports under this scheme started in Q3 and became more popular in December to the extent that nearly half the imports were under this scheme, equating to as much of the doré imports using this facility. Looking ahead, we expect doré imports to continue using this scheme while bullion imports will stop, thereby creating a higher price disparity in the market.

Unofficial imports improved post GST as it was a lot easier to make it part of the official transactions as the trace on the exchange of old jewellery or scrap is hardly captured, giving more scope to the jeweller to claim that the source of gold is exchange of old jewellery for new, while also paying the GST; more on this is discussed under the jewellery consumption heading. Our estimate is that 134.5 tonnes were smuggled into the country last year, ten tonnes higher than 2016.

Jewellery scrap that is exchanged for cash is yet another important component of bullion supply. Scrap sales last year declined 34% year-on-year to 87.7 tonnes. A significant portion of the volume though is attributed to the auction of collateralised jewellery; however its share from this segment reduced sharply. This was largely due to the pre-settlement of loans during demonetisation, which eventually reduced the default on loans in succeeding years.

DORE IMPORTS (TONNES) - COUNTRY OF ORIGIN



IMPORTS CLASSIFICATION

(tonnes)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Annual
Banks					
- Duty paid	86.8	89.8	30.2	96.1	303.0
- Duty free	12.0	10.6	10.9	12.5	46.0
Nominated Agencies					
- Duty paid	48.4	56.8	16.7	13.2	135.2
- Duty free	39.6	44.6	39.9	7.4	131.6
Fine gold from doré	51.1	68.6	39.6	65.8	225.1
Direct import by exporters	1.2	1.4	1.5	34.8	38.8
Gross Total	118.8	78	79.9	233.9	510.6
Net Total	239.3	271.8	139.0	229.8	879.8
Average price (Rupees/10 grammes)	29,110	28,924	29,113	29,452	29,135

Source: GFMS, Thomson Reuters

JEWELLERY CONSUMPTION: IN GOLD WE TRUST IS CONSUMERS' RESPONSE TO GOVERNMENT ON BRINGING TRANSPARENCY TO THE TRADE

Setting the cash transaction limit at Rs. 200,000/- (~\$3,000) has seen customers demanding better designs for categories lower than the threshold. As a result there has been an increasing shift to precious stone studded jewellery that is light weight but at face value may look heavy. While this is a challenge for the fabricator the trend has not spread widely as most consumers are still not willing to adhere to the way the government limits expenditure. To an extent it can be concluded that the effort by the government to control the cash trade in gold has fallen flat as all it takes is a reference from within the trade to get connected and transact in cash. A retail consumer can negotiate payment in cash for getting a discount in gold of 0.7% to 1% and similarly a seller of scrap would be paid at 1.5% to 2% discount from the prevailing price; the discount is offered on the price after calculating GST. In essence the bid-ask spread in the cash market is 0.5%.

Bartering official for unofficial - a system that helps at least 40% of retailers to stay afloat in stiff competition from the Goliaths of the industry

Example: A retailer makes a jewellery sale against cash to its customer. The customer bill would account only for the making charge and the GST, where a bill is made for a sale transaction. This is possible by showing every sale by the retailer being for the exchange of old jewellery for new. The cash collected against the sale is used to purchase unofficially imported gold and this is then matched with the sale of jewellery for jewellery. The retailer would then re-melt these bars in the backyard to show it as melted scrap jewellery and this is then resent to manufacture 22-carat jewellery. Thus, in the books this would show that the retailer did make a sale and collected GST from the customer, but the replenishment is that of unofficially sourced gold. This was primarily conducted in jewellery of ticket size less than Rs. 200,000/- where customer ID proof is not mandatory.

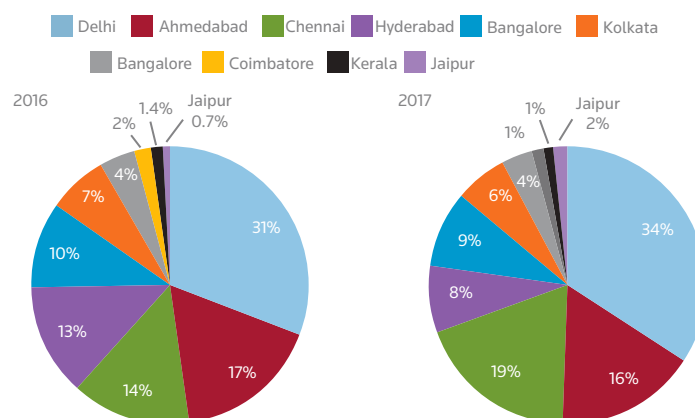
WHAT TO EXPECT FOR 2018

Following a year of challenges it would appear that 2018 is going to be no less, as the transition to a more organised or official way of running a business is no longer going to be a matter of choice for the industry. Legislation has been passed to protect the bankers, retail consumers and in particular investor interest. These transitions are going to increase the cost of the end product and eventually lead to a drop in total sales volumes as the budgeted expenditure is less likely to increase with higher prices weighing down on the consumer sentiment. These are some factors which we see could impact the trade.

INSOLVENCY AND BANKRUPTCY CODE, 2016

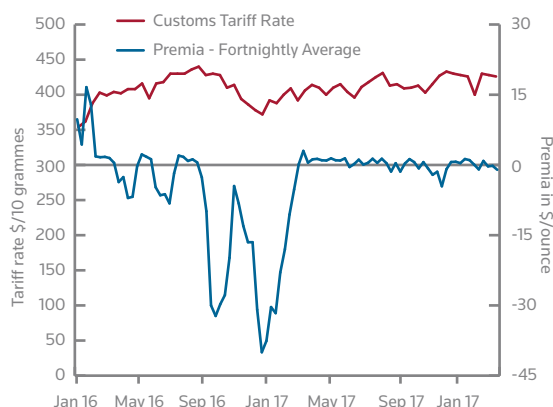
The Insolvency and Bankruptcy code, 2016 came into force on 23rd November 2017. This has had a direct impact on jewellers who were flirting with loan defaults and yet managed to get additional cash credit limits. We expect this may lead to the rationalising of store expansion by jewellers who were

REGIONAL DELIVERY CENTRES



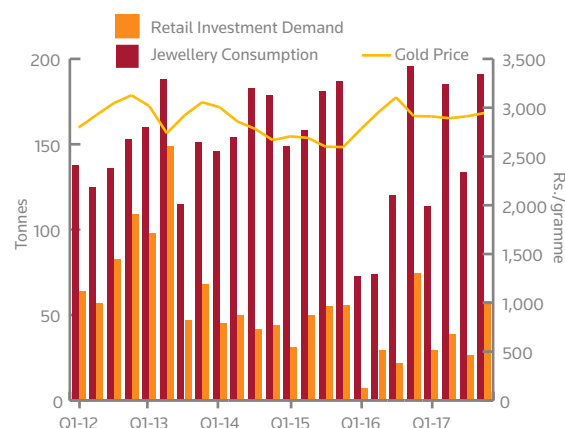
Source: GFMS, Thomson Reuters

IMPORT TARIFF VS DISCOUNT/PREMIA



Source: Thomson Reuters, CBEC and NCDEX

RETAIL INVESTMENT & JEWELLERY CONSUMPTION



Source: GFMS, Thomson Reuters

increasingly dependent on bank credit. For the retail chains, we think increasing the per store sales is going to take precedence in strategy over the number of stores, as maintaining profitability will be the priority. In essence, the fabrication volumes might taper as there could be a slowdown in inventory building this year.

BANNING OF UNREGULATED DEPOSITS SCHEME BILL, 2018

The new rule is likely to come into effect possibly in the second half of this year if not earlier. The act is seen as a big blow to the cash flow for jewellers that are running such deposit schemes by taking deposits in the form of equal monthly instalments for eleven months. The resulting effect would be that retailers will be forced to wind down the schemes by the deadline as the legislation comes into effect. Naturally, the rush to redeem the deposits for jewellery can be concentrated towards a single month, depending on the last date to keep the schemes functioning.

The volume quantum is significant in this case with at least 25% of the total new gold sales by a jeweller being driven through such deposit schemes. As this comes to a halt it could affect the cash flow, and as a result, the retail price of gold could see an increase that is equivalent to the increase in the overall cost of capital for the firm. The alternative to circumvent the impact of this scheme could be that customers make jewellers custodians of their gold in unallocated accounts but redeemable in a pre-defined time period. However, it may be logistically difficult for retailers to accept low grammage (for instance equivalent of Rs. 500 per month ~ \$8/month) and so these future deals may be in higher grammage transactions that are more economically viable.

INCREASE IN RISK PROFILE OF JEWELLERY INDUSTRY

The Goods and Services Tax introduced in July 2017 was expected to bring a large part of the trade into the organised channel and potentially increase the number of jewellers using a banking channel for working capital financing. Indeed, this was evident from the increase in the gold metal loan business and the cash credit limits to jewellers. However, with recent loan defaults and fraud practices highlighted by investigating agencies the credit risk profile of the industry has been heightened. Eventually this is likely to lead towards a higher retail price for gold, which is currently on average 3% more than the landed price.

FALLING SHARE OF BULLION IMPORTS

The share of fine gold from doré to total imports for domestic demand was 33% in 2017. This is likely to increase further in 2018 and is estimated to be in a range of 40 to 45%. This estimate is basis information provided by refiners on their new supply agreements from aggregators and miners. As the duty differential between bullion and doré is 0.65%, we would expect to see that the refiners' price would eventually become the benchmark price in the domestic market. Also of note is that the duty benefit when importing using Merchandise Export Import Scheme (MEIS) certificates will further add to refiners' profitability and more competitive pricing. In other words, keeping other variables constant, the premia in the domestic market will be capped at two dollars for imported bullion bars this year. As a result, the

profitability of banks and nominated agencies could shrink further with lower volumes and they will instead be motivated to promote the gold metal loans to jewellers rather than an outright sale.

More importantly the reliability and quality of the Indian refiners' outturns will be firmer, effective June 2018 when all the doré refiners will have to be mandatorily certified by the Bureau of Indian Standards. Thus the issues related to quality of the refined gold may be largely addressed even if not in full.

BENCHMARKING THE GOLD LEASE RATES

The gold metal loan business is estimated to have increased by 20 to 25% in 2017. Record low lease rates have made it an attractive avenue for working capital finance for jewellers as this is given against a cash collateral on which they anyway earn interest of 7% to 7.3% annualised as against the cost of GML, which is in the range of 1.5% to 2.5%. However, as investigations following a fraudulent act by two jewellers reveal perhaps more skeletons in the cupboard, the banks are becoming more concerned about the loan defaults and fraud. Notification by the Reserve Bank of India to stop issuing the Letter of Undertaking and Letter of Comfort (though it wasn't limited solely to this industry) evidently has tightened dollar liquidity. To add to these woes, some of the banks are not allowing traders to rollover the Standby Letter of Credit.

Lease rates in India, on the other hand, have dropped sharply in the last two years from 3% to 1.5%, primarily attributed to aggressive pricing due to increased competition amongst domestic banks. However, this is now becoming increasingly worrisome with the recent turn of events as touched upon earlier. As a result, it may turn out that the lease rates for gold may be regulated such that it adds the component of risk premium.

MANDATORY HALLMARKING

It is now just a matter of time as to when jewellery hallmarking will be made mandatory in India. This is most likely to be introduced in a phased manner. The resulting impact of such a scheme is likely to result in a lot of churn in the store inventory in order to convert under-carated stock to the actual carat listed on the jewellery tag. This might lead to additional demand for gold to fill the gap in purity; alternatively jewellers may consider netting-it off for jewellery that will be equivalent to the value of the melted stock.

