

GFMS GOLD SURVEY 2015
Q2 UPDATE & OUTLOOK

valcambi suisse sponsors TANAKA

THOMSON REUTERS™

The cover of the *GFMS Gold Survey 2015* is sponsored by the following companies:



TANAKA PRECIOUS METALS

Tanaka Precious Metals is Japan's leading precious metals refiner and manufacturer. Although best known internationally for its high specification industrial products, used in various applications ranging from semiconductors to communications, the company is also a producer and trader of a wide range of gold bullion bars and coins. Tanaka bars are acceptable "good delivery" on the London gold market.



Valcambi is a leader in precious metals refining and operates one of the world's largest and most efficient integrated precious metals plants situated on a 33 hectare site, at Balerna, Switzerland.

We are one of the world's largest manufacturers of minted ingots. Reacting to the demands of investors in different markets around the globe we are continuously carefully developing within the size range from 0.5 g to 1000 g, gold, silver, platinum and palladium minted bars in different forms and new designs. For our clients, according to their wishes we customize individually obverse and reverse of the bars, certificates and tailored packaging solutions.

All products produced in our foundry and minting facilities are certified by our laboratory, carefully inspected by our operators, individually packed and controlled before shipment. The Hallmark is not only a guarantee for quality of Swiss workmanship, it guarantees also the fineness of the most sought after bars in the world, desired by precious metals connoisseurs and investors alike.

A Valcambi manufactured bar is not only sold at an outstanding price but is synonymous with unique craftsmanship, guaranteed fineness, transparency and reliability.

The cover of GFMS Gold Survey 2015 features the wide range of Tanaka and Valcambi minted and cast bars. Different pictures on a celluloid symbolise reasons why gold should be looked at as an investment.

Cover designed by Valcambi and executed by BtoB Creativity, Coldrerio, Switzerland.

The GFMS Gold Survey 2015 and its Quarterly Updates has been kindly supported by the following companies

MAJOR SPONSORS

PAMP®
Produits Artistiques Metaux Precieux

Produits Artistiques Metaux Precieux

ASAHI REFINING

Asahi Refining

Heraeus

Heraeus

ITALPREZIOSI®
Precious Metals Refining and Trading

Italpreziosi

TANAKA

Tanaka Precious Metals

valcambi suisse

Valcambi Suisse

THE PERTH MINT AUSTRALIA

The Perth Mint Australia

ISTANBUL GOLD REFINERY IGR MELTER & ASSAYER

Istanbul Gold Refinery

TABLE OF CONTENTS

- Global Review and Outlook 4-5
- China 6-7
- Jewellery Consumption Table 8
- Gold Jewellery Mark Ups 9
- India 11-12
- United States 13
- Retail Investment Table (bars and coins) 14
- Chinese Reported Gold Reserves increase 15
- Technical Analysis & Outlook 17
- Eastern Europe 18
- Greece's Impact on Euro Gold 19
- Italy 20
- Mine Supply 21-22
- Producer Hedging 23
- What Happens When US Rates Rise? 24
- E-Scrap; impact of Regulations 25
- Switzerland 26
- Bullion Coin Review 27
- Gold and the Volatility Smile 28
- Scrap 29

PRODUCED BY

Rhona O'Connell, Head of Metals Research & Forecasts
William Tankard, Manager, Mining
Cameron Alexander, Manager, Regional Demand
Andrew Leyland, Manager, Regional Demand
Ross Strachan, Manager, Regional Demand
Saida Litosh, Senior Analyst
Sudheesh Nambiath, Senior Analyst
Janette Tourney, Senior Analyst
Johann Wiebe, Senior Analyst
Ling Wong, Senior Analyst
Erica Rannestad, Senior Analyst
Samson Li, Senior Analyst
Natalie Scott-Gray, Analyst
Dante Aranda, Analyst
Gregory Rodwell, Analyst
Alex Ji, Analyst
Beverley Salmon, Customer Relationship Manager

GLOBAL REVIEW AND OUTLOOK

- ***Physical gold demand was at its weakest since 2009, down 14% year-on-year in the second quarter as few markets report increases and Chinese buyers stayed away from gold.***

- ***Some bright spots from German and Indian demand, however, while price direction in Q2 continued to be determined by sentiment towards US interest rates.***

- ***China reports increased gold holdings for first time in six years; an extra 604 tonnes is within our previous estimates for additional Official Sector purchases and no revisions have been made to GFMS data.***

Almost all major physical gold markets suffered in the second quarter as demand for bars and coins fell another 12% year-on-year and were some 63% below the Q2 2013 peak. In the largest consuming sector, jewellery, fabrication declined by 6% year-on-year while consumption was down by 9%. In country markets seasonal strength has seen India reclaim the top spot in regard to total gold consumption; however the *first half* was finely balanced with China pipping India at 394 tonnes versus 392 tonnes.

The big story from the Official Sector was China's announcement that June's foreign exchange and gold reserves included an extra 604 tonnes of gold (see page 15). While this can be seen as bullish for gold, in that China has publicly shown that it has been increasing gold reserves, the initial price reaction was negative. The timing of the increase could also be related to a recent commitment to meet IMF Special Data Dissemination Standards (SDDS) reporting standards as the country pushes for the renminbi to be included in Special Drawing Rights (SDRs). GFMS regularly makes adjustments to our statistics on Official Sector holdings, which we only report globally, and the increase is within our previous allowance for Chinese holdings, therefore no revision has been made to our series.

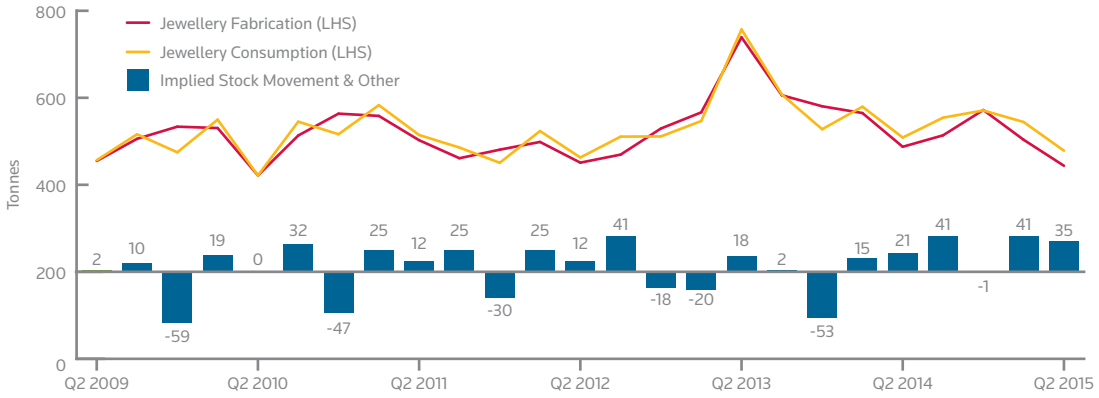
WORLD GOLD SUPPLY AND DEMAND

(tonnes)	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	YoY %
Supply										
Mine production	742	805	824	711	760	844	818	729	773	1.8%
Scrap	271	343	303	309	268	273	277	285	270	1.0%
Net Hedging Supply	-18	-5	-5	8	57	-7	46	-3	10	-82.6%
Total Supply	**995**	**1,143**	**1,122**	**1,029**	**1,084**	**1,110**	**1,142**	**1,011**	**1,054**	**-2.9%**
Demand										
Jewellery Consumption	739	606	581	565	487	514	572	504	444	-8.9%
Jewellery Fabrication*	757	608	528	580	509	554	571	544	478	-5.9%
Industrial Fabrication	106	105	101	102	101	100	98	98	96	-5.4%
...of which Electronics	72	73	70	71	71	70	68	69	67	-4.5%
...of which Dental & Medical	9	9	9	9	9	8	8	8	8	-11.5%
...of which Other Industrial	24	23	22	22	22	22	21	21	20	-5.5%
Net Official Sector	92	101	85	124	118	117	107	135	45	-61.9%
Retail Investment	636	312	369	285	272	236	287	239	238	-12.3%
...of which Bars	507	255	280	226	207	181	214	187	178	-14.1%
...of which Coins	130	57	89	59	65	55	72	52	61	-6.7%
Physical Demand	**1,591**	**1,126**	**1,082**	**1,090**	**1,000**	**1,007**	**1,062**	**1,016**	**858**	**-14.2%**
Physical Surplus/Deficit	**-597**	**17**	**39**	**-61**	**85**	**103**	**79**	**-5**	**196**	**131.5%**
ETF Inventory Build	-402	-120	-181	-3	-39	-33	-85	37	-1	-97.3%
Exchange Inventory Build	-55	-19	33	-5	19	26	-39	4	1	-95.4%
Net Balance	**-139**	**157**	**188**	**-54**	**105**	**110**	**204**	**-46**	**196**	**87.1%**
Gold Price (London PM, US$/oz)	**1,415**	**1,326**	**1,276**	**1,293**	**1,288**	**1,282**	**1,201**	**1,218**	**1,192**	**-7.5%**

Source: GFMS, Thomson Reuters *Jewellery Fabrication is used in the collation of the Physical Surplus / Deficit and Net Balance

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.

QUARTERLY JEWELLERY FABRICATION AND CONSUMPTION



Source: GFMS, Thomson Reuters

On the supply side of the equation initial estimates for Q2 mine production are for a marginal increase of 2% year-on-year to 773 tonnes while total supply fell by 3% owing to substantially lower hedging activity in Q2 when compared to the Polyus Gold hedge of Q2 2014. Scrap supply was broadly neutral, up 1% year-on-year, but importantly this is beginning to turn a corner in some markets and Q2 2015 marks the first percentage increase in global scrap supply since Q1 2012. When compared to total new supply to the market in Q2 the 14% decline in demand leads to a 196 tonne surplus in the market with the 7.5% US dollar price decline having had little impact upon offtake.

Elsewhere prices played a more important role and in Turkey quarterly average prices above 100 lira/gramme brought large amounts of scrap back to the market and also saw net bar consumption turn negative. The largest price move came in Russia, where a recovering rouble saw gold prices fall by 18% over the quarter.

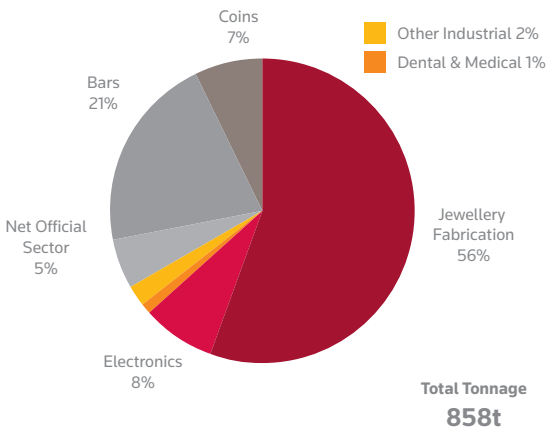
Institutional investor interest in gold, like commodities in general, has remained in the doldrums for much of the year and options volatility suggests that most speculators are increasingly worried about declines in gold pricing (see page 28). CFTC managed money data to the middle of July also showed the net-long position falling to its lowest level since the series began as new short positions have been heaped on the market. ETF gold holdings meanwhile failed to repeat Q1's 37 tonne increase and declined by 1 tonne over the quarter, with further drawdowns reported in July.

PRICE OUTLOOK

Prices in the second quarter averaged $1,192/oz against an early April poll by Reuters of 35 forecasters that predicted $1,195/oz. Since then there has been a sell off as investor sentiment has remained negative and substantial shorting of the market has taken place. It remains our view that a US rate hike this year is already priced into the market and that an increase could well prompt review of asset allocations that leads to an increase in gold holdings. For Q3 2015 we forecast an average price of $1,135, which is forecast to be the nadir before a $1,175/oz average in Q4.

This brings an annual average of $1,180/oz in 2015, $10/oz higher than our previous forecast. Strength is forecast to continue in our base case with 2016 averaging $1,250/oz. Full 10-year forecasts under three economic scenarios are available exclusively on Thomson Reuters Eikon.

MARKET SHARE Q2 2015



Source: GFMS, Thomson Reuters

CHINA

- ***Stock market growth was the story of the first five months in China and this saw substantially lower gold purchases. The retreat in June and July did not help gold purchasing either.***

- ***At 35 tonnes Chinese retail investment fell by 26% year-on-year, its weakest second quarter level since 2009 as investors stayed on the sidelines.***

- ***Jewellery purchases, often 24-carat investment material, also saw a fall in offtake to 102 tonnes during the second quarter, a 23% year-on-year decline. Eighteen-carat material has performed better, however, posting Q2 2015 growth of 20-30% year-on-year.***

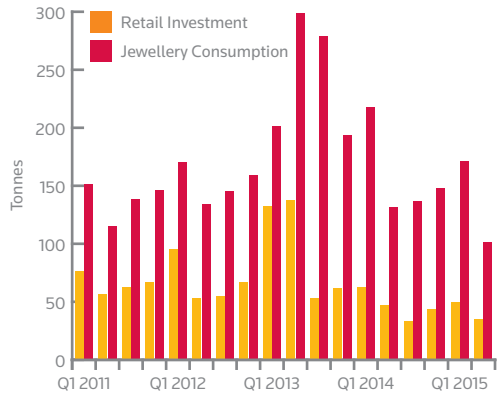
China's jewellery demand (including pure gold, platinum, gem sets, jade etc.) has been lacklustre so far in 2015, partly due to a weaker domestic economy, and partly due to a strong equity market in the first five months of the year, which absorbed most of the capital and savings that any retail investors could have mustered.

Based on Thomson Reuters latest estimates, China's gold jewellery fabrication for the first six months this year saw a 23% year-on-year decline, to an estimated 274 tonnes. The domestic equity market retreated sharply in June and July and the associated massive wealth destruction has negatively affected spending sentiment, rather than stimulating any demand for gold. Meanwhile, with approximately 45% of the domestic listed companies being voluntarily suspended on the 8th July to avoid further deterioration in their market capitalisation, investors' capital is partly still trapped in the stock market, which has not helped demand for gold.

It is not just poor domestic demand that is impacting upon the jewellery industry, but also increasing difficulty in raising credit, and the potential for a series of defaults that could severely disrupt the supply chain. As a normal practice, banks sometimes will ask creditors to join a Group-Guarantee Loan programme (GGLP) in order to reduce credit risk. Each GGLP is formed of a group of three to five companies, often these are business partners, but they cannot be direct subsidiaries.

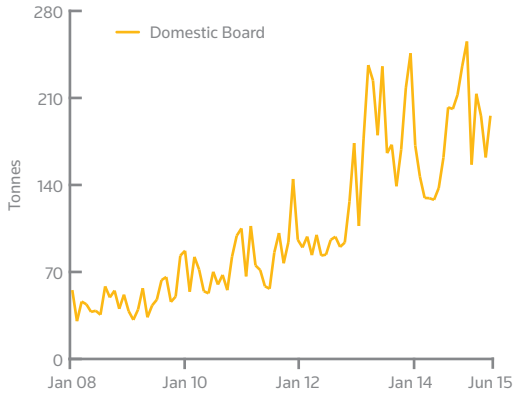
For illustration purposes, let's assume Company A, B and C are business partners in the jewellery industry. They come to a bank and want to apply for a GGLP, which is usually on terms of one year or less. Although the loan is being co-granted to Company A, B and C, each party is responsible and guaranteed to repay the lump sum plus interest. In our example (which is also what has been happening), while Company A has used the loan proceeds on its own jewellery business, Company B has lent the loan proceeds to a real estate company (Company D) hoping to gain the difference in the interest rate, however Company D failed to repay; meanwhile Company C has put the proceeds into the stock market and again failed to recoup its capital. As both Company B and C are now failing to repay the loan, Company A is still responsible for the grand total, and being dragged down by it.

CHINA RETAIL & JEWELLERY INVESTMENT



Source: GFMS, Thomson Reuters

SGE DELIVERIES



Source: Thomson Reuters

Chinese banks are now deeply hurt by the domestic jewellery fabrication industry as a result of bad loans. Since May there are at least 22 fabricators who are at the risk of default and could possibly face legal action. Indeed, the whole industry is now being classified as high credit risk by the banking sector. Industry sources tell us that Chinese banks have directed a total of 80 billion RMB ($13 billion) to companies in the Shui Bei area alone (one of the most important jewellery hubs locating in Shenzhen), and of this approximately 4-5 billion RMB ($0.6-0.8 billion) are already determined as bad/non-performing loans. Certain banks, especially the medium size and smaller ones, are seriously considering dropping the jewellery industry sector from their loan portfolio.

Last year, although market demand was already weak, industry participants were still eager to borrow physical gold from banks, as the interest rate was (and still is) equivalent to approximately 4% per annum. Many would borrow gold from banks and could possibly use it for other purposes, mostly for financing activities. This year as the credit risk for the jewellery fabrication industry has tightened significantly, it has become more difficult for fabricators to receive loans from banks, whether the form is monetary or in physical gold. Banks are still wary even if the borrower has significant collateral. Several fabricators who can still survive, and have the ability to repay bank loans, may have to think hard on whether they should repay existing loans to banks, as they know once they repay the debt, the banks will still likely suspend their credit line. Without sufficient cash flow, fabricators who are less fundamentally sound could still go bankrupt sooner or later.

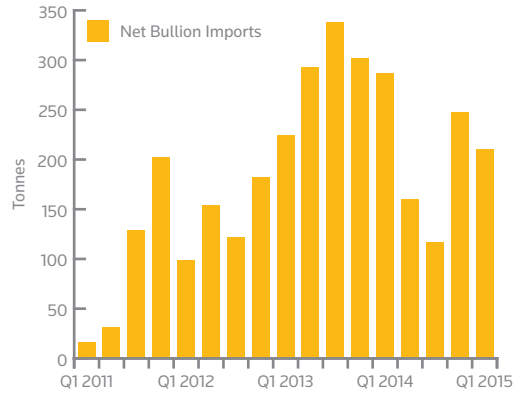
Meanwhile, the bankruptcy and financial difficulties the jewellery fabrication industry now faces has increased gold supply into the market. Cash strapped companies have to offload their inventories at attractive discounts, either to their competitors or directly to smelters, who will then refine the gold pieces into bars and eventually flow back to the Shanghai Gold Exchange, and helping to inflate SGE turnover by comparison with physical offtake.

Inventory liquidation by fabricators, along with weak market demand, and banks sitting on high levels of physical gold inventories but with far fewer borrowers to lend to, will continue to be a drag on China's gold imports in the next few months in our opinion.

CHINA MARKET OUTLOOK

Although China's net gold bullion imports from Hong Kong jumped 36% month-on-month to 71 tonnes in May, net import volumes may still be at the lower end in the coming months, given gold jewellery demand is unlikely to pick up before August. Chinese net gold bullion imports through Hong Kong totalled to 333 tonnes for the first five months in 2015, an 18% year-on-year drop. We expect total net imports from Hong Kong for the whole year could see a 15%-20% year-on-year decline. While local banks indicated an increased inflow of capital into gold investments since June, the recent crash of the domestic stock market did not stimulate the demand for gold, as might otherwise be expected, partly because investors' capital is still trapped in the stock market, while some have instead turned to the U.S. Dollar as a safe haven asset, fearing the RMB will depreciate. How the domestic stock market performs for the rest of the year will likely continue to have a material impact on Chinese demand for gold.