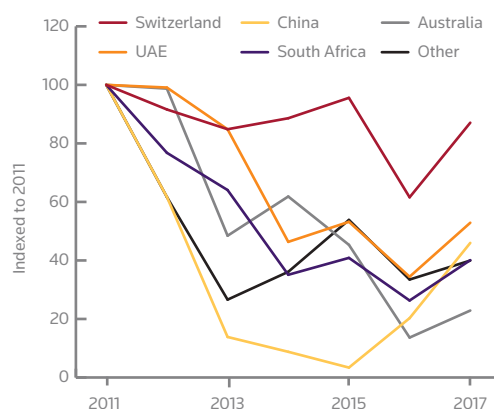
CHANGE IN DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

In the budget 2018-19 it was proposed to change the definition of MSMEs based on their annual turnover instead of the plant and machinery investment. The objective is to reduce the income tax rate from 30% to 25%. This has come as a huge benefit for all jewellers with annual turnover of less than Rs. 250 crores (~ \$39 mn). In other words it gives a fair advantage in pricing for family run stores, most of which have less than Rs. 250 crores turnover. A 5% reduction in income tax is a substantial gain for them and allows them to compete against larger retail chains.

WIDENING TRADE DEFICIT

India's current account balance has again moved to a precarious point with the deficit widening to \$44 bn as of Q4 2017, the highest since Q2 2013. Though gold imports have remained within a comfortable position, could gold be a target yet again? It is possible and the only avenue is to revamp the Gold Monetisation Scheme such that more household gold comes back into the system thereby reducing the dependence on imported gold for the near future.

BULLION IMPORTS INDEXED TO 2011



Source: GFMS, Thomson Reuters

CAN RURAL DEMAND BE SUSTAINED THIS YEAR?

The second advance estimates of output for the crop year 2017-18 showed that production is estimated to increase only marginally from the 2016-17 crop. Though there was an upward revision in production numbers from the first advance estimates released by the Ministry of Agriculture, the overall increase in revenue from these crops is just 1.6% as against a 14% increase in the previous crop year. Further, looking deeper into this estimate suggests that the winter crop has been affected the most, due to below normal monsoon rain, the result of which will be a lower offtake in first half of 2018.

Thomson Reuters Weather forecast team expects the 2018 monsoon to be 8% below the average. This we estimate can lead to demand growth of only 2% year-on-year. Nevertheless a rise in the Minimum Support Price (MSP) and crop insurance as discussed in the Budget 2018-19, could potentially increase the demand forecast as it could help increase income levels. That said, we need to first see positive yields for reaping the benefit of higher MSP.

PAKISTAN, BANGLADESH, SRI LANKA AND NEPAL

The rest of the south Asian countries are beginning to talk about the need to free up restrictions on gold imports; Sri Lanka is the first amongst them to open trade allowing free imports of gold in 2016. The increased restrictions have only opened the unofficial trade in the country as the consumption culture is similar to that in India.

Pakistan is estimated to have imported less than a tonne of gold officially last year, but total consumption including jewellery and investment stood at 25 tonnes, a tad higher than 2016. Evidently the rest of the supplies came through unofficial channels. A sharp depreciation in the Pakistan rupee, which ended down by 7.5% from 2016, was yet another trigger leading to increased smuggling and the 8% rise in investment demand. Much of the volumes are hand carried by passengers from Gulf countries, while another active route has been through the porous Pakistan-Afghanistan border.

On 20th January 2016, the Central Bank of **Bangladesh** scrapped the decision to allow passengers to carry up to two kilogrammes of gold bars into the country. And they imposed stricter passenger baggage rules which allowed carrying not more than 100 grammes of gold, anything over that carried Tk 3,000 (\$36) customs duty and 4% advance trade Value Added Tax (VAT). As a result, the quantum of smuggling is estimated to have increased by five fold. Further to that there has been an increased vigilance on the functioning of jewellers, with regular raids at stores by intelligence agencies. The trade lobby has been trying to convince the government to regularise the trade by officially allowing the import of gold. It is an open secret that Bangladesh retailers thrive on smuggled gold but officially opening the trade risks dollar outflow, and as a result the government is less likely to allow free imports.

On the demand front, investment demand is estimated to have increased by 39% year-on-year to 1.4 tonnes and jewellery consumption increased by 9% to 19.8 tonnes. Gains in investment demand were primarily attributed to the stashing away of unaccounted income following political turmoil in the country.

Sri Lanka allowed the duty free import of gold in 2016, following which it has been a major entrepôt for smugglers to carry gold into India. It is estimated that Sri Lanka officially imported approximately 13 tonnes of gold last year. Jewellery fabrication surged 60% last year to 11 tonnes on increased export-led demand. Also it has been a centre for manufacturing plain jewellery which is carried by unofficial carriers to India.

Nepal is estimated to have officially imported 5.2 tonnes of gold in 2017, the same as in 2016. Much of these volumes were however used for re-routing to India unofficially. The unofficial trade is either used to barter for various goods or against jewellery fabricated in India. Nevertheless, gold jewellery fabrication is gradually increasing as the trade learns the skills, a result of which was a 13% year-on-year increase in demand to 2.4 tonnes.

NORTH AMERICA

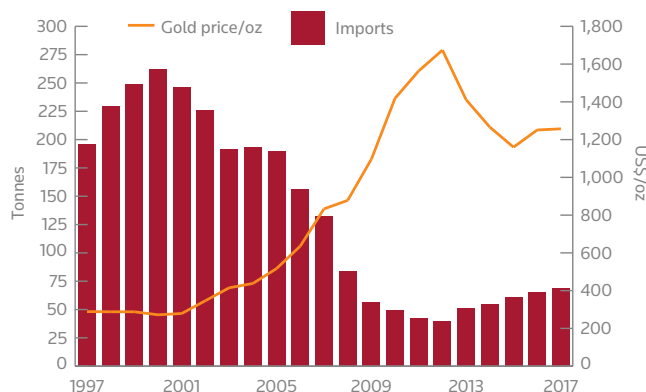
- **Total North American fabrication demand fell 17% last year to 206 tonnes, the lowest level in more than two decades.**
- **Retail investment, responsible for 27% of the total, had one of its worst years on record, falling by 17% to 56 tonnes.**
- **Jewellery fabrication, good for 40% of the market, fared better, rising 1% to 83 tonnes. And with imports strengthening as well, jewellery retail consumption in North America rose 5% to 167 tonnes.**
- **Industrial demand also recorded a rise of 2% driven by robust demand from the electronics sector whereas scrap remained tight, falling 4% to 86 tonnes. Scrap served 42% of total gold fabrication in North America last year.**

North American total fabrication demand fell 17% to 205.6 tonnes last year. Fabrication demand is mainly made up of three categories, namely jewellery fabrication, industrial fabrication and physical investment in gold coins and bars. Jewellery fabrication was the largest contributor to the total last year, representing a market share of 40%, up from one third in 2016. Total industrial demand also increased its share from 26% in 2016 to 32% in 2017. The residual of 27% came from investment demand, which stood at 40% the prior year. The main contributor to the slump in total fabrication, therefore, can be attributed to retail demand for gold bars and coins, which recorded a particularly abysmal performance in the United States last year.

Following three consecutive years of solid growth, retail investment demand in the United States, responsible for approximately 60% of the region's total, fell off a cliff last year, contracting by almost half to 34 tonnes. The biggest contributor to the slump was coin fabrication which had its worst performance in fifteen years, at thirteen tonnes in 2017. Although it started the year reasonably promisingly, coin sales at the U.S. Mint slipped thereafter and for the year as a whole were very weak. Some argue that the U.S. Mint has become a victim of its own success and that every new coin sold is a golden nail in its own coffin. We certainly do not want to take it that far but do acknowledge the inability and willingness of the North American retail market to absorb ever increasing newly refined metal. Over the last decade, retail physical bar and coins sold on the North American market accumulated more than 1,000 tonnes, which equates to approximately 9% of the global total over that period.

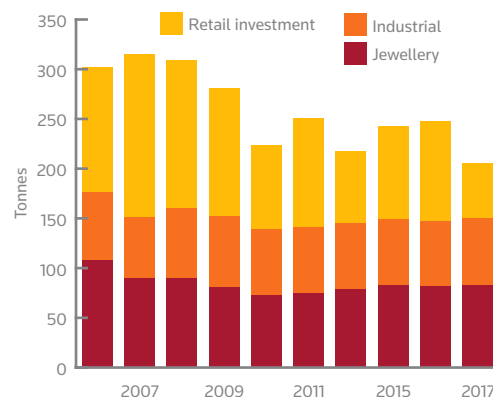
Alongside the slowdown in newly minted and refined coins and bars, retail investment appetite was still present but had shifted to the secondary market. Offer premia on various newly fabricated gold products declined considerably in 2017 falling from as high as 3.73% over spot at the beginning of last year to as low as 1.73% over spot in March 2018 in the case of the one ounce American Eagle. The Canadian Maple Leaf followed a similar pattern declining from 2.40% to as little as 1.20% over the same period. Trading of used older dated coins, however, increased indicating that investors became less willing to pay a premium for newly fabricated products and were happy to settle for older dated coins and pay less.

UNITED STATES JEWELLERY IMPORTS AND GOLD PRICE



Source: GFMS, Thomson Reuters

NORTH AMERICAN GOLD FABRICATION



Source: GFMS, Thomson Reuters

With the lack of any significant disruption in the global economy retail investors have grown wary of the opportunity cost of holding a zero yielding asset, particularly when they calculate their presumed earnings when investing the same amount of capital in stocks, which recorded repeated record highs, or to a lesser extent, cryptocurrencies. Certainly some of the slowdown in investor appetite can be explained by that phenomenon.

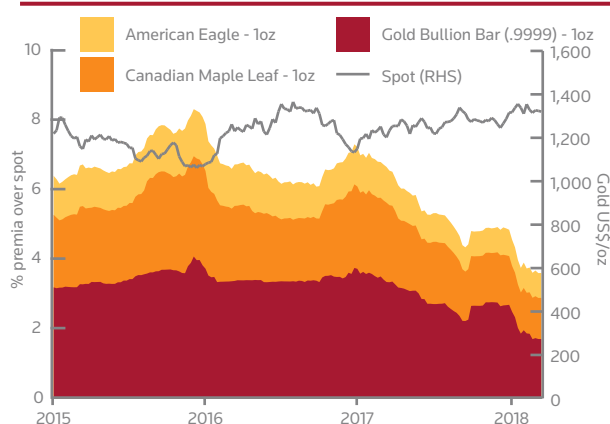
We estimate that net physical bar demand also contracted by 26% in North America, driven by a significant slump in the United States. Many of the reasons for the decline are similar to those in coins. Despite lower physical investment demand, we estimate that refining output remained stable in 2017. As such, exports posted a rise of 11% to around 485 tonnes last year, which is however still 23% below volumes recorded in 2012. The main destination has historically been Switzerland, representing approximately one third of the market followed by the UK in second at 24% market share. The former witnessed a moderate fall of 2% last year, whereas volumes to the UK rose by a considerable 22%. None of these flows, in our view, represent strong underlying demand from these countries. Usually a rise in flows destined for loco London or loco Zurich are a form of storage for refiners to find interested hands once demand picks up. Flows to Asia, such as Hong Kong and India, also rose by 42% and 37% respectively indicating stronger demand there, although in the case of Hong Kong it was merely an attempt to return to normal following extremely weak imports in 2016. Shipments to India, and particularly Hong Kong picked up strongly since 2011 when demand for gold shifted east. They contributed significantly to the rise in export diversification in North America, which previously was mainly a UK and Switzerland destined supply chain.

Jewellery fabrication in North America crept up 1% to 83 tonnes last year. Unsurprisingly, the United States again accounted for the overriding majority of the region's activity, approximately 80%, particularly when it comes to gold jewellery. Mexico has a much stronger presence in silver jewellery as opposed to gold. Last year, the jewellery sector in the United States continued to improve with revenues rising and fewer store closures. The bridal sector has continued to demonstrate strength and seen a rapid rise in demand for synthetic diamonds too. Despite the jewellery sector generally competing with fancy electric gadgets and exotic holiday destinations, retailers have adapted to the new age by having a stronger presence online and providing more customised options for their customers so they can have something unique. That seems to work well. Jewellery consumption rose 6% to 145 tonnes. Almost half of that demand was served by imports, which at 69 tonnes, for the first time since 2008 were higher than domestic fabrication. Of the top four import countries, which together account for 53% of total U.S. imports, both Italy and Turkey recorded considerable increases of 27% and 21% respectively. India, the second largest source of imports, responsible for 16% of gold jewellery supply, contracted 6% last year whereas imports from China remained flat.

Industrial fabrication in North America nudged up 2% to 67 tonnes last year. Gold is used in a wide array of applications, usually in the form of plating or wires in particularly the electronics sector. In spite of continued thrifting pressure, rising volumes have held demand in this segment more or less steady throughout the last six years.

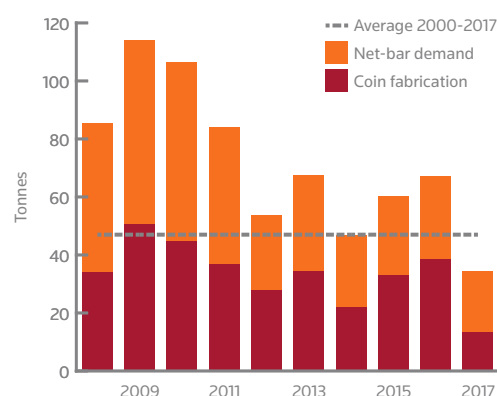
Scrap supply, on the other hand, has followed a completely different trajectory and recorded its sixth consecutive year of declines in 2017, falling by 4% to 86 tonnes. The majority of that is concentrated in non-jewellery related scrap which contracted 4.5% last year to 58 tonnes.

US PREMIUM OVER SPOT



Source: GFMS, Thomson Reuters

US RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

TURKEY

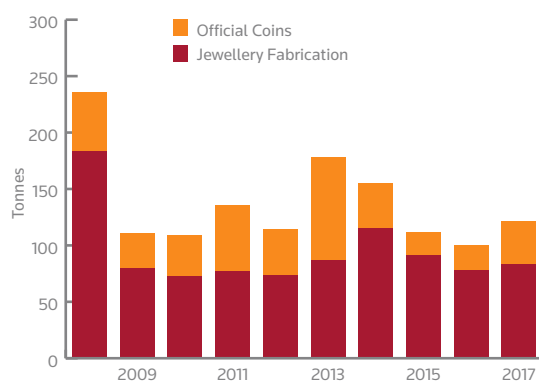
- *Turkish jewellery fabrication jumped 7% year on year to an estimated 83.2 tonnes while investment demand soared 60% over 2016 volumes due to a near 70% rise in official coin offtake.*
- *Turkish gold imports surge to over 360 tonnes in 2017 as investor appetite returns.*

In a year when demand across the region for both jewellery and retail investment offtake was underwhelming, demand for fresh bullion in **Turkey** skyrocketed in 2017. Gold bullion flows into Turkey reached a record level of 361 tonnes, according to data published from Borsa Istanbul, more than trebling the 106.1 tonnes recorded in 2016 and well above the previous high of 302 tonnes set back in 2013. The impressive rise in imports in 2017 was mainly a function of a pickup in jewellery manufacturing for export markets and a material rise in investment demand. In addition, the Turkish central bank was very active last year in building its gold holdings with reserves reaching a record-high 564.8 tonnes, mainly due to the Bank's policy of replacing a large amount of U.S. dollar reserves. Total reserves including foreign exchange and gold reached \$107.7 billion in value at the end of 2017, up \$1.6 billion from a year earlier while the value of gold bullion held by the Central Bank increased to \$23.5 billion from \$14.1 billion in 2017. The Central Bank signalled a shift in policy in May last year as it began to add to its held stocks on a regular basis, adding 86 tonnes from 5th May through to the end of 2017. Gold held by the Central Bank in terminal markets held off shore may also have been repatriated last year, boosting imports, though this has to yet be confirmed by the government.

We estimate that jewellery fabrication jumped 7% year on year to approximately 83.2 tonnes while investment demand soared 60% over 2016 volumes due to a near 70% rise in official coin offtake (see below). Local jewellery consumption, however, did not perform well in 2017, dragged 4% lower, due largely part to a weaker lira that accentuated the modest rise in the dollar gold price, with the local lira gold price average surging 22% higher than in 2016. The weaker currency was a function of the widening current account deficit and the ongoing uncertainty surrounding the political and economic environment. This price impact, coupled with double-digit inflation, severely impacted discretionary spending for a large proportion of the population, especially for carat jewellery where the resale value is not as high as higher purity alternatives. In contrast, the jewellery export sector enjoyed impressive gains and helped boost annual fabrication volumes with exports in value terms surging by over 30% in 2017 to over 2.9 Bn, according to data provided by the Jewellery Exporters Association. Shipments to the UAE, the largest market in volume terms, saw a hefty increase, but most key markets recorded impressive gains. Flows to Iraq were sharply higher, as were shipments to the United States, Hong Kong, and Germany. The local fabricators capitalised on the higher costs in the UAE due to the introduced import tariff on jewellery and the uncertainty surrounding the planned implementation of a Goods & Services tax (GST) for the UAE and Saudi Arabia to win market share.

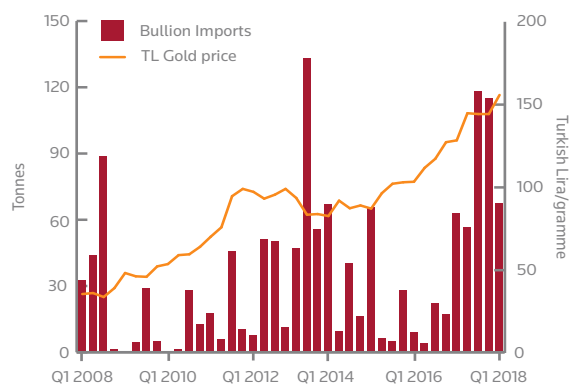
As mentioned above, official coin demand jumped sharply last year, helped in part by the dire decline in the domestic currency and raging inflationary pressure. Purchasing gold was one way of protecting assets from further depreciation and consumers were keen to do what they could as the value of the lira slumped to a record low against the dollar.

TURKISH FABRICATION DEMAND



Source: GFMS, Thomson Reuters

TURKISH LIRA GOLD PRICE/GRAMME



Source: Borsa Istanbul, GFMS, Thomson Reuters

JAPAN

- *Japanese jewellery demand softens, slipping 3% in 2017 to 19.1 tonnes.*
- *Japanese investment demand was dominated by sell-side traders, pushing overall demand into disinvestment.*
- *Electronics demand rebounded strongly, boosted by increased demand for plating solutions and a recovery in bonding wire production.*

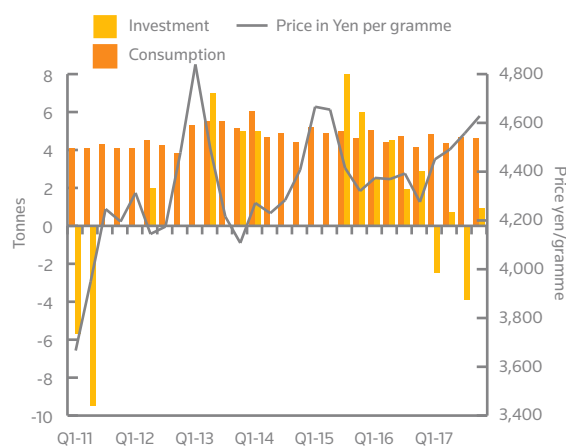
Japanese retail investment for gold suddenly roared back to life in September last year after eight months of inactivity. With gold in yen terms moving very little last year retail volumes had been underwhelming for the most part. This changed briefly after the rise in tensions on the Korean Peninsula during the year with safe haven purchases driving demand higher temporarily, but this uptick in demand was not enough to offset a market dominated by sell side activity with the market slipping to disinvestment of 4.7 tonnes in 2017. Meanwhile, jewellery consumption remained relatively subdued, slipping 3% to an estimated 19.1 tonnes with a stronger final quarter mitigating some of the earlier losses.

In terms of demand trends, gold continued to battle for market share with platinum with the latter trading at sustained discounts to gold and widely regarded as the premium or more luxurious of the precious metals in Japan. Even though platinum jewellery demand also struggled to register growth in 2017 it is easily dominating overall offtake, especially so for wedding jewellery. The erosion in gold's market share has been most acute for white 18-carat gold although yellow gold has also been affected. One segment of the market to register gains last year has been for lower purity gold jewellery, most notably for 10-carat items which is gaining traction among the fashion conscious youth demographic.

The Japanese economy was stronger last year and retail sales growth remained in a gradual recovery phase but it was difficult to maintain the high pace of growth seen earlier in the year. Japan's retail sales growth slowed in July as shoppers spent less on clothes and cars and in August, which is typically the main holiday season, demand was impacted by unseasonably wet weather which weighed heavily on overall demand. Inbound tourism continued to provide support to local retailers last year as the market continues to benefit from a weaker currency. According to the Japanese National Tourism Organisation (JNTO), the estimated number of international travellers to Japan reached 28.7 million last year, a year-on-year growth rate of almost 20%. Tourist spending hit a record 4.42 trillion yen (\$41.7 billion), in tandem with the surge in visitor numbers, a jump of 17.8% from a year ago.

Japanese gold scrap flows surged again in 2017 on the back of the significant inflows of smuggled bullion into the country. While the gold being smuggled in to avoid paying the 8% consumption tax is almost exclusively LBMA approved kilogramme bars, a proportion of this volume is melted down and made into rough jewellery and on-sold to scrap collectors and pawn brokers. Total scrap flows in Japan last year look to have jumped almost 13% to a record high 70.4 tonnes. The sizeable increase was somewhat surprising given that in local terms the average yen gold price rose just 4% in 2017 to 4,535 yen per gramme. The modest price increase, and a lack of volatility for the bulk of the year, was unlikely to have been enough to stimulate significant consumer liquidation. What drove the high level of scrap receipts last year (and for a large part in 2016) was the unofficial flows of gold bullion entering Japan illegally. This gold is smuggled into the country and after avoiding the 8% consumption tax payable on gold transactions and sold, often at a slight discount, into the supply chain.