NET GOLD BULLION IMPORTS FROM HONG KONG



Source: GFMS, Thomson Reuters

QUARTERLY JEWELLERY CONSUMPTION

(tonnes)	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	YoY %
Europe										change
Russian Federation	16.5	18.4	21.2	17.0	17.2	18.0	18.5	16.2	15.0	-12.5%
Turkey	26.4	23.4	7.0	14.5	20.5	19.2	14.0	11.2	12.5	-39.0%
United Kingdom	3.0	3.9	13.9	3.5	3.6	4.6	15.9	3.7	3.7	2.2%
Italy	4.2	2.9	10.2	2.8	3.9	2.6	9.6	2.6	3.7	-5.2%
France	2.3	1.7	6.1	2.4	2.2	1.7	5.8	2.3	2.1	-8.0%
Germany	1.9	1.4	5.8	1.6	1.8	1.3	5.9	1.6	1.9	1.6%
Spain	2.1	1.7	2.3	1.7	2.0	1.7	2.4	1.6	2.0	-2.5%
Other Europe	2.2	1.4	1.6	2.0	1.9	1.2	1.4	2.0	1.9	-0.5%
Europe Total	**58.6**	**54.7**	**68.0**	**45.3**	**53.1**	**50.2**	**73.5**	**41.1**	**42.6**	**-19.7%**
North America										
United States	22.7	32.9	47.9	18.4	23.5	34.8	54.2	17.7	26.5	12.7%
Canada	3.8	4.2	5.8	3.5	4.1	4.3	6.3	3.5	4.2	2.5%
Mexico	1.6	1.3	1.6	1.9	2.0	1.7	2.4	2.8	2.3	14.7%
North America Total	**28.1**	**38.5**	**55.3**	**23.8**	**29.5**	**40.8**	**62.8**	**24.0**	**32.9**	**11.5%**
Asia										
China	298.4	279.0	193.4	218.0	131.4	136.5	147.4	170.9	101.0	-23.2%
India	188.0	114.5	150.7	145.6	154.5	182.9	179.1	148.5	158.2	2.4%
UAE	22.7	13.4	12.2	22.8	15.6	10.8	10.7	20.7	13.4	-14.1%
Saudi Arabia	21.8	14.0	11.2	13.6	15.8	11.8	11.6	14.5	16.0	1.3%
Indonesia	10.8	11.6	9.4	13.5	8.1	9.7	8.5	11.7	8.6	6.2%
Hong Kong	19.0	13.0	10.6	10.3	9.9	8.6	10.2	7.6	6.8	-31.0%
Iran	11.9	10.2	8.7	7.5	7.3	6.7	6.3	6.7	6.3	-13.8%
Kuwait	4.5	4.5	3.9	5.5	5.3	5.2	5.0	4.7	4.6	-12.4%
Japan	4.5	4.6	4.2	5.1	3.7	3.9	3.4	4.4	4.0	7.6%
Vietnam	3.4	2.2	2.2	4.5	3.6	2.3	2.3	4.4	3.7	1.9%
S Korea	3.2	3.1	3.0	4.1	3.2	3.1	3.4	3.5	2.7	-15.6%
Pakistan	7.6	5.6	4.7	4.9	4.3	4.9	5.1	3.9	4.7	8.8%
Thailand	3.0	1.1	0.6	2.8	1.6	1.2	0.7	2.8	1.6	-1.8%
Singapore	5.0	2.3	3.2	2.6	3.4	2.1	3.0	2.5	3.0	-11.8%
Malaysia	3.4	2.3	2.3	2.3	1.7	2.4	2.8	2.2	1.3	-24.9%
Bahrain	2.2	1.8	1.5	2.1	2.1	2.0	2.0	2.1	1.8	-13.0%
Taiwan	2.4	1.0	1.9	2.1	2.2	1.0	1.8	1.8	2.0	-10.5%
Qatar	1.4	1.2	1.1	1.3	1.2	1.1	1.1	1.2	1.1	-13.2%
Oman	1.3	1.0	1.0	1.0	1.0	0.9	1.0	1.0	0.9	-10.9%
Other Asia	12.5	8.9	8.4	6.4	6.4	7.2	7.4	7.4	7.2	12.5%
Asia Total	**627.0**	**495.2**	**434.0**	**475.8**	**382.1**	**403.9**	**412.8**	**422.2**	**348.6**	**-8.8%**
Africa Total	**13.3**	**9.9**	**9.9**	**12.8**	**11.7**	**11.2**	**11.3**	**11.3**	**9.7**	**-17.0%**
Brazil	9.5	5.2	11.0	4.4	8.2	4.8	8.6	2.4	7.2	-11.4%
Other South America	2.6	2.3	2.3	2.8	2.8	3.0	2.9	2.4	2.7	-4.8%
South America Total	**12.1**	**7.6**	**13.3**	**7.2**	**11.0**	**7.7**	**11.5**	**4.9**	**10.0**	**-9.7%**
World Total	**739.0**	**605.8**	**580.5**	**564.9**	**487.4**	**513.7**	**571.9**	**503.5**	**443.8**	**-8.9%**

Source: GFMS, Thomson Reuters

GOLD JEWELLERY MARKUPS

Jewellery sold at 56% over the value of gold in 2014, basis the consumption-weighted average. The chart below illustrates the consumption-weighted average markup since 2010, broken down by fabrication costs, wholesaler fees, and the markups applied by jewellery retailers.

The "markup" on gold jewellery is the portion of the sticker price that accounts for costs other than the intrinsic cost of the gold. These costs include fabrication charges, wastage, design value, profit and marketing and sales expenses. Average markups by country depend on the composition of gold jewellery sold domestically. The most significant determinants of the average include caratage, type of jewellery, design and fashion preferences, and average weight per piece.

India is the largest gold jewellery consumer, accounting for 30% of consumption in 2014. The average markup was 12% last year. Markups are low because gold jewellery is mostly 22-carat to 24-carat and has minimal design value. Markups range from as low as 3% to as high as 35%. India is the largest exporter of gold jewellery, having exported $12.1 billion in 2014.

China is the second largest gold jewellery consumer after India. The average markup of jewellery sold at retail was 30% in 2014, against 29% in 2013. Jewellery is mostly 24-carat, especially in second and third tier cities. Eighteen-carat is gaining popularity in first tier cities, among the younger generation. China is also a significant gold jewellery exporter ranking fourth largest in 2014.

The markup in the **United States** was 194% in 2014. US consumers prefer high design value, most often in 14-carat, which explains the relatively high markup of domestically sold pieces. The US is the third largest importer of gold jewellery, the second largest exporter, and third largest market for jewellery retail sales.

The retail markup in **Russia** averaged 121% last year, up slightly from 114% in 2013. Russia is the fourth largest consumer of gold jewellery by country, consuming around 70% of domestically produced jewellery while the balance is imported mainly from China, Turkey, and Italy. Most jewellery is 14-carat, with some demand for 18-carat at the high-end.

The markup in **Turkey** averaged 166% in 2014. Turkey was the fifth largest gold jewellery consumer in the world in 2014. Roughly half of demand is 22-carat. The other half is mostly 14-carat with some 18-carat sold within the high-end segment. Most of the gold jewellery bought in the domestic market is made domestically, with some imports from Italy and the UAE.

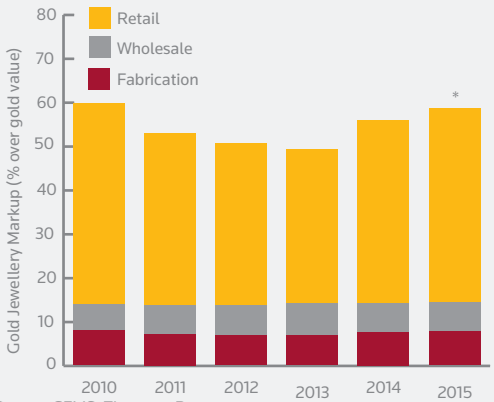
This year, we expect the average global markup to decline by 5% to $675/oz in dollar terms, but to increase in percentage terms to 59% as per the chart below. The dollar decline is largely expected due to a more difficult sales environment in markets such as China and Middle East. The lower dollar markup could also positively impact consumer demand growth later in the year.

GOLD JEWELLERY RETAIL MARKUPS

Country	2013	2014
Thailand	8%	7%
India	12%	12%
Hong Kong	27%	28%
China	29%	30%
Mexico	80%	85%
Russia	114%	121%
Germany	154%	163%
Turkey	168%	166%
United States	180%	194%
Italy	279%	296%
United Kingdom	315%	331%
France	320%	340%
Consumption-Weighted		
Average	**49%**	**56%**

Source: GFMS, Thomson Reuters

GOLD JEWELLERY MARKUPS



Source: GFMS, Thomson Reuters
*Estimate

Go beyond - join the world class



valcambi
suisse

INDIA

- ***Jewellery consumption in India increased 2.5% year-on-year to 158.2 tonnes in Q2 2015. Retail Investment in India was steady year-on-year at 49.5 tonnes, however it had surged from Q1 on buying related to Akshaya Tritiya.***

- ***Gross imports into the country in Q2 2015 was down to the lowest in five quarters, falling to 183.9 tonnes against 205.4 tonnes in Q2 2014, a year-on-year decline of 10%.***

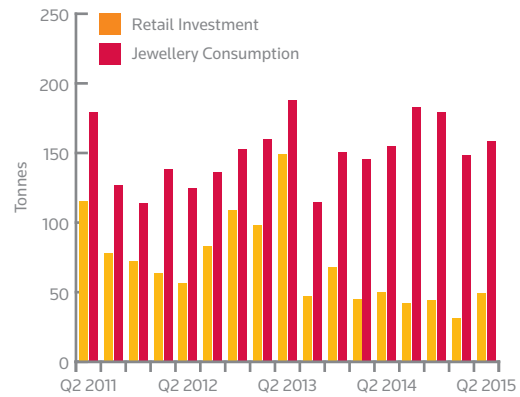
- ***India was easily the biggest consumer of all gold products in the second quarter, however it remained slightly behind China for the first sixth months of 2015 at 391.9 tonnes versus 394.1 tonnes (including industrial uses).***

The second quarter started on a positive note. A result of follow through buying that was witnessed towards the end of first quarter. The sentiment remained strong until the middle of May and faltered thereafter, with some signs of demand recovery showing up since 15th July. Akshaya Tritiya and wedding related purchases were the key drivers until mid May, which was then followed by a period of surplus stocks, leading to lower offtake at the retail level. Future price expectations also continued to play an important factor for inducing consumption as the changing investment and spending patterns of consumers failed to increase sale volumes of gold.