JAPANESE GOLD INVESTMENT AND CONSUMPTION



Source: GFMS, Thomson Reuters

ITALY

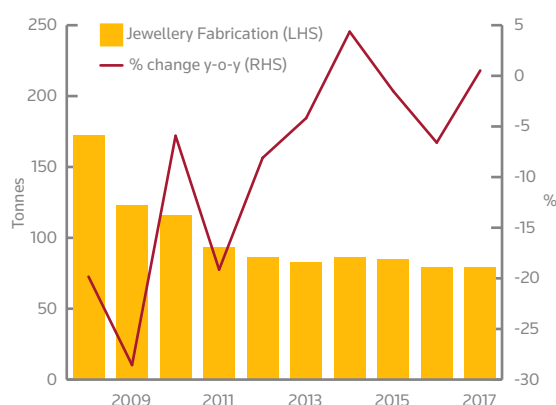
- **Gold jewellery fabrication recovered slightly in 2017, although poor performance from some of the key export markets along with stagnant local demand restricted last year's growth to just 1% year-on-year.**

We estimate Italian jewellery fabrication at 80 tonnes in 2017, representing a marginal year-on-year increase. While trade statistics shows that Italian jewellery exports recovered by 5% last year, demand from its largest export destination, namely the United Arab Emirates (UAE), continued to weaken for the third consecutive year, falling by another 5% in 2017. With the UAE's role as a major trading hub for India, the Middle East and North Africa, lower exports over the past few years had been a reflection of demand from these markets. With ongoing geopolitical tensions in the Middle East, struggling economies and the new tax regimes introduced in several countries in the region in recent years, it is not surprising to see poor jewellery demand from this region. As a result, the UAE's share of total Italian jewellery exports slipped to 14% in 2017, from 26% in 2014, the most recent year when Italian exports to Dubai recorded positive growth. It is worth adding, however, that the 5% drop in Italian jewellery exports to Dubai was a relatively mild outcome compared to double-digit percentage declines recorded in the previous two years. This was likely thanks to a rebound in Indian jewellery demand, aided by a favourable monsoon season in both 2016 and 2017 and lower prices in local terms. Direct exports of gold jewellery to India soared by over 60% last year, although in absolute terms it represents only a small portion of total Italian exports.

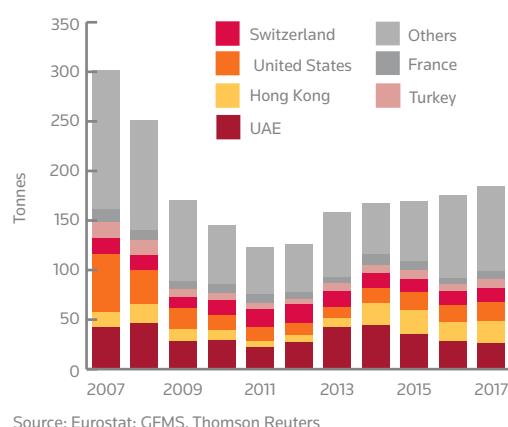
Turning to other export markets, jewellery shipments to Hong Kong recovered by 7%; while improving economic sentiment, jobs growth and higher disposable incomes in the United States saw demand for Italian gold jewellery rise by 13% last year. Exports to Switzerland, which accounted for 8% of the total, posted steady growth for the second successive year, which is likely to be a reflection of steady demand at the higher-end of the market. Similarly, shipments to France rebounded by 24% in 2017, following double-digit percentage declines in the previous two years, thanks to improved demand for high-end products. In addition, the launch of the new Bulgari factory (which is part of the French multinational luxury goods conglomerate, LVMH) in Valenza, one of the major jewellery producing districts in Italy, partly helped to explain increased trade volumes between the two during last year.

Meanwhile, local jewellery demand remained weak, slipping by 2% last year, as a result of long-term structural changes and shifts in consumer preferences, from traditional jewellery purchases towards fashion and other consumer goods such as new technology gadgets. Anecdotal evidence, however, implies that the local market began to stabilise, to an extent, largely thanks to continued efforts among retailers to improve promotional and distribution strategies, as well as increased collaboration with the fashion industry and better understanding of consumer preferences. That said, with roughly two-thirds of the Italian jewellery production being exported abroad, this segment of the gold market will continue to be driven by external demand. While expectations for demand from its key European consumers, as well as some major Asian markets, remain positive for 2018, the introduction of a 5% VAT in the UAE and ongoing tensions across the Middle East are likely to create some headwinds for the jewellery industry.

ITALIAN JEWELLERY FABRICATION



ITALIAN JEWELLERY EXPORTS BY COUNTRY



SWITZERLAND

- *Swiss franc gold prices traded in a relatively tight range in 2017 which has left this market subdued, with limited buying or selling activity and as a result, demand drifted to a ten year low. However, there have been tentative signs that institutional players are increasingly circling around re-entering the gold market.*

Swiss investment was unusually quiet for much of last year, especially with neither substantial buying nor selling activity being noted. Crucial to this subdued performance was the relative inaction in the Swiss franc price as shown in the accompanying chart. That said, at the start of the year there was some decent retail interest, particularly from bargain hunters, although it is also fair to say that the election of President Trump was also a contributory factor. Once gold prices rose back above 40,000 Swiss francs per kg, however, this not only acted as a major drag on fresh interest, it also sparked an upturn in sales and while this soon dissipated purchases have remained lacklustre thereafter, except for a limited flurry near year end.

Three other interesting trends were noticeable in the blend; one was an apparent continuation in a shift from some of the more traditional powerhouses of the Swiss retail market to newer and more insurgent players. Second was a slight shift in the product mix with retail interest remaining prevalent while demand from high net worth/ultra high net worth being quiet and as a result there has been a reduction in demand for kilobars with relatively more interest in 100g bars. Third, there is an increased level of interest and queries but at that stage very little in the way of buying from institutional players who have often been dormant in this market in recent years.

Doom and gloom pervaded the Swiss precious metal watch industry in 2016 due in no particular order to the Swiss franc, the anti-corruption drive in China and doubling in import tax on luxury watches to 60%, downturn in commodity dependent economies and some would argue a switch to smartwatches (although we did caution that this impact was marginal in our view for precious metal watches). Finally, and crucially, there was substantial destocking. This backdrop continued into 2017. However, there were encouraging, if tentative, signs in the middle of the year from data and discussions with the industry that demand for gold in this sector was stabilising, albeit at rock bottom levels – a seven year low. On the gold front there were two contrasting undercurrents; sales of gold watches, and hence watchcases, which are 18k alloys, may be nudging higher for the first time in years. At the same time, there has continued to be a switch from gold straps to leather or steel straps or gold plated straps. Consequently, demand for gold profiles used in watch straps were still down by more than a quarter year-on-year. While this is partly a fashion trend the substantial cost saving is also playing an important role. The turnaround continued and in the closing quarter of the year sales of Swiss made gold watches rose year-on-year for the first time since 2012 and this trend appears to have accelerated into 2018.

OUTLOOK

The very narrow range in Swiss franc gold prices will not be sustained. In our opinion a rally may well initially lead Swiss retail investors to reduce holdings at the top of the perceived range but as the price continues to rise to above the recent range we expect buying to reignite and become more prevalent again. Indeed, we also expect an upturn in buying from institutional players. This will not be a straightforward function of the gold price however and instead more likely a reflection of asset allocation decisions which could well be triggered if the Swiss equity market corrects from current levels, having already dropped in late January/February 2018. Meanwhile on the watch front we expect the first increase in gold offtake on an annual basis since 2014 as the watch industry starts a stocking cycle.

SWISS FRANC GOLD PRICE (PER KG)

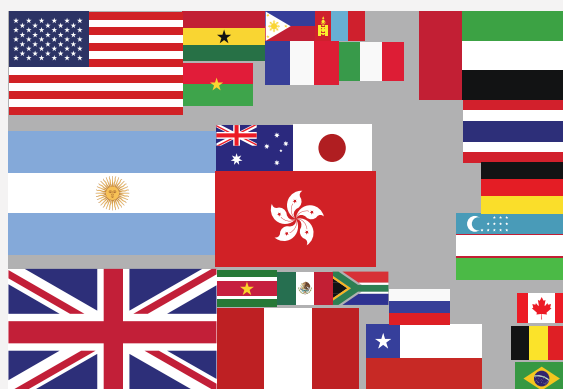


Source: LBMA, Thomson Reuters



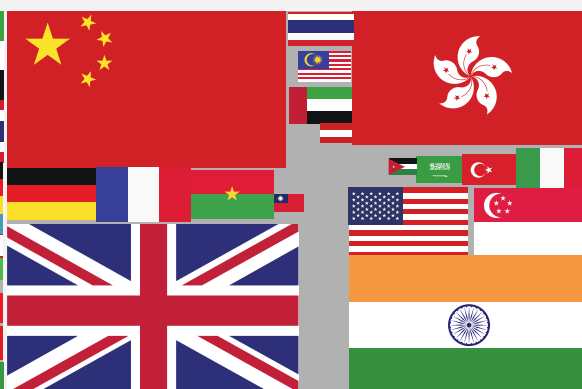
SWISS GOLD BULLION TRADE

2017 Imports



2,341 tonnes

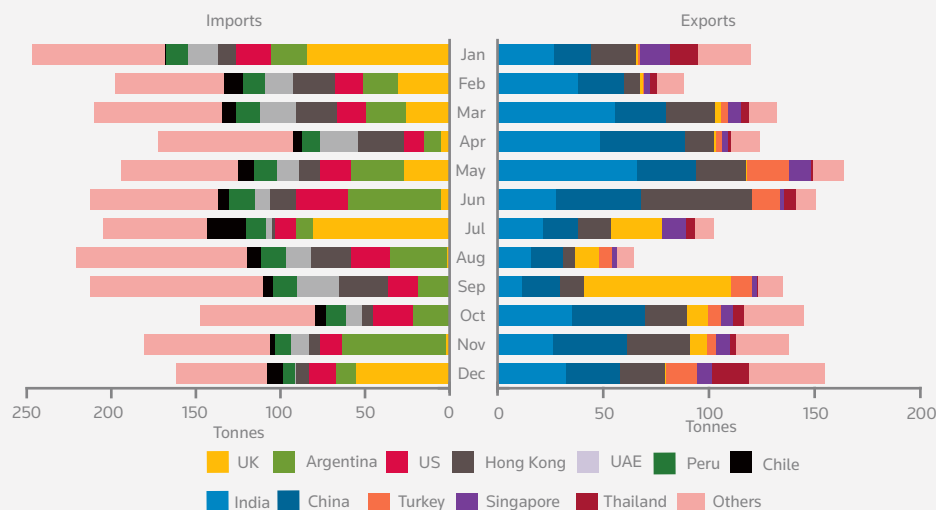
2017 Exports



1,657 tonnes

Source: GFMS, Thomson Reuters; Swiss Impex* Each country's flag is proportional to its trade. The whole rectangle for imports and exports is equal to the total trade and the grey area denotes trade with a country not represented by a flag.

2017 MONTHLY TRADE



Source: GFMS, Thomson Reuters; Swiss Impex

Switzerland imported 2,341 tonnes of gold, down by 15% year-on-year, falling to the lowest in three years. Much of the decline can be attributed to lower shipments from the United Arab Emirates (UAE), which was the top gold supplier into Switzerland in 2016, but saw its gold exports to Zurich drop by more than 50%, putting the country down to the fifth place. In tonnage terms other countries that contributed in size to the decline were United States, Turkey, and Singapore. In essence five countries together contributed to 82% of the decline in volumes. Much of the remaining 18% much of it was contributed to by the shortfall in supply from mining countries. The decline has a direct relation with the increase in doré imports to India which were a record last year at 395 tonnes of which 225 tonnes were recovered as fine gold.

Swiss gold bullion exports decreased by 17% year-on-year to 1,657 tonnes on the back of a sharp drop in shipments to the West, in particular the United Kingdom, which was a major destination for Swiss gold exports in 2016, but posted a near 80% drop. The drop was largely attributed to a very high base in 2016 and when compared with 2015, exports recorded another impressive increase. Similarly, outflows to the United States registered a sharp 84% year-on-year drop over the same period, following a stellar increase in the previous year, but registered double-digit percentage growth when compared to 2015.

* All tonnages calculated from trade values in Swiss francs.

RUSSIA

- *Russian jewellery fabrication posted a double-digit percentage recovery in 2017, after three successive years of contraction, as the improved economy and stabilising rouble value saw a return in gold appetite.*
- *The Central Bank of Russia continued to expand the country's gold holdings, which accounted for 18% of total reserves last year, valued at year-end market prices, compared to 11% for the world average.*

In light of Russia's recent Presidential election, which took place on 18th March 2018, the GFMS team has analysed developments in the Russian gold market during the reign of the incumbent President, Vladimir Putin, who came into power in 2012 and has been re-elected for the second consecutive term and the fourth term overall.

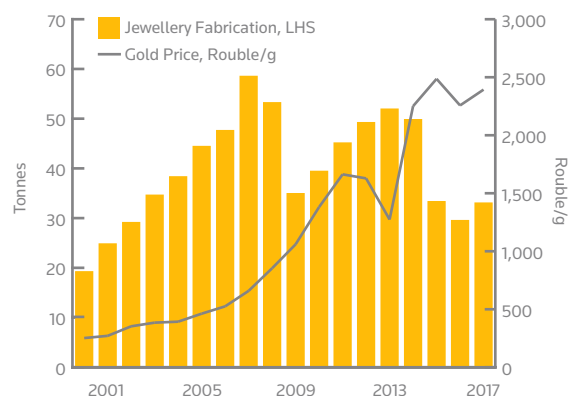
Jewellery market: the light at the end of the tunnel?

Between 2000 and 2007 Russia had been one of the most rapidly growing jewellery consumers, with demand expanding at double-digit percentage rates, before the economy was hit by the global financial crisis. Following two years of sharp declines, the gold jewellery market began to recover and once again enjoyed a period of uninterrupted gains between 2010 and 2013, with fabrication volumes recovering by 32% over the four-year period, just shy of the record level of pre-crisis years. The industry embarked upon a new crisis in 2014, however, after an escalation of tensions between Russia and the Ukraine and eventually the annexation of Crimea led to international sanctions against Russia, massive capital flight from the country and rapidly worsening economic conditions. The economy slid into recession in 2015-16, exacerbated by sharply lower oil prices, which along with a marked depreciation of the rouble saw consumer confidence fall to record lows and the local gold price soar to unprecedented levels, hitting retail sales of gold jewellery. As a result, jewellery fabrication faced three consecutive years of sharp declines, which saw offtake contract by more than a third between 2014 and 2016. Last year saw gold jewellery fabrication recover by 12%, driven by improved economic conditions, as the Russian economy rebounded after two consecutive years of negative growth, as well as markedly lower prices in rouble terms, although volumes remained well below levels of previous years.

Russia's Central Bank continues stocking up on gold

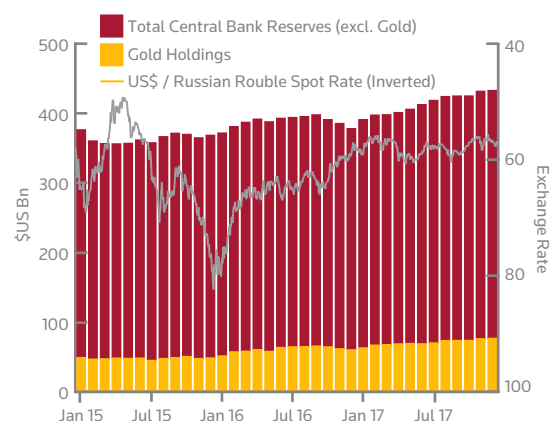
The Central Bank of Russia had remained the largest reported purchaser for the sixth consecutive year, having bought 224 tonnes of gold in 2017, up from 201 tonnes purchased in 2016. With its total holdings at around 1,839 tonnes at end-year, Russia strengthened its position as the 6th largest gold holder globally. With China continuing the recent trend of not changing its reported holdings, the gap between the two narrowed to just four tonnes last year. By end-2017, Russia's gold holdings accounted for 18% of the country's total reserves, still relatively low compared to some western countries such as the United States, Germany and Italy, where gold constitutes about two-thirds of total foreign exchange reserves (reflecting the legacy of those countries' period on the gold standard), although well above the world average of 11%. Already in 2018 Russia has overtaken China and moved into the top five global gold holders.

RUSSIAN JEWELLERY FABRICATION AND SCRAP



Source: GFMS, Thomson Reuters

GOLD PRICE IN US DOLLAR AND ROUBLE TERMS



Source: IMF; GFMS, Thomson Reuters

GERMANY

- **Gold retail investment in Germany contracted 3% to just over 100 tonnes in 2017. It started the year strong but failed to pull that through as investors explored other investment options.**

As with other industries, the precious metals sector, be that jewellery as well as retail investment, is slowly changing towards increasing its presence online. Less business is done face to face and customers have increasingly grown accustomed to handling their purchases online. This modernisation process has also filtered through in the retail investment buying behaviour, where a new generation of investors is less keen to buy and hold physical metal but rather invests in products like ETP's. As such, refiners have seen an increase of demand for gold from these funds in Germany last year, particularly those that have a domestic presence.

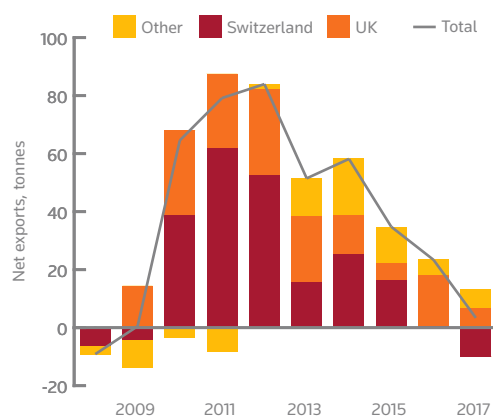
Total retail investment as a whole, however, was down 3% last year to just over 100 tonnes. Retail investment is by far the most important element in Germany's total gold demand. When looking at all fabrication elements plus physical bar demand, the German market accounted for about 131 tonnes last year of which retail investment makes up a staggering 77%. Last year's decline in retail investment was mainly a function of a lack of price volatility which reduced investors' appetite for bargain hunting. The year started off reasonably strong with demand up approximately 5% in the first quarter compared to the prior year, but after that consumption fell into a lull. This was also partly reflected in the trade data which showed seven tonnes of net imports of gold bullion in the first quarter, driven exclusively by ten tonnes of net imports from Switzerland (gross Swiss imports stood at 52 tonnes). It is interesting to note that the German bullion investment market has become more balanced in recent years, as the chart below demonstrates. Net exports were strongest in 2010, 2011 and 2012 totalling 65, 79 and 84 tonnes respectively to almost exclusively Switzerland and the UK. Since then German refiners have started to ship more metal to other parts of the world and the gold bullion surplus declined to almost a balanced status last year.

In contrast to some of the prior years, German investors did not seem to be concerned about looming elections at some of their European neighbours or the bolder rhetoric between President Trump and the North Korean leader in 2017. It seems as if investors have realised that some looming crisis will constantly be around the corner and that with every new election victory there might well be renewed claims about an European break-up. But as the saying goes, the soup is never eaten as hot as it is served and recent history has shown that, other than the GFC, many economic and political challenges have not resulted in a crisis. As such, stock markets have continued to produce impressive results breaking new records frequently which has averted even the attention of the most conservative gold investors.

Jewellery fabrication fell 1% last year to 13 tonnes. As Germany is traditionally a net importer of gold jewellery, reaching approximately 4 tonnes last year, consumption of gold jewellery reached around 17 tonnes in 2017. The decline in gold consumed in this segment is not so much a function of lower demand in absolute pieces but more a reflection of a continued shift in caratage purchased. Last year continued to see the largest 18-carat segment struggle,

whereas the lower carat segments, 8 and 14-carat recorded considerable increases.

GERMAN GOLD BULLION NET EXPORT



Source: GFMS, Thomson Reuters

Gold used in electronics witnessed a small increase of 2% reaching approximately 12 tonnes. Despite precious metals remaining under pressure when it comes to their use in electronic applications, the rise of electrification in the automotive industry, for example, contributed to an increase in demand for gold products from this segment.

Scrap volumes, both jewellery and non jewellery fell last year by 1% to around 24 tonnes. Precious metals containing applications continued to increase but lower loadings resulted in higher throughput and tight margins at recyclers.

UNITED KINGDOM

- *UK jewellery slumped by 14% to a five-year low as it grappled with persistently higher gold prices in sterling terms.*

Since the Brexit vote in June 2016, the UK jewellery sector has been going through a tumultuous time. During this period sharply higher sterling prices following the depreciation in mid-2016 has undoubtedly been a major drag on consumption. This has hardly been helped by struggling consumer confidence and falling footfall on the high street. Against this backdrop UK hallmarking statistics have been dire, with the number of gold pieces down by 17% last year.

Given this backdrop it was unsurprising that discussions with industry players talked of a tricky and challenging period. The picture was not entirely uniform though with watch demand stronger than for jewellery, while there are signs that the mid-top end of the market has been holding up better than the lower end. This is arguably because the portion of the price which is prone to the underlying precious metal price is lower in percentage terms. Hence the increase is less likely to have been passed on and when it has been it would make a smaller difference to the amount sold. Our discussions with the trade support this theory as margins have been squeezed.

NOT ALL DOOM AND GLOOM

Performance was far from uniformly downbeat as earrings and chokers have been very popular. What's more various companies are taking a number of initiatives that fall outside redesigns of the product offering from a fashion perspective and which may encourage demand (even if on some occasions this is not the sole driver behind the move.) These often centre on the customer experience, ethics and emotional ties that regularly influence the decision to purchase precious metal jewellery. Four examples are Responsible Jewellery Council (RJC), Fair Luxury, Made in Britain, and Skin Kind. The RJC explained that it is increasingly important to understand that a growing group of consumers, particularly millennials, are asking questions around responsible sourcing and corporate social responsibility (CSR) matters and that it can be a competitive advantage to understand this.

This brings us on to Fair Luxury, which in their own words is "an independent group of committed changemakers creating a platform to discuss and promote responsible sourcing in the jewellery industry." Shifting from the sourcing of material to manufacturing brings us to the two remaining factors. First looking at Skin Kind, this is an approach that M&S, the major UK retailer, has used on all its jewellery since May last year. This approach came in response to allergy concerns and was developed in conjunction with AnchorCert Group's testing laboratory in Birmingham, housed in the Birmingham Assay Office. The research uncovered 16 different metals most likely to cause a reaction including nickel. Legislation is already in place to protect customers, but both cobalt and chromium were also highlighted. M&S has consequently developed alternatives in its range and this approach has helped a significant upturn in sales from this retailer despite the shrinking UK market. Finally the National Association of Jewellers (NAJ) has formed a partnership with the Made in Britain brand. It is important to note that this is different from hallmarking which remains obligatory for all items in the UK, even though the vast majority are imported (and sometimes hallmarked elsewhere too). Indeed, with the uncertainty around Brexit this could lead to the loss of the reciprocal arrangement that exists between assay offices in the region and hence force some importers to hallmark at one of the UK assay offices and exporters to shift some of their hallmarking overseas.