Gold prices in the domestic market were at a premium ranging between $1 and $3 an ounce during April. For the most part purchases were limited to wedding related demand and Akshaya Tritiya. In percentage terms demand for the season was considered better than recent times until early May. However, demand declined sharply from mid May and remained lacklustre until the end of June, to an extent that prices in the local market slipped to discount of about one percent. The decline was strong enough to negate the increase during April and create a surplus towards the rest of the quarter. To put this in perspective, the average differential between landed price and spot price for the whole quarter slipped to a discount of 0.4%, although towards Akshaya Tritiya the market was in a premium of 0.25%. This was in contrast to last year when premiums averaged about 4%, despite imports being higher than this year. Additionally, the competitive pricing of domestically refined gold against imported bullion, due to the varying duty structure, has played its part in causing discounts in the spot market.

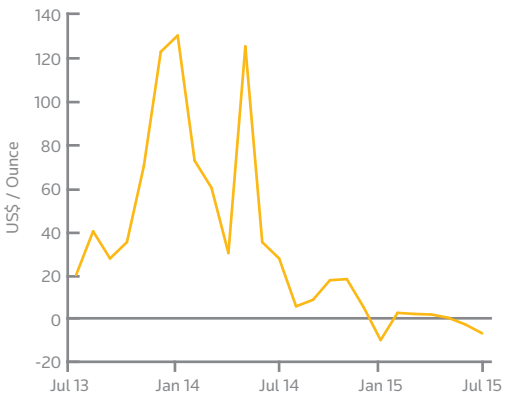
Gold also faced increased competition from diamonds with polished diamond prices falling by 15% year-to-date and rough diamonds by 8 to 10%. As a result it was easier at a point of sale to make customers switch to diamond set jewellery than plain pieces, whereby stores also managed to earn higher margins amidst lower sales. Exchange of old jewellery for new was widely prevalent also, at a rate of about 45% of total sales, another reason why gold volumes failed to pick up despite retail sales in value terms seeing an increase. Very attractive offers by retailers such as waiving of the making charges on plain jewellery at time of exchange for new was also very enticing for end customers. It made good business sense for the retailer as it helps manage their turnover, though at a lower retail margin and lower working capital cost.

INDIAN RETAIL & JEWELLERY INVESTMENT



Source: GFMS, Thomson Reuters

INDIAN DIFFERENTIAL AGAINST THE LBMA GOLD PRICE



Source: GFMS, Thomson Reuters, Platts Metals

Meanwhile investment demand was lacklustre, including only small volumes, that happened during Akshaya Tritiya. Lower price expectations have been a major deterrent, keeping large investors on the sidelines, while the equity markets have also been attracting investment. In general, as elsewhere in the world, investors are still cautious on investing in gold. With sentiment still weighted to lower gold prices, although this could quickly change.

On the supply front, the gross official imports after including fine gold from doré was 182.9 tonnes in the second quarter, down 10% from the same period last year. However, of this only 127.7 tonnes were for domestic consumption, with the share of doré at 37% against less than 20% in 2014. Additionally, supplies emerged in the form of jewellery from Indonesia and Malaysia. Imports in the form of jewellery from these countries under AIFTA (ASEAN-India Free Trade Agreement) only incur 1% duty, as it is re-melted and sold as bars in the domestic market. This trade has however stopped since the 25th June as customs have made it mandatory to give bank guarantees of 15% of the value. However, there are clauses in the AIFTA that can make the bank guarantee requirement only a minor hurdle. Thus it is only a matter of time until imports resume from the region.

Scrap supply was at its best in the past quarter, rising by almost 9% from 2014. Volumes emerged primarily from southern and western parts of India. Liquidity constraints and higher capital requirements to finance business, agriculture and education related expenses are said to be the key reasons, along with the poor price performance over the past two years, which has raised the perception of gold as a low-return asset class. With secondary supplies at hand resulting out of exchange for cash, the retailers' dependence on fresh imported bars has also declined.

Unofficial supplies continued to disrupt the market place, though less so than last year, but volumes estimated around 22 tonnes for the second quarter are still substantial considering the total official supply for the domestic market.

INDIAN MARKET OUTLOOK

Second half demand will be clouded by the outcome of the monsoon and its impact on crops. Outpacing the volumes of the second half of 2014 will be a challenge as this was one of the best periods in recent times. Forced redemptions of savings schemes helped drive volumes last year, which will be absent this year.

Additionally due to a Hindu ritual, Godavari Pushkaralu, there will be no Hindu weddings or any ceremonies until September in the cities through which the river Godavari flows through. These regions are traditionally high on gold consumption. Fabricators we spoke to were looking ahead to a good start from late July, and this is already seen from shrinking discounts which, as of 17th July, stood at $4. Many in the trade reckon that weakness in prices could settle by fourth quarter and might see heavy buying towards October and November. On the supply front, improvement in premia will see further competition from doré refiners as they will increase their volume.

INDIAN GOLD IMPORT ESTIMATES BY SOURCE PRODUCT

Imports (tonnes)	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
Bullion (for domestic market)	11.2	25.7	96.2	44.0	22.9	13.0
Doré (fine purity)	14.4	12.5	11.9	14.7	15.0	18.1
Bullion (duty free for export market)	15.9	14.7	13.7	17.8	22.6	15.9
Total Official	41.5	52.9	121.8	75.5	60.4	47.0
Unofficial	6.4	3.8	9.1	13.4	4.8	3.4
Net Imports for domestic supply	**32.0**	**42.0**	**117.2**	**72.1**	**42.7**	**34.5**

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.

UNITED STATES

- ***Physical gold demand in the United States totalled 40.0 tonnes in the second quarter, a 0.5% decline from the same period in 2014 and a 2% increase over the previous three-month period. While seasonal factors and bargain buying among retail investors boosted demand quarter-on-quarter, the annual decline is mostly owed to lower investment and weaker industrial demand compared to 2014.***

- ***Gold jewellery consumption rose 13% in the second quarter. Retailers saw increases in wedding ring sales as well as strong demand for gold jewellery ahead of Mother's Day and for graduation and wedding gifting.***

Investment demand improved in the second quarter from the first three months of the year, mostly driven by bargain buying amid a lower and falling gold price. Bar sales rose 9% quarter-on-quarter to 6.3 tonnes and fell 7% year-on-year. This annual drop was the smallest decline since the fourth quarter of 2013. Institutional demand improved significantly, picking up in late May and continuing through July, contributing to most of the increase. Bullion coin sales fell 1% year-on-year in the second quarter to total 5.2 tonnes, compared with a 3% decline in the first quarter.

Jewellery fabrication rose 5% in the period to total 13.7 tonnes. This increase was driven both by a 13% boost in domestic consumption and an estimated 4% increase in exports of finished jewellery. US manufacturers exported 20% of their output, mostly in line with last year's allocation, which suggests that the industry has maintained its competitive position despite a stronger dollar. The US imported 10% more jewellery by volume in the second quarter compared to last year, marking the tenth consecutive double-digit increase in gold jewellery imports.

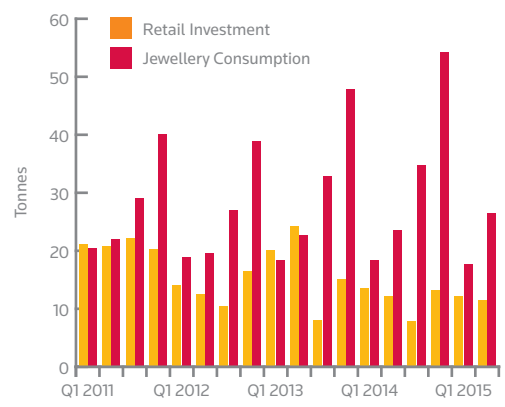
The second quarter is a seasonally strong period for jewellery consumption, driven by consumer purchases for Mother's Day, graduation and wedding gifts. According to a monthly consumer survey published by the National Retail Federation, US consumers were expected to spend $4.3 billion on jewellery as gifts for Mother's Day, the highest on record and up 18% from a year ago. Some retailers reported healthy increases in ring sales in the period as well.

Industrial demand fell 2% to total 14.8 tonnes last quarter. Most of this drop came from a 2% decline in electronics, which accounted for 86% of industrial demand in the country. Industrial production fell 1.5% in the period year-on-year and computer shipments dropped 9% globally and 6% in the US.

USA MARKET OUTLOOK

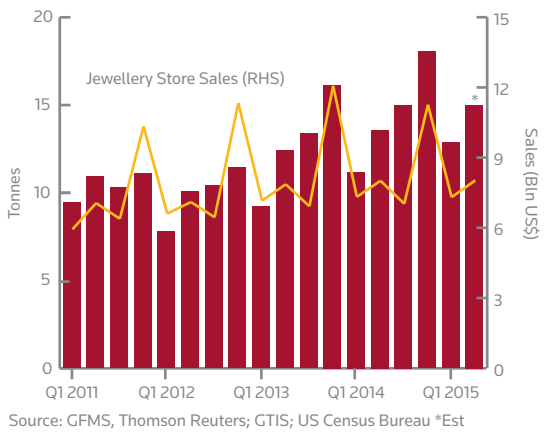
Physical demand in the United States is expected to increase in the third quarter of the year relative to the second quarter, but weaken from year ago levels. Jewellery fabrication is expected to increase ahead of the holiday season in the fourth quarter. Lower gold prices are expected to continue to offset a relatively stronger dollar, maintaining export demand. Investment and industrial demand are expected to remain weak relative to 2014.