OUTLOOK

This year has started with gold demand appearing to have stabilised as the market has fully adjusted to higher prices. We expect that unless, or until, the economy hits a bump in the road (possibly Brexit induced), consumption is likely to make a modest recovery as the year progresses.

STERLING GOLD PRICE (£ PER OZ)



Source: LBMA, Thomson Reuters

SOUTH KOREA

- *Gold demand from South Korea improved by 3% in 2017 to 96 tonnes, on the back of a global recovery in the industrial sector, as well as a modest increase in retail investment.*
- *The biggest gold story in Korea last year was the brief spike in the volume of gold exported to India, before the Indian government stepped in to ban further gold imports from the country.*

We estimate that demand for gold bars rose by over 6% in 2017, partly supported by escalated tensions between North Korea and the rest of the world. Gold bars, especially small ones weighing between 10 and 100 grammes, were the most popular products. Demand was at its strongest in April when a war between the United States and North Korea appeared to be increasingly likely. However, unlike similar situations in the past, the higher demand was also met by higher supplies, as some investors actually took advantage of the opportunity to offload their holdings at a good price.

On the other hand, promotions offered by department stores also provided a strong boost to demand for gold bars. Given that consumer sentiment remained lukewarm department stores began to worry about reaching their annual sales targets, offering various incentives and discounts on gold bars purchases to their customers to encourage greater retail activity.

While Korea's retail investment demand improved, the major pickup in gold demand was actually from the industrial sector. Thanks to a general improvement in the global electronics sector, particularly in the first quarter, global order books surged. While orders cooled off a bit for the rest of the year, the sector remained relatively stable. Gold bonding wire, after several years of decline, rebounded in 2017, as demand from the global semi-conductor industry increased. Industrial experts think that the technology of gold bonding wires has reached the bottleneck, and do not expect the wire to get much thinner. The emergence of artificial intelligence should also benefit the use of gold bonding wires because of its reliability. We estimate that Korea's industrial demand for gold reached 37.2 tonnes in 2017, compared to 34.9 tonnes a year prior.

The biggest gold story in Korea was probably the spike of gold exports to India for a 1.5-month period starting in July 2017. Following India's introduction of a Goods and Services Tax (GST) starting 1st July 2017, there was a brief window of opportunity where gold in certain forms could be imported free of basic customs duty of 10% from countries with which India has signed the Comprehensive Economic Partnership or Free Trade Agreement (CEPA). India had signed a CEPA with South Korea without a regional value addition clause even where there product's origin was not from South Korea. Starting on that first day in July until the Indian government decided to ban the further gold imports from South Korea (for HS codes starting from 7113 to 7118) on the 25th August, we estimate that 33 tonnes of gold were imported from South Korea into India. During that time span, demand for physical gold was extraordinarily high in South Korea, with jewellery shops purchasing as much raw material that they could muster to fabricate gold medallions to be exported to India.

Looking forward, geopolitical tensions over North Korea may ease, as North and South Korea will hold their first summit in more than a decade on 27th April (after this document has gone to press). Korea's industrial orders continued to improve in the first quarter of 2018, but it remains to be seen how the global trade war will play out eventually, and how much of a negative impact it could have on South Korea's industrial sector.

SOUTH KOREA GOLD DEMAND



Source: GFMS, Thomson Reuters

INDONESIA

- *Indonesian jewellery consumption stronger in 2017 but fabrication remains unchanged.*

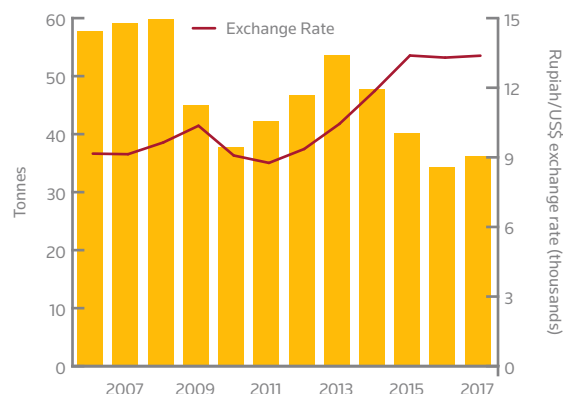
Despite near record gold prices in local terms **Indonesian** gold jewellery consumption looks to have rebounded from three consecutive annual declines with a healthy 6% rise in 2017. Local offtake was indeed stronger but those fabricators in the export sector faced a challenging year with several experiencing a significant decline in orders, forcing many to focus more heavily on the domestic market to lessen the impact. While jewellery consumption returned to growth last year, it is worth noting the severe contraction the jewellery fabrication industry has been through in the last decade. Back in 2008 Indonesian jewellery consumption stood at close to 60 tonnes while last year domestic offtake reached 36 tonnes for the full year, aided in part by a strong fourth quarter. This represents a 6% increase over 2016 volumes but remains almost 27% below the level recorded in 2013.

The most significant impact over the last decade has been the rising gold price which has more than doubled over this time frame. The rising price saw the emergence of lower carat jewellery which provided retailers with the opportunity to maintain key price points, and for consumers, it allowed for larger items to be purchased at a more affordable price. The Indonesian market was mainly a 17ct and 18ct market with the former mainly yellow gold and the latter white. Initially 10ct was introduced in the form of chain but gradually fabricators introduced 7ct, 8ct, and 9ct to the mix. Today low carat jewellery contributes to more than 55% of Indonesian consumption but it is mainly consumed across the most populous island of Java. While changing consumer tastes and competition from other consumables have impacted consumption volumes, the shift to low carat jewellery has played a significant role in lowering the country's fine gold consumption – the level that GFMS records.

Looking at this year in more detail, the year started with a bang and with a local price below 500,000 rupiah demand was red hot in January. Several fabricators suggested it was the best start to the year in recent memory. However the party didn't last as gold prices tracked higher in February and March, dampening the enthusiasm of consumers but also reducing fabrication volumes as the market was heavily overstocked. The build up to Hari Raya (the Muslim festival that marks the end of Ramadan), which is often the busiest period of the year as locals purchase gifts to take back to their family during the week-long holiday, was marred by higher prices in early June. Luckily for the local trade, gold traded lower during the middle of the month allowing a brief period of stock building ahead of the holiday, as this important month of retail activity was condensed into two weeks. It also coincided with the start of the school terms so cash flow was limited for many consumers. Demand was also negatively impacted by higher prices in early September as gold in local terms surpassed 570,000 rupiah per gramme (the first time since August 2016), but rebounded strongly in the fourth quarter as prices again eased.

While jewellery consumption recovered last year jewellery fabrication in Indonesia remained flat, largely as a result of a weaker export sector. Most of the flows exiting Indonesia are destined for either Hong Kong (for the Chinese market) or Dubai which is then re-exported to the surrounding GCC countries. Last year consumption in the UAE was weak so demand from Dubai's wholesalers was spasmodic at best with competition driving prices lower. Meanwhile in China, demand for 18ct has been growing exponentially and because of this many domestic fabricators have switched their focus to this market segment. As a result, these fabricators have started filling the gaps that were once the domain of those from across south-East Asia who exported products into China. This trend has had a significant impact on Indonesian fabricators with a number reporting declines last year in the order of 50%.

INDONESIAN JEWELLERY CONSUMPTION



Source: GFMS, Thomson Reuters

MALAYSIA

- *Malaysian gold consumption retreats 7% in 2017 while jewellery fabrication slides 11% as exports fall.*
- *Investment demand jumps 17% year-on-year boosted in part by a pyramid selling scheme.*

The Malaysian gold market has had a difficult few years. The export focused sector has struggled as demand in the Middle East, India, and China has declined quite sharply from the recent peak in 2013. In addition, the introduction of a 6% GST on 1 April 2015 had an immediate impact on domestic consumption, driving local offtake that year lower by 27% and was also partly responsible for the weakness in the following years. In 2017, the export markets remained fragile but domestic consumption was boosted, albeit temporarily, from an unusual source; a pyramid scheme of sorts, known by many names, but generally referred to as “The Money Game”.

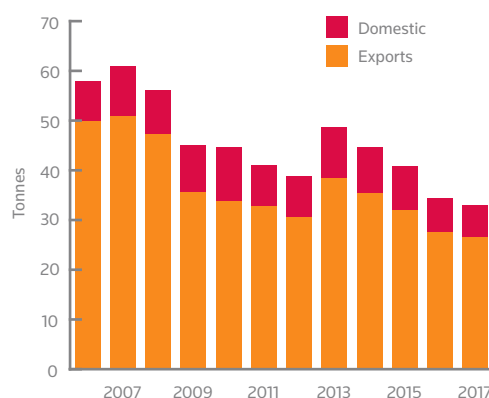
The bulk of this demand was seen in the second quarter last year and explains the 17% jump in gold consumption for that period. What made a couple of schemes different from others was that with this product investors received loyalty points the longer they kept their funds in the game, which are converted from virtual money or coins, in exchange for goods and services at affiliated companies. Simply, investors could buy goods using their points at designated shopping malls across Penang and Kuala Lumpur. What spurred gold demand last year was the inclusion of two major gold jewellery retailers into the mix. Investors were able to convert their accrued points into gold jewellery and in some cases investment products, the latter jumping 17% last year as a result of 2.4 tonnes. Demand from this source was relatively short lived and was not sufficient to offset weakness for the rest of the year with jewellery consumption dipping 7% last year, the fourth consecutive decline.

The Penang based jewellery fabricators, whose exports make up the bulk of the country’s fabrication volumes, also had a difficult time of it last year. Jewellery fabrication fell 11% to an estimated 30.2 tonnes. The largest declines were seen at the biggest market for Malaysian exports, Dubai, where demand fell precipitously following the introduction of a 5% duty on jewellery imports at the start of last year. While demand in Dubai was weak, so too were the regional markets, with Saudi Arabia and Iraq in particular softer compared to the previous year. One bright spot was increased shipments to Singapore last year, with a significant proportion of the 22-carat items then finding their way to India through back door channels. Aside from weaker exports orders, local fabricators are facing rising production costs due to higher employee wages. In 2017 the median wage for low-skilled workers jumped 10% while those mid-skilled employees enjoyed a 5% annual gain. In an industry where margins are often razor thin many have been feeling the pinch and have started to focus more on the domestic market.

On the economic front, the Malaysian economy continued to perform well with higher than anticipated growth at 5.8% in 2017, and projected growth of 5.3% for 2018. The unemployment rate stayed constant at 3.4% last year, the same as in 2016, as stronger employment gains kept pace with labour force expansion. However, while the economy is chugging along nicely, and outpacing many of its neighbours, demand for gold jewellery has been muted. Last year the average gold price in ringgit terms jumped 5% and this is likely to have weighed heavily on consumption volumes.

Looking to this year, demand in early 2018 has been solid without being spectacular. If the gold price remains in the current trading range local consumption will likely see a slight improvement this year, but fabrication output will again be under pressure as export markets remain anemic.

MALAYSIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

THAILAND

- *Thai gold jewellery demand stable in 2017 while the investment market surges to a three-year high.*

The **Thai** gold market faced several challenges in 2016 with the death of their much loved King in particular dragging consumer spending lower in the latter months as the country began a year-long mourning period. While demand did pick up in early 2017, and again midyear, on weaker gold prices and a stronger tourism sector, jewellery offtake was softer in the lead up to the King's funeral in late October as consumers once again focused on the death of the long standing monarch and restricted spending on luxury goods. Following the funeral, and coupled with a drop in the gold price, demand picked up with a surge in December giving hope to many retailers that the market has finally turned a corner.