USA RETAIL INVESTMENT & JEWELLERY CONSUMPTION



Source: GFMS, Thomson Reuters

USA JEWELLERY STORE SALES & IMPORTS



Source: GFMS, Thomson Reuters; GTIS; US Census Bureau *Est

QUARTERLY RETAIL INVESTMENT

(tonnes)	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	YoY %
Europe										change
Germany	39.1	30.7	27.8	22.0	21.2	25.6	32.6	27.2	24.2	14.2%
Switzerland	20.9	17.2	14.3	10.7	11.6	12.4	11.6	12.3	12.6	8.0%
Turkey	38.5	6.4	26.6	12.7	14.8	6.4	16.6	6.9	2.3	-84.7%
Austria	7.2	4.7	6.8	4.3	3.2	3.6	5.7	5.3	5.5	73.3%
Belgium	6.3	6.3	5.6	3.0	6.2	6.5	6.2	3.1	6.6	6.0%
Russian Federation	2.0	1.9	2.0	1.7	1.7	1.6	1.7	1.6	1.6	-9.0%
France	0.3	0.3	0.9	0.5	0.4	0.4	0.9	0.4	0.4	-11.0%
Other Europe	12.0	8.9	10.4	7.2	9.9	10.5	11.3	8.6	10.5	6.4%
Europe Total	**126.3**	**76.5**	**94.3**	**62.0**	**69.0**	**67.0**	**86.6**	**65.4**	**63.5**	**-7.9%**
North America										
United States	24.3	8.1	15.0	13.5	12.1	7.9	13.2	12.1	11.5	-4.4%
Canada	13.9	7.5	9.8	6.1	5.3	5.0	8.7	6.0	5.2	-1.8%
Mexico	0.3	0.4	0.4	0.4	0.2	0.3	0.4	0.0	0.1	-70.9%
North America Total	**38.5**	**16.0**	**25.2**	**20.0**	**17.6**	**13.2**	**22.3**	**18.1**	**16.8**	**-4.4%**
Asia										
China	137.5	52.7	61.4	62.4	47.4	33.4	43.2	50.0	35.0	-26.1%
India	149.0	47.1	68.0	44.7	49.6	42.2	44.1	31.0	49.5	-0.2%
Thailand	45.6	27.8	32.3	24.0	18.3	17.6	24.5	18.6	18.2	-0.5%
Vietnam	30.1	23.8	15.7	14.6	14.5	14.0	13.3	13.5	14.7	1.4%
Iran	17.4	15.2	16.1	10.7	17.1	11.5	10.6	9.2	9.5	-44.2%
Indonesia	17.6	11.2	6.5	4.5	3.3	3.8	6.5	4.3	2.4	-27.3%
Pakistan	11.3	4.6	4.3	2.3	3.5	3.1	4.5	3.9	3.7	5.7%
Saudi Arabia	5.5	4.2	4.1	4.0	3.9	3.5	3.3	3.3	3.2	-17.9%
UAE	4.4	2.7	3.1	3.1	3.0	2.7	2.7	2.5	2.5	-15.3%
S Korea	2.7	1.5	1.5	1.8	1.9	2.1	2.1	1.8	2.1	10.5%
Singapore	2.0	1.5	1.2	1.4	1.5	1.4	1.4	1.4	1.3	-12.3%
Kuwait	1.6	1.2	1.3	1.5	2.0	1.5	1.5	1.3	1.2	-38.5%
Taiwan	2.4	1.0	1.3	1.3	1.4	0.8	1.2	1.2	1.2	-14.3%
Malaysia	4.1	2.3	2.3	1.7	1.4	1.4	1.3	1.4	0.9	-33.3%
Hong Kong	1.0	0.8	0.6	0.6	0.5	0.6	0.7	0.6	0.6	26.1%
Japan	6.6	-1.4	4.9	5.4	0.4	-1.3	-6.0	-6.1	-3.8	n/a
Other Asia	4.9	3.7	3.3	3.2	3.3	3.1	3.2	3.1	2.8	-15.9%
Asia Total	**445.2**	**199.5**	**228.8**	**187.0**	**172.9**	**141.3**	**158.1**	**140.9**	**145.1**	**-16.1%**
Oceania	**10.6**	**8.4**	**8.8**	**7.3**	**6.0**	**7.4**	**7.2**	**5.2**	**5.3**	**-12.2%**
Egypt	7.6	4.3	3.6	2.6	3.1	2.5	2.7	2.4	2.2	-27.2%
Other Africa	7.0	6.4	7.3	5.1	2.8	4.0	9.5	6.5	4.9	74.8%
Africa	**14.6**	**10.7**	**10.9**	**7.7**	**5.9**	**6.5**	**12.3**	**8.8**	**7.1**	**21.8%**
South America	**1.2**	**0.8**	**1.0**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**-8.0%**
World Total	**636.4**	**311.8**	**369.0**	**284.6**	**272.1**	**236.0**	**286.9**	**239.1**	**238.5**	**-12.3%**

Source: GFMS, Thomson Reuters

CHINESE GOLD RESERVE INCREASE; DO NOT EXPECT A PRICE RESPONSE

- ***The People's Bank of China has posted a change in its gold reserves in the month of June, from the previous 33.9M ounces or 1,054 tonnes, to 53.3M ounces or 1,658 tonnes, a gain therefore of 604 tonnes.***

- ***This, at current gold prices, amounts to 1.6% of China's gold+foreign exchange reserves and the announcement should not take the market by surprise.***

The majority of market observers, and certainly ourselves, have been consistently allowing for Chinese government acquisition of at least a proportion of local mine production, which last year was 462 tonnes, the world's largest, at 15% of the global total. Indeed the market had been expecting such an announcement in April last year, on the fifth anniversary of the previous announcement – which was of 454 tonnes. Obviously this was not forthcoming, but that position has now been redressed. The number as released ties in reasonably well with the estimates that we at GFMS have been using in our official sector transactions figures in our supply/demand balances.

This gold has been accumulated from local mine production and through international channels over a period of time with the Bank effecting a "white-line" exercise taking the metal into official reserves. At 1.6% of total foreign exchange holdings, China's gold holdings are towards the low end of the scale. The world average stood at just under 10% at end-2014 (gold valued at market), although this is skewed by the large holdings in the United States and some nations in Europe, by virtue of legacy holdings from the gold standard eras.

Many market participants enjoy the "what if" exercise about the amount of gold that China would have to acquire in order to have, say 5% of its combined forex holding in gold; so just for fun, even though it is highly unlikely, here it is: -

At $1,140/ounce (which also wouldn't happen as any massive accumulation would by definition shift the price) and purely on the basis of end-June's reported FX reserves, 5% of China's combined gold + foreign exchange reserves would be equivalent to 5,264 tonnes as against the current 1,658 tonnes. Do remember that we are not suggesting that this would happen, but it does at least give a sense of perspective.

The Bank's statement noted that it had steadily accumulated gold through a number of international and domestic channels, in an effort to avoid market disruption. This has clearly been successful and we would expect the policy to be maintained. The Bank also implied that the increase in the holdings should improve the security and liquidity of the reserves while also enhancing their value. The Chinese government is adopting a flexible stance over future policy, but in the run-up to full convertibility of the renminbi, especially with the emphasis that the Chinese government is laying on the role of gold in the internationalisation of the currency, allied to its strong push into the international gold market itself, we think it possible that reporting of gold accumulation may become more frequent (but this does not imply that the rate of acquisition is necessarily going to increase). The government is aiming for the end of 2015 for the easing in capital account controls, and will then need to address convertibility with respect to cross-border financial investments. Now attention is likely to turn to the postulation of the possible implementation of a renminbi-denominated gold benchmark in China.

TOP 15 GOLD HOLDING COUNTRIES

(Country)	Tonnes	Gold as of Total Reserves
United States	8,134	73.4%
Germany	3,383	67.0%
Italy	2,452	66.1%
France	2,435	65.3%
China, P.R.: Mainland	1,658	1.6%
Russian Federation	1,275	13.2%
Switzerland	1,040	6.4%
Japan	765	2.3%
Netherlands	612	56.7%
India	558	5.8%
Turkey	507	15.2%
Portugal	383	73.5%
Venezuela, Republica Bolivariana de	361	67.4%
Saudi Arabia	323	1.7%
United Kingdom	310	9.4%

Source: IMF; GFMS, Thomson Reuters



Side by side with the technologies that usher in new eras

Since our founding in 1885, TANAKA PRECIOUS METALS has been pursuing
new values and possibilities as precious metals professionals.
Automobiles, semiconductors, home electronics,
alternative energy, medical, environment and infrastructure.
Our mission is to support all fields that require precious metals
and to advance the businesses of all our customers.
By doing so, we contribute to a better society and a better future.
You will always find us side by side with the technologies that usher in new eras.



High-quality products proudly “Made in Japan”

TANAKA PRECIOUS METALS
—The World’s Companies Most Committed to Precious Metals

TANAKA

http://pro.tanaka.co.jp/en

TECHNICAL ANALYSIS AND OUTLOOK

At the time of writing (July 20th), gold has pierced the short term support level of $1,140/oz (point 1) continuing its downtrend for a fifth consecutive week. This view is supported by the Slow Stochastics (point 2), which points to the convergence between the price activity and the oscillator and the continuation of the current trend.

The second subchart represents aggregate traded volumes on COMEX. Over the first three weeks of July trading volumes have risen to 30 percent above the monthly average turnover. The combination of rising volumes and a falling price indicates that the down trend is not only a reflection of lack of buyers in the market during the holiday period, but a firm indication that funds are actively selling.

For comparison, we compiled data on the previous five corrections in the downward channel, starting at the third quarter of 2013. We calculated an average $165/oz (or 12%) price correction, stretching over an average nine weeks. Looking at the current move, we are (as of July 20th) nine weeks into the drop and have shaved around $110/oz (or 9.5%) of the price; $50/oz below the average. Subtracting that amount would give us to $1070-80/oz area; the point where the strong sell-off initially found support. In case the price continues to fall we have two strong support levels based on the previous bull run. Both are 50% Fibonacci retracement levels at $1,086/oz and $977/oz covering the 1970-2011 and 2000-2011 periods. But before we test these levels we could well see some intermediate short covering taking place, making room for a short term rally. That, however, will merely be noise and not change the sentiment. In fact, in our view the opportunity will likely be used to sell into again. Indeed, it's not before the final quarter of the year that we expect the price to show some signs of recovery.

GOLD TESTS US$1,100/OZ



Source: Thomson Reuters Eikon

ALL GFMS DATA SERIES, ANALYSIS AND FORECASTS ARE AVAILABLE EXCLUSIVELY TO THOMSON REUTERS EIKON SUBSCRIBERS UNDER THE SEARCH TERM: GFMSPREC

SUBSCRIBERS ALSO ENJOY ACCESS TO GOLD MINE COST PROFILES AND FORECASTS FOR OVER 350 MINES AND PROJECTS. SUPPLY, DEMAND AND PRICE FORECASTS BY OUR LEADING INDEPENDENT ANALYSTS OUT 1, 3 AND 10 YEARS ALONG WITH SUPPORTING ECONOMIC AND EXCHANGE RATE FORECASTS.

IN ADDITION SUBSCRIBERS ENJOY ACCESS TO THE GFMS ANALYST TEAM. IF YOU WOULD LIKE MORE INFORMATION ON THOMSON REUTERS EIKON OR THE GFMS SERVICES PROVIDED PLEASE CONTACT: GFMS@THOMSONREUTERS.COM

THOMSON REUTERS EIKON™

EASTERN EUROPE

- ***Gold jewellery fabrication rose steadily in the Czech Republic and Hungary in the first half of 2015 due to continued improvement in the local market.***

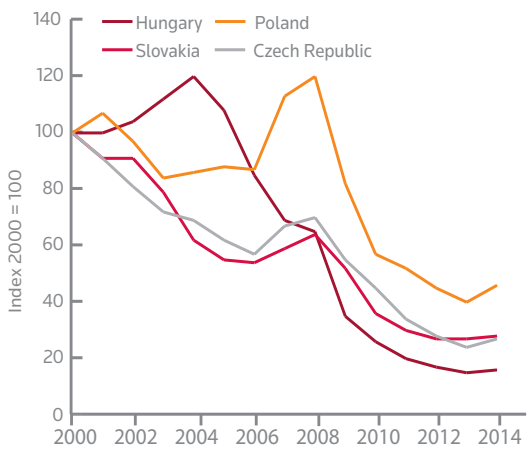
- ***Growth was weaker in Poland and Slovakia owing to worries about the situation in Ukraine and weakness in the Eurozone respectively.***

Though the gold market in Eastern Europe is often overlooked its history is fascinating and GFMS research indicates that the growth in jewellery fabrication is the strongest in Europe. The fall of the Berlin wall, over 25 years ago, resulted in the outpouring of 40 years of pent up jewellery demand; before that time jewellery production had been directed by the State, generally at a very low level. As the markets opened up the restrictions on manufacture and sales fell gradually, though from high levels. For example in Hungary in 1996 there was still a 65% luxury tax on gold jewellery, which in addition with VAT on top at 25% meant that the total tax burden on domestic jewellery was 106%. Obviously this dampened gold jewellery consumption and fuelled the black market in the country. However the period 1990 to 2000 is still viewed as the 'Golden age' by people who were involved in the jewellery trade at that time.

Beginning in 2000 however the enthusiasm started to fade from the market and the hallmarking figures started to fall as the economic realities set in. The marked decline in jewellery consumption has three key reasons. Firstly, there was a recession in the early 2000s which hit Eastern Europe hard and which ended the '90s surge in jewellery consumption. The end of that recession coincided with accession into the EU from Poland, Hungary and the Czech and Slovak Republics, leading to yet more market liberalisation which not only opened up the jewellery markets, but the market for other luxury items. This leads onto the second reason; in common with other European markets, consumers moved towards buying electronics and other personal items instead of jewellery. Another important reason was that the market was saturated; after 40 years of a planned economy, where it had been impossible to buy more jewellery than was allocated by the authorities, the new consumers were hungry for luxury products, particularly gold and silver.

Poland, the largest player in the region, used 2.1 tonnes of gold in jewellery fabrication in 2014, a 16% rise year on year and the first increase in the number since 2008. According to GFMS field research this figure would have been even higher had it not been for the termination of exports to Russia, which had previously been the largest destination for Polish made jewellery. Exporters have been keen to ship to Western Europe, especially to Germany which used to be the largest destination of jewellery before 2011. The uncertain economic situation in the Eurozone has proved a difficult task as recent trade data indicates that exports have not picked up. However the domestic market is set for growth, with KPMG estimating that Polish spending on watches and jewellery will rise to 446 million Złoty (US$ 124m) in 2017 from 368 million Złoty (US$ 98m).

EASTERN EUROPEAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

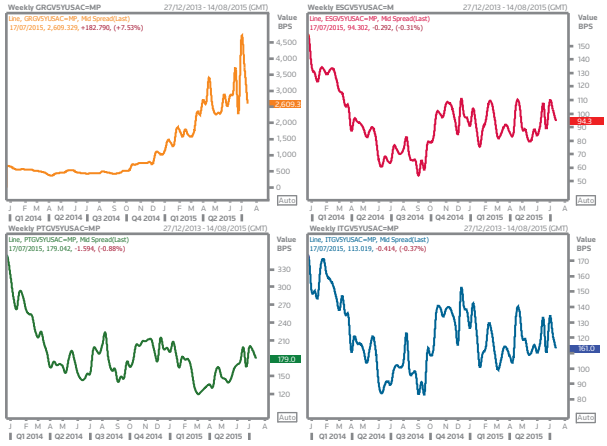
Turning to investment, the Czech market is the most developed, with a GFMS estimate of four tonnes of gold bar purchased in 2014. Today, particularly in Poland, there are a plethora of firms offering bars, official coins and their own unofficial, coins. Retailers in Poland have reported an uptick in sales of gold bars and coins especially since the start of conflict in Ukraine.

EASTERN EUROPEAN MARKET OUTLOOK

Though concerns about Ukraine do impinge on jewellery sales in Poland, we still expect fabrication to grow in 2015 albeit at lower rate than last year. In the Czech Republic and Hungary growth is forecast to be even higher than 2014.

GREECE'S "NO" TO MORE AUSTERITY, CONTAGION FEARS AND THE EFFECT ON €URO GOLD.

1. GREECE CONVINCINGLY VOTED "NO" TO MORE AUSTERITY...



Source: Thomson Reuters Eikon

2... PUSHING CDS OF OTHER WEAK EU STATES UP AS A RESULT.

- Contrary to what official polls had indicated, Greece voted overwhelmingly "no" to more austerity measures, leaving the European leaders with no other choice than to arrange an emergency summit to discuss the monetary union's prospects.

- As a result, turmoil hit the markets and a sell-off in a range of equity indices followed. Insurance premia for Greek debt ballooned to 4,652 basis points indicated on the top left chart. The fear of spillover effect to other financially weaker member states increased, indicated by the rise of 5YR CDS on other countries, particularly Portugal.

- But, despite the rise, the contagion effect has been mild and CDS insurance premia of other European countries are nowhere near those recorded in 2008.

3. BUT MOST CDS REMAIN MUTED BY HISTORICAL STANDARDS...

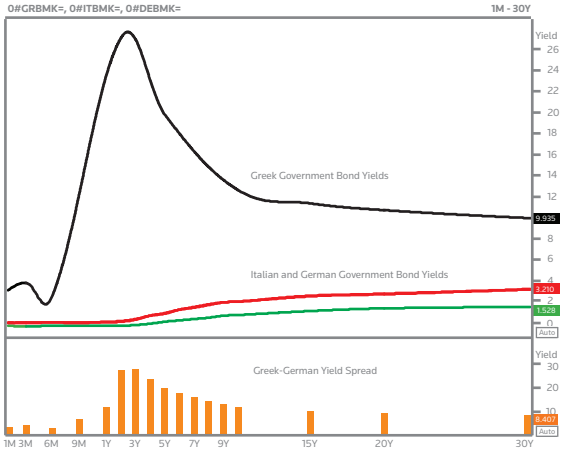
- This point is also illustrated by the chart to the right, which depicts the various bond yield curves of Greece, Germany and Italy. Unsurprisingly, considering the underlying situation, Greek yields, particularly on shorter term maturities, are enormous. Up to almost 50% for 1 and 2 year Bonds (indicated by the black line).

- As expected, the spread over German Bunds is equally large for the various maturities, indicated by the sub chart.

- However, bond yields in other weaker member states have moved very little, particularly for the short term, indicated by the green and red line for Germany and Italy respectively.

- In our view, this points towards a lack of immediate investor contagion concern; under current circumstances, in case Greece does eventually choose to leave the Eurozone, at present the market does not anticipate other weak member states to follow.

4... AND EX-GREEK BOND YIELDS AS WELL.