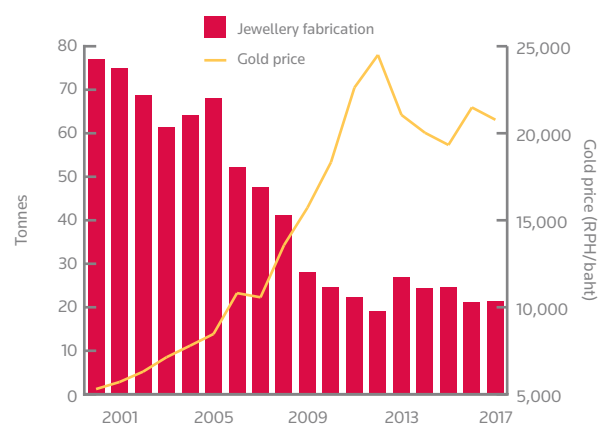
Following a twelve month period of mourning when many locals wore black daily and it was frowned upon to be seen having any celebrations, Thai consumers have started to come out of their shells. Consumer spending picked up and the mood lifted. Chinatown traders suggested that there was notable difference in spending prior and post the extravagant funeral. Finally it was ok to be seen shopping and spending on luxury items. A stronger economy was also helping, lifting consumer confidence and wages growth. The Thai economy, while in an upswing at 3.9% growth in 2017, still lagged peers in Southeast Asia, but with a democratic election on the horizon (November 2018), there is a building optimism across the country. In addition, the tourism sector, which suffered severely following a terrorist attack in 2016, rebounded strongly, rising 8.8% last year to over 35 million visitors.

Following a weak October, demand in November was solid without being spectacular, but the market really started to boil in the first week of December when the local gold price dipped below the psychological level of 20,000 baht per baht bar (15.16 grammes), the first time since December 2016. The drop below this level was a clear buy signal to many investors and to those consumers wishing to prop up their precious metals holdings. Lines were four and five deep along the Yaowarat road Chinatown stores in Bangkok, the heart of the Thai jewellery sector. Such was the instant drag on store inventory that the larger traders struggled to lock in supply from abroad to meet demand. This final wave of demand in December helped lift jewellery fabrication and ensured that 2017 as a whole saw a modest 2% increase to 21.5 tonnes.

It was not just jewellery (or ornaments as it is known there) but investment demand that also shot up during this period. Indeed, several traders reported selling 49s bars into the market instead of waiting to convert the gold to the locally traded 965 purity as investors didn't want to wait for the conversion. The stronger baht (the local currency rose 9% last year against the green back) has also helped in lowering the local gold price. While demand rocketed in December offtake during earlier months was more moderate, but the sheer volume of sales in the final month pushed total investment demand for the quarter to an estimated 23.7 tonnes, a 39% jump on last year, which had been negatively impacted by the passing of the king, to the highest quarter for the year. Overall investment demand for the full year jumped 48% to 81.2 tonnes, a three-year high, but well short of the near 150 tonnes recorded in 2013.

In a reflection of the stronger demand base last year, bullion imports recovered significantly from the seven-year low seen in 2016. Imports for the full year, at 267 tonnes, were 85% higher than in 2016 and the highest level since 2013. Bullion exports, meanwhile, fell 20% on 2016 volumes to 141 tonnes, boosted by stronger outflows in the first and third quarters.

THAILAND JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

VIETNAM

- *Vietnam's jewellery market continues to expand while investor appetite for gold bar wanes.*

Vietnam's gold market in 2017 was a mixed bag. On one hand the jewellery market continued to expand as a result of stronger domestic consumption and increased exports, while on the other, the investment market recorded a considerable contraction last year. The Vietnam gold market has been in a partial lock down for the past five years following the government's decision to suspend gold imports and tightly control consumer access to the precious metal through a series of legislative changes that limited the sale and distribution of investment bars.

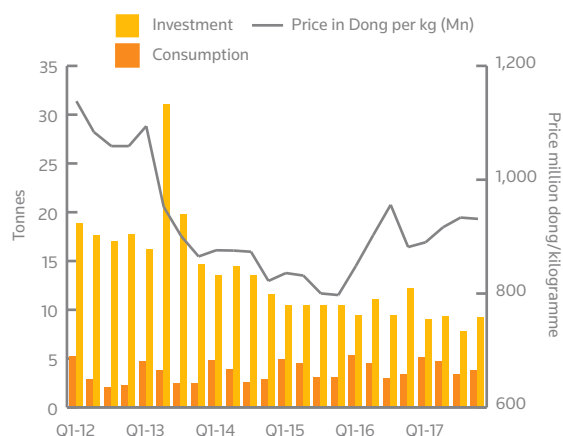
In May 2012 the government of Vietnam introduced new legislation (Decree No.24) on the management of gold trading activities which essentially placed production, import and export of gold, and trading of gold bars/bullion, in the hands of state-appointed organisations. Since then flows of gold into the country with a population of nearly 93 million have been almost entirely from unofficial sources. In recent years these flows have reached as much as 85 tonnes in a single year with the bulk emanating from Cambodia and to a lesser extent mainland China.

Last year investment demand in Vietnam eased considerably, by 16% to an estimated 45.4 tonnes, due to several factors that are common in the region. The growth of domestic equities (the VN-Index surged 48% last year) and property markets has seen available funds directed to higher yielding assets, while the lack of volatility in the gold price significantly reduced the two-way trade. As a result of this weakness in the market unofficial imports eased last year with our field research suggesting that cross border flows were below 50 tonnes in 2017.

While investment demand has been waning, Vietnam's jewellery market saw another year of expansion with fabrication stronger by close to 7% year-on-year to 16.8 tonnes. The domestic economy is surging ahead with annual GDP growth of 6.8% in 2017, along with a decrease in inflation from 4.7% in 2016 to 2.6% in 2017, with this expansion leading to higher earnings and improved consumer spending. Fine gold consumption has been bolstered in recent years by the move to higher purity jewellery, a segment that was first introduced when the availability of gold bars was restricted in 2012. Consumers, especially in rural areas where the proceeds from the harvest were often held in gold bars, turned to 24ct jewellery as means of savings. The low mark-ups were attractive as the losses were minimal when it became time to liquidate their holdings. These days this segment has expanded to urban centres and is now well organised with the 24ct jewellery (primarily rings and medallions) encapsulated for protection like a small investment bar and sold in most retail outlets. While the premium on this product is slightly higher than the equivalent weighted bar the availability and ease of reselling has made it attractive to many investors. Indeed the growth of this sector partially explains the decline in traditional bar sales.

The international bullion market is hoping that 2018 will see Vietnam once again start importing bullion to supplement the local supply. Several of these traders have been readying themselves for such an eventuation with most of the preliminary work already done. Rumours started circulating during the middle of last year that changes were imminent but as of yet there is no word from the State Bank of Vietnam as to when this may occur. A renewed draft of Decree 24 is said to be currently being worked on by the government and to be released in due course. As to what this may entail it is still unknown but hopefully it is a step towards greater transparency and an open market. A fully open market is likely way down the track but allowing bullion imports would be a great first step.

VIETNAM JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

MIDDLE EAST

- *Jewellery consumption across the Middle East rebounded 8% in 2017 to 309.4 tonnes, following a precipitous decline in 2016.*
- *Demand in the UAE recovered strongly, rising 13% last year, with a final quarter surge ahead of the Goods & Services Tax (GST) implementation this year lifting full year volumes.*
- *Economic instability and currency weakness accounted for the large falls in Saudi Arabia and Egypt, with these markets sliding 24% and 17% respectively. Meanwhile, Kuwait and Bahrain were the beneficiaries of higher costs in Dubai due to the introduced import tariffs, with both markets recording solid gains.*
- *Iranian jewellery consumption continues to expand on stronger economic growth and greater political stability.*

Jewellery consumption in **Egypt** looks to have fallen sharply again 2017, sliding 17% to a record low. The decline, the third in succession, has seen domestic consumption fall 51% from the 2014 total. The acute devaluation of the Egyptian pound in late 2016 has driven the local gold price out of reach for many and this is negatively impacting consumption volumes. The higher price environment generated a jump in scrap collection with this additional supply putting some downward pressure on local prices. The greatest impact was seen for 21-carat designs which remain the mainstay of demand, with 18-carat items performing better as they are aimed at a less price sensitive market.

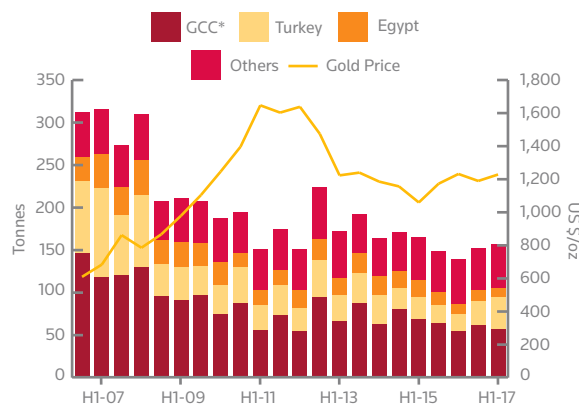
Iran was a stand out in the region again last year, enjoying a 13% annual rise, the second consecutive double-digit increase in as many years. The stronger offtake, which was weighted towards the first half, was due in part to an improving economy but also greater stability following Rouhani's election win in March. Local production has benefited from a clampdown on unofficial imports, mainly from Dubai, and this has boosted domestic fabrication and resulted in significant expansion and modernisation of fabrication facilities.

Kuwait's jewellery consumption returned to growth last year, after two consecutive declines, jumping 12% year-on-year to 22.6 tonnes. Demand for diamond and 18-carat jewellery struggled, both losing ground in 2017, but demand for 21-carat rebounded strongly. The import tariff on imported jewellery introduced at the start of the year in Dubai saw local fabricators benefit as it became more economic for wholesalers to purchase from the domestic supply chain than import. The market also recorded a material rise in December ahead of the planned introduction of the Goods & Services Tax (GST) in the UAE, with the supply chain building stocks ahead of the price rise. As a result, imports in early 2018 were almost non-existent.

In **Jordan**, jewellery consumption remained relatively stable last year, falling just 2% from 2016 levels, but economic pressures are mounting and are likely to have a greater impact this year. The Jordanian government in a bid to raise revenue has this year introduced a raft of new taxes which will likely impact the gold market. The tax hikes come as the resource-poor country faces a public debt of approximately \$35 billion. A value added tax of 5% was proposed on jewellery but the local jewellery association lobbied to introduce a stamping fee structure as used in Kuwait as an alternative. This has meant the cost of stamping, which is higher on imported product than locally produced items can be partially absorbed and passed on to the consumers through high labour charges rather than a 5% additional fee to the total invoice.

Elsewhere, **Bahrain** and **Qatar** had contrasting years, with the former enjoying a 21% annual increase, while the latter was impacted by the unfolding crisis with Saudi Arabia and other members of the GCC midyear, and as a result, the tourism trade was severely impacted.