Source: Thomson Reuters Eikon

5. FEAR OF CONTAGION REMAINS MINIMAL IN THE MARKETS...



Source: Thomson Reuters Eikon

6... KEEPING €URO GOLD RANGEBOUND.

- The effect of all the turmoil in the bond and equity markets also emerged in the precious metals spectrum. However, the response was disappointing, with gold in US dollar terms continuing its decent once a resolution of the Greek saga was announced.

- Driven by continued QE in Europe and an expected rate hike in the United States, the euro (second sub-chart) is likely to remain under pressure whereas more US dollar strength is expected, due to the robust underlying fundamentals in the United States.

- Both opposing forces resulted in euro gold remaining rangebound with lowering tops. The pop above €1000/oz was significant and has held since the beginning of this year. We expect the selling pressure in US gold to ease in the fourth quarter, but for the euro to maintain, providing some upside for gold in euros before year-end.

ITALY

- ***Gold jewellery fabrication dropped by 8% year-on-year to an estimated 41.1 tonnes in the first half of 2015, owing to continued weakness in the local market and weaker demand from the country's key export destinations.***

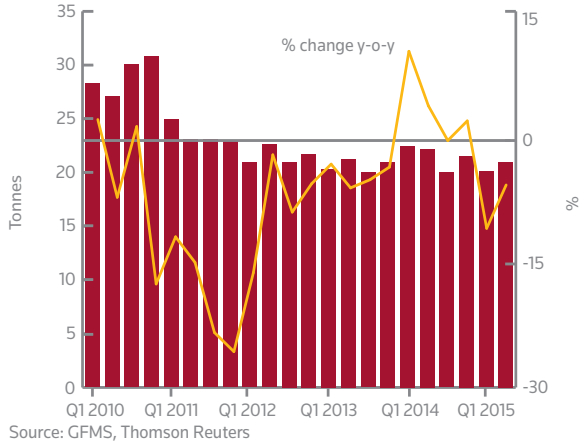
- ***Jewellery exports tumbled by 14% year-on-year in Q1 2015, and our recent field research indicated that the market sentiment remained weak in Q2.***

Jewellery demand in Italy is estimated to have fallen by 11% in Q1 2015, reversing the positive trend that had started to develop over the past year or so. We have made a reasonably substantial revision to our jewellery fabrication estimates for the first quarter, after recently released trade statistics and our research trip pointed to some disappointing performances, both for exports and local consumption. Our calculations based on trade data and jewellery mark-up estimates suggest that Italian exports posted a 14% year-on-year decline in the January to March period. A close analysis of trade flows indicates that this was largely down to weaker-than-expected demand from some major export destinations. Shipments to Dubai, Italy's single largest market, fell by a 37% compared to the same period a year ago. This was largely a reflection of moribund demand in some of the key markets in the Middle East, including Saudi Arabia, Egypt and Iraq among others, where demand was affected by the ongoing political and economic uncertainty, stronger performance from alternative assets, as well as the lack of a clear price direction.

Elsewhere, weak performance was also recorded by the United States, where softer economic environment saw imports of Italian made jewellery fall by 7% year-on-year. Demand from Europe turned out to be weaker than a year earlier, driven by various factors depending on specific markets. Shipments to Germany, for instance, saw a modest decline, as local demand for jewellery seemed to remain muted. A double-digit decline for the United Kingdom, on the contrary, was more of an indication of a rise in local manufacturing rather than domestic weakness, which is supported by our jewellery fabrication and consumption data. A small increase in volumes to Spain was thanks to an emerging recovery there, while higher exports to France were, in part, a reflection of Italy's continued dominance as a manufacturer of fine and luxury jewellery. It is worth stressing that a 14% decline in total exports was in comparison to a very strong first quarter of the previous year, which suggests that the picture may not appear as gloomy as implied by the numbers. For instance, when compared to the first quarter of 2013, volumes were up by 24%.

Meanwhile, jewellery consumption in Italy remains weak and there has been no sign of improvement in recent months. In addition to the struggling economy and financial difficulties, the big issue for the industry has remained the limit on cash transactions. If a purchase exceeds €1,000, customers have to pay by credit cards, while retailers have to notify taxation authorities. This raises confidentiality concerns, pushing customers away to go to Switzerland or France, for instance, in a search for luxury jewellery. While trade statistics for the most recent months are not yet available, our field research indicates that the market sentiment remained weak throughout the first half of 2015, particularly so for the middle market, and, while it is not an easy time for the higher-end jewellery either, it tends to stay more resilient.

ITALIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

ITALIAN MARKET OUTLOOK

Given that the Italian market is predominantly export focused and we do not expect any meaningful recovery in the local market in the near term, it will be down to performance from key export markets to define the future of its jewellery industry. Export demand is likely to remain weak in H2, as we do not expect to see any notable recovery in demand from the Middle East unless there is a significant price retracement. That said, some of the weakness is likely to be offset by a lift in US consumption, helped by the improving economy and dollar strength. Overall, Italian jewellery offtake is likely to remain somewhat restrained for the year as a whole.

MINE SUPPLY

- ***Global gold mine production increased by 2.5% in Q1 2015 and is estimated to have continued its uptrend in Q2 with production provisionally estimated at 773 tonnes, an increase of just below 2% year-on-year.***
- ***First quarter gains were centred in China, with additional growth in Indonesia, the Democratic Republic of the Congo (DRC) and Peru.***
- ***A rebound in Indonesian output is believed to have continued in Q2, as well as continued firmer output from Peru and China. Damping these gains, losses are expected to have been posted in Ghana, South Africa and Australia.***
- ***Producers' costs in Q1 (on a total cash basis) remained steady quarter-on-quarter in dollar terms, at a global average of $690/oz, reflecting a 6% drop year-on-year.***

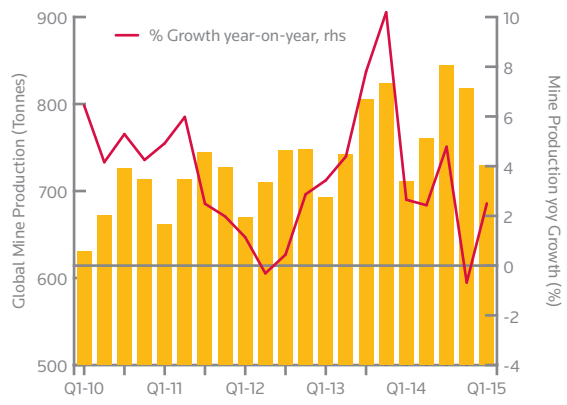
For the past few quarters the GFMS team at Thomson Reuters has been calling that gold mine production would plateau over the 2014/2015 period. With production data now in for Q1 (but with scant information yet available for Q2) we review how the gold mining industry is faring on both the production and cost fronts.

Two years after the price peak, 2014 saw the gold mining industry's output hit fresh record highs, of more than 3,100 tonnes. With exploration rates having slowed appreciably and project spending aggressively cut by producers seeking to manage costs, over the past year we have held the view that the room for further output growth was extremely limited. With hard data compiled for the first quarter of 2015, we expect that mine supply will rise this year, but by less than 1%.

Global gold output has shown a rise of just over 2% in Q1, up by close to 20 tonnes, and we estimate that this trend of growth has continued, albeit at a reduced pace, with provisional expectation for Q2 output to rise by between 1 and 2% year-on-year.

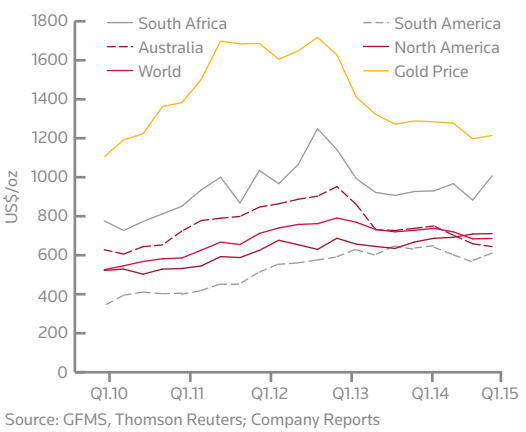
Chinese output growth led the global trend in Q1, with production up by one-sixth year-on-year, based on data from the China Gold Association. In the case of Russia, from a period of adversity has come opportunity. The sharp rouble devaluation that developed in the second half of 2014 has paved the way for improved margins in the country's gold industry. Russia's economic malaise has not yet translated to higher mine output, which was steady in the first quarter, but a recent research trip in Moscow to coincide with the launch of the Russian language GFMS Surveys affirmed cautious optimism for mined and refined supply growth over the coming year, in spite of provisional indications of slight weakness in data for the second quarter. Although few Russian operators have reported costs yet in 2015, dollar-denominated costs are expected to come in appreciably lower when half-year financials are declared.

WORLD QUARTERLY MINE PRODUCTION



Source: GFMS, Thomson Reuters

QUARTERLY TOTAL CASH COSTS



Source: GFMS, Thomson Reuters; Company Reports

In a similar, if less dramatic vein, a number of Eurozone countries have enjoyed improved dollar-denominated margins in recent quarters, with European producers' average total cash costs in Q1 (albeit for a small population) more than 10% lower than a year earlier. West African producers' costs have similarly benefitted from the linkage between the euro and CFA franc.

Elsewhere, modest production growth has also been recorded in the DRC, where the formal mining industry is becoming more dominant, most notably thanks to the onset of Kibali (Randgold/AngloGold Ashanti). Indonesia also saw an uptick thanks to higher volumes from the country's copper-gold concentrate producers. Peruvian output edged higher in Q1, on the back of strong operating performances from two of the country's large mines, Yanacocha (Newmont/Buenaventura) and Lagunas Norte (Barrick).