MIDDLE EAST JEWELLERY CONSUMPTION



*GCC: Saudi Arabia, UAE, Oman, Bahrain, Kuwait, Qatar
Source: GFMS, Thomson Reuters

SAUDI ARABIA

- *Saudi Arabian gold consumption tumbles as the Saudisation policy impacts consumer spending.*

Gold demand in **Saudi Arabia** fell sharply last year with the government's decision to begin enforcing the 'Saudisation' policy that was first touted in 2007 another severe blow to an industry already suffering from weak local sales. Adding further pain this year was the implementation of a 5% Value Added Tax (VAT) which was introduced on 1st Jan. 2018.

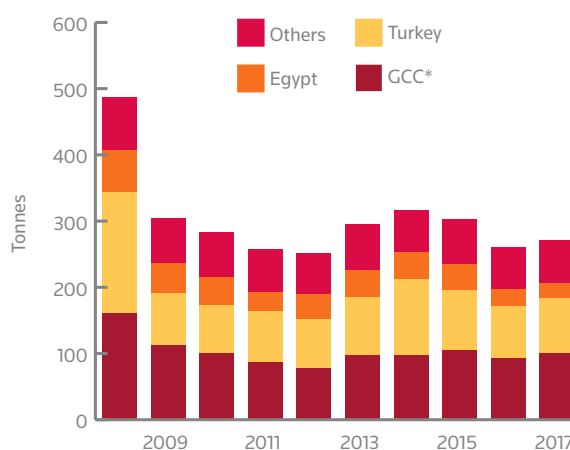
The 'Saudisation policy', as it is known, is a colloquial term used to refer to the Kingdom's official government policy of ensuring the hiring, training, and development of Saudi Arabian nationals over expatriate employees in the Kingdom. The Ministry of Labour and Social Development's five-year plan will see more than 1.3 million Saudi nationals enter the labour market as a result of the plan to nationalise the retail, telecommunication, taxi, travel and tourism, real estate, gold and jewellery, and vegetable market sectors. The policy has been in place for over a decade now but after an initial wave of activity little has been done to increase locals working within the industry. In a country where half the population is under 25, government statistics show the youth unemployment rate hovering around 40%, a potential powder keg. Nearly two-thirds of all Saudis are employed by the government, and the public sector wage bill and allowances account for roughly half of all government expenditure.

In November last year, the Ministry notified owners of gold and jewellery shops to conform to the Council of Ministers' decision issued in 2007 about nationalising the gold and jewellery sector with a deadline set for 3rd December, with gold and jewellery shops that employ foreigners fined SR20,000 (\$4,333) for each expatriate worker thereafter. According to the jewellery association there are more than 6,000 gold and jewellery outlets in Saudi Arabia employing close to 25,000 workers including expatriates. Until recently the Saudisation rate in the sector was less than 50%, so to push that to 100% rapidly has been a radical change, leaving many traders unable to meet this requirement. The higher salary required for locals and their lack of industry experience, coupled with weak demand and low margins saw many owners choose to exit the industry with many more now considering their position.

The Saudi economy, while improving on a stronger oil price, remains under severe pressure with rising taxes in recent years eroding consumer spending. This has impacted the retail sector across the board with the luxury sector in particular heavily hit as consumers have reined in spending on non-essential items. The Saudi government tabled an optimistic budget late last year, indicating that it will spend 978 billion riyals (\$261 billion) in 2018; its largest-ever, as it attempts to diversify its economy away from energy. This expansionary budget comes at a time of economic struggle with the country slipping into recession last year, contracting by 0.74%, but the government is optimistic, estimating that growth will rebound to 2.7% in 2018.

Jewellery consumption fell by an estimated 24% to 29.0 tonnes, a fraction of its former glory. Indeed, at the start of the millennium Saudi gold jewellery offtake stood at almost 170 tonnes per annum and was fifth on the global table. A feature of the market in recent years has been the shift to 18-carat items (from predominately a 21-carat dominated market) and to significantly lighter and more intricate designs. This trend continued throughout 2017 with the rise in 3D jewellery fabrication contributing to the drop in fine gold offtake. Investment demand was also weaker in 2017, falling 17% to 9.3 tonnes, a ten-year low. A lack of expectation of higher prices and a reduction in consumer savings accounted for much of the fall. Bullion imports were dominated by flows from the UAE with direct shipments from Switzerland (historically a major source of supply) slumping 85% year-on-year.

MIDDLE EAST FABRICATION



*GCC: Saudi Arabia, UAE, Oman, Bahrain, Kuwait, Qatar
Source: GFMS, Thomson Reuters

UNITED ARAB EMIRATES

- **Gold demand in the UAE increased by 25% year-on-year to 62 tonnes, driven largely by demand in the fourth quarter on buying ahead of the VAT introduced at the start of 2018.**
- **The UAE is estimated to have imported 946 tonnes in 2017, a tad higher than 2016 and also the highest in three years.**

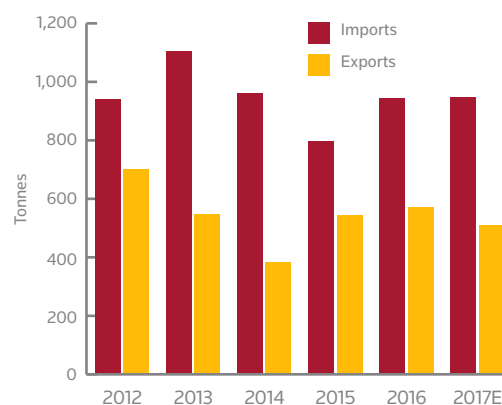
If the end of 2016 was a period for stocking by jewellery retailers and wholesalers in the UAE ahead of a 5% customs duty on jewellery that came into effect early last year, then 2017 was for end consumers buying ahead of the Value Added Tax (VAT) that came into effect from January 2018. The demand in December was high enough to more than offset the loss in the first three quarters. It is estimated that jewellery demand increased by 58% year-on-year in the Q4 and in a similar vein investment demand increased by 13%. As a result full year consumption demand for jewellery is estimated to have increased by 13%.

In January 2017 Dubai imposed a customs duty of 5% on jewellery imports. This had a greater impact on the wholesalers than anyone else in the value chain. Retailers having stocked in advance were apprehensive about passing on the cost of the duty rise fully to customers during the Dubai Shopping Festival in 2017, in order to ensure its success. There was a consensus among the jewellers we spoke to that the impact of the duty hike should be passed on only gradually. Indeed, some preferred to defer it to a later date based on their inventory portfolio while some considered passing on the impact only to high ticket items at the outset. However the full cost wasn't passed on to customers, thanks to the clearance from the Sharjah port at a very marginal cost. That said it was still a requirement to re-export directly from the port if the consignment was not to incur taxes. The resulting impact was that it was no longer possible for a jewellery dealer from another country to approach a wholesaler in Dubai with bars and take with them the equivalent amount of jewellery, leading to wholesale trade volumes dropping by more than 50%.

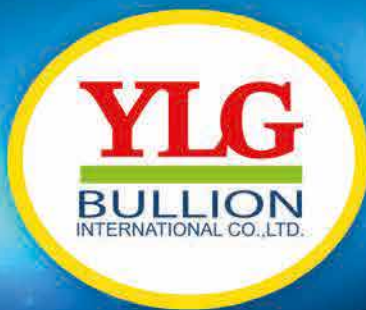
The Value Added Tax (VAT) that came to effect from January 2018 was yet another disruptive force. Until early December there wasn't much clarity of the functioning, which led to many businesses considering relocating from Dubai. The clarification put out by the UAE government on 13th December declared that gold in any form of purity less than 995 would attract a VAT of 5%. This meant that in addition to the customs duty of 5% the 5% VAT was also applicable at the time of import. And in the case of doré there is a reverse charge mechanism with the VAT being set off on the books after refining the bars to 995 purity or higher. This is seen to increase traceability in the gold doré supply chain, which has recently been a matter of serious concern following a UN expert committee report on the DRC.

The advance purchase by consumers in the fourth quarter is having a negative impact on demand through the first half of this year. More importantly carriers of jewellery to India, Pakistan and Bangladesh for resale in the destination country are likely to see a sharp slowdown, with reduction in margin of 5%. However, the investment bar and tola bar markets are going to be less affected by the VAT and thus the unofficial market in the bullion trade will thrive.

UAE GOLD IMPORTS AND EXPORTS



Source: Dubai Customs; DMCC; GFMS, Thomson Reuters



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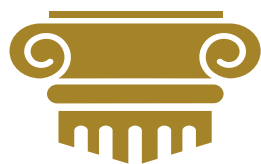
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APPENDIX - GOLD PRICES IN 2017

	LBMA AM US\$/oz	LBMA PM US\$/oz	High PM US\$/oz	Low PM US\$/oz	euro/kg	CHF/kg	yen/g	A\$/oz	rand/kg	£/oz	rupees/ 10g
Annual Average	1,257.86	1,257.15			35,822	39,763	4,531.41	1,639.66	538,028	976.42	29,153
Maximum	1,350.90	1,346.25			38,888	41,534	4,730.69	1,723.29	594,176	1,029.02	30,550
Minimum	1,148.65	1,151.00			33,979	37,515	4,351.85	1,555.47	492,763	929.38	27,750
Range:Average	16.1%	15.5%			13.7%	10.1%	8.4%	10.2%	18.8%	10.2%	9.6%
Monthly Average											
Jan	1,192.65	1,192.62	1,216.80	1,151.00	36,087	38,603	4,400.37	1,596.57	519,583	966.79	28,903
Feb	1,233.39	1,234.36	1,257.20	1,203.65	37,299	39,738	4,483.40	1,610.61	522,750	989.28	29,430
Mar	1,231.06	1,231.09	1,257.55	1,198.80	37,028	39,660	4,467.65	1,615.25	511,872	997.33	29,031
Apr	1,267.15	1,265.63	1,284.15	1,245.80	37,955	40,703	4,482.51	1,681.41	547,086	1,001.23	29,209
May	1,245.25	1,245.00	1,266.20	1,220.40	36,201	39,461	4,494.33	1,675.71	530,758	962.99	28,600
Jun	1,261.28	1,260.26	1,293.50	1,242.20	36,064	39,205	4,494.92	1,667.77	522,290	984.19	28,991
Jul	1,235.10	1,236.22	1,267.55	1,211.05	34,513	38,153	4,465.40	1,584.58	521,992	951.78	28,381
Aug	1,281.72	1,282.32	1,318.65	1,257.70	34,933	39,807	4,528.75	1,620.92	545,450	990.10	29,045
Sep	1,317.05	1,314.98	1,346.25	1,282.55	35,489	40,682	4,683.19	1,650.61	556,377	987.83	29,993
Oct	1,280.68	1,279.51	1,303.30	1,261.80	35,005	40,394	4,645.11	1,643.32	563,342	970.00	29,673
Nov	1,283.19	1,282.28	1,294.90	1,267.20	35,107	40,861	4,650.61	1,682.44	579,376	970.16	29,624
Dec	1,265.67	1,261.26	1,291.00	1,240.90	34,334	40,031	4,576.89	1,653.61	535,203	942.29	29,043
Quarterly Average											
Q1	1,219.19	1,219.49			36,804	39,338	4,450.50	1,607.67	517,801	984.79	29,110
Q2	1,257.49	1,256.59			36,669	39,735	4,491.05	1,674.53	532,522	981.92	28,924
Q3	1,278.01	1,277.91			34,978	39,551	4,558.64	1,618.74	541,339	976.78	29,113
Q4	1,277.03	1,275.42			34,846	40,461	4,628.08	1,660.30	561,283	962.01	29,452
Source: LBMA; GFMS, Thomson Reuters											



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