Partially offsetting the growth outlined above, lower output came from Africa's second largest and largest producers in the first quarter, with drops from both Ghana and South Africa, in the case of the latter by more than 10% year-on-year. With the future of one of Ghana's major mines, Obuasi (AngloGold Ashanti), in the balance (with production currently on hold as studies on a deep level project are completed), losses will be carried over the remainder of the year. In South Africa, production losses will continue in Q2 and are likely to accelerate over the remainder of the year, presupposing that the impasse between unions and corporates is sustained, with strikes expected to hit the industry in the coming weeks. Somewhat surprisingly, in spite of a broad trend of rand depreciation against the dollar over the course of the past year, South Africa has faced adverse cost moves, with Total Cash Costs having risen above $1,000/oz during Q1 for the first time in two years.

Elsewhere, costs have remained under control, with the global average below $700/oz during Q4 2014 and Q1 2015. This has reflected two major trends in play, with a continued focus by producers on operating assets as leanly as possible, coupled with the US dollar remaining firm against a large suite of producer currencies.

MINE PRODUCTION OUTLOOK

Based on the trajectory from Q1, with production up by one-sixth year-on-year using data from the China Gold Association, Chinese output has been influential in the global trend and could push towards the 500t mark for 2015 as a whole. Such an outcome is expected to be a major driving force behind global mine output growth being recorded again in 2015, albeit at the margin, with a forecast rise of less than 1%.

It should be highlighted that following a positive outcome for mine production over the first two quarters GFMS expects production growth to stall in the second half. In South Africa a labour strike seems probable and this has the potential to remove appreciable volumes in the third (and potentially fourth) quarters. Central to this expectation is that most large scale gold projects that have been under development have either been completed and in the main have now ramped up, or have otherwise been postponed for later years. The upward influence from this segment of the mining sector will be limited in coming quarters.

LARGEST MINE LOSSES YOY, Q1

(tonnes)			Production		Change
	Mine name	Country	Q1-2014	Q1-2015	yoy
1	Cortez	United States	7.1	4.1	-2.9
2	Meadowbank	Canada	4.9	2.8	-2.1
3	KCGM Super Pit	Australia	5.6	3.8	-1.8
4	Goldstrike	United States	8.1	6.4	-1.7
5	Pueblo Viejo	Dominican. Rep.	8.2	7.0	-1.2
6	Kloof	South Africa	3.9	2.7	-1.2
7	Alumbrera	Argentina	2.5	1.3	-1.2
8	Obuasi	Ghana	1.6	0.5	-1.1

Source: Company Reports

LARGEST MINE ADDITIONS YOY, Q1

(tonnes)			Production		Change
	Mine name	Country	Q1-2014	Q1-2015	yoy
1	Cerro Negro	Argentina	-	2.9	2.9
2	Batu Hijau	Indonesia	0.5	3.3	2.8
3	La Herradura	Mexico	0.9	3.1	2.2
4	Kumtor	Kyrgyzstan	3.2	5.1	1.9
5	Kibali	DRC	3.5	5.0	1.5
6	Grasberg	Indonesia	6.5	7.9	1.5
7	Lagunas Norte	Peru	4.2	5.5	1.4
8	Yanacocha	Peru	6.5	7.7	1.3

Source: Company Reports

PRODUCER HEDGING

- ***Reported producer hedging activity during the first few months of 2015 has been characterised by modestly-sized new hedges and expansions of existing positions, resulting in marginal net de-hedging in the first quarter.***

The first quarter of 2015 saw the market return to net de-hedging, with the producer hedge book reducing in size by 0.08 Moz (2.6 t), in delta-adjusted terms. This follows a year of net hedging in 2014, when activity contributed 3.33 Moz (103 t) to gold supply, largely on account of two large hedges by Polyus Gold and Fresnillo, executed during Q2 2014 and Q4 2014 respectively. During the first quarter of 2015, scheduled delivery into its hedge position made Polyus the largest de-hedger for the period, with an overall reduction of 0.16 Moz (4.9 t) to its delta-adjusted hedge book. A further 28 companies reduced their hedge positions during the period, including Northern Star Resources, Petropavlovsk, OceanaGold and Fresnillo.

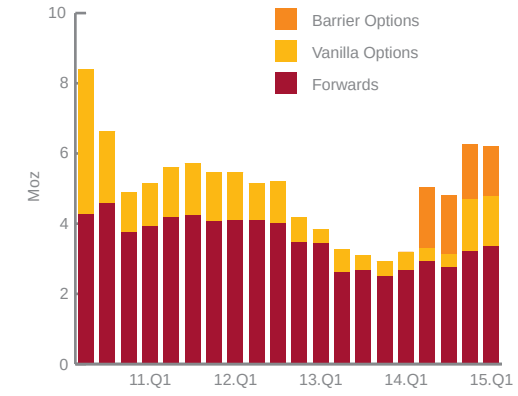
New hedging was relatively modest in scale during the first quarter, with the largest individual hedge undertaken by Saracen Mineral Holdings, which hedged 0.12 Moz (3.8 t) in connection with the decision to re-start the Thunderbox mine, currently on care & maintenance. Norton Goldfields also entered into additional forward sales, while new hedging was undertaken by Minera Frisco and Ramelius Resources. A total of 16 companies saw their delta-adjusted hedge positions increase over the period, though it should be noted that in some cases this occurred passively, through increasing delta against existing positions.

Hedging activity since the end of the first quarter has, so far, remained subdued. Project finance-related hedging was announced in June by Doray Minerals, and Roxgold announced the signing of a $75 million project finance facility for the development of its Yaramoko project in Burkina Faso. As expected, during the second quarter Banro Corp. closed the balance of its $90 million financing, which included a second tranche of gold forward sales relating to the Twangiza mine.

PRODUCER HEDGING OUTLOOK

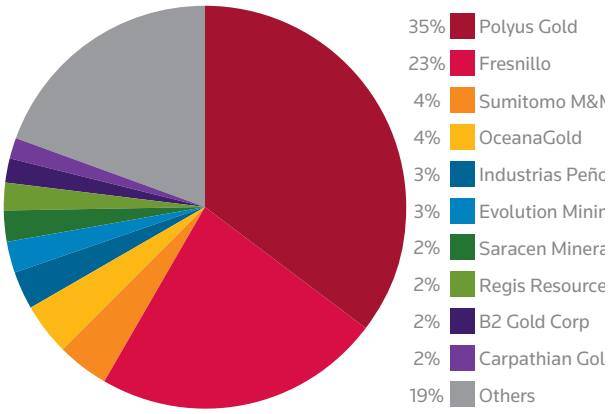
Given that the delivery schedule at the end of March 2015 indicated that approximately 67 t (2.2 Moz) of de-hedging was expected during the last nine months of 2015, the pace of new hedging will have to pick up somewhat throughout the rest of this year in order for net hedging to prevail in 2015. We expect the remainder of 2015 to involve further announcements of modest hedges, of a similar scale to those described above, particularly in relation to project financing. However, it would take only one or two new hedges of the magnitude undertaken by Polyus or Fresnillo during 2014 to tip the balance firmly back into net hedging, and we take the view that 2015 is likely to see at least one large new hedge from a gold producer. Consequently, we forecast net hedging to be maintained over the year as a whole, though likely at lower levels than were recorded in 2014.

EVOLUTION OF THE GLOBAL HEDGE BOOK



Source: GFMS, Thomson Reuters

CORPORATE HEDGE BOOKS (BY # OF CONTRACTS)



WHAT HAPPENS WHEN US RATES RISE?

This article analyses the three episodes of monetary policy tightening in the US in the past 20 years, in the mid-1990s, the late 1990s and the 2000s, by looking at the spread between the yields on the ten- and two-year US Treasury Notes and the dollar performance during these periods. The first tightening cycle started from 3% in 1994 and saw the fed fund rates reach 6% by early 1995. While the Fed had been hinting about potential rate hikes for some time, the scale and the pace of tightening still came as a major surprise, leading to heavy losses across almost all asset classes. The yield spread plummeted as the economy began to recover after the 1992 recession, resulting in long-term bond underperformance compared to short-term bonds.

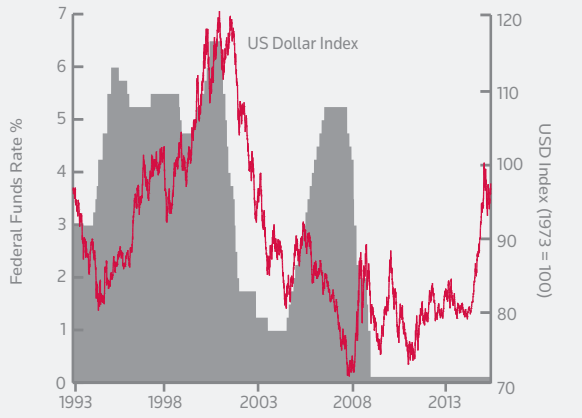
In the second cycle, which ran from 1999 through to mid-2000, the federal funds rate rose from 4.75% in mid-1999 to 6.50% by May 2000. The 10- to 2-year yield spread fell sharply, due to a more notable rise in short-term rates compared to longer-term ones, before turning to a negative territory, which saw the yield curve flatten and eventually transform into an inverted profile, signalling the beginning of a recession. During the third episode between 2004 and 2006 there was a clear lack of response from long-term rates despite the fed rates rising from 1% to 5.25%, resulting in a flatter yield curve. This was largely explained by rising foreign demand for US Treasury Bills, which helped to hold up the price of the securities, thus preventing a large increase in yields.

While each cycle had its own characteristics and was unique in its way, there were also some similarities; in particular the US dollar rallied in the months ahead of the first increase, but depreciated in the months afterwards. The post-increase decline in the dollar during the 2004 cycle can be explained by the low starting point for the federal funds and that the tightening took place during the bearish trend for the US dollar, as US investors were allocating capital elsewhere in search of higher yields. By contrast, the policy shift in 1999-2000 arrived in the middle of the multi-year USD bull market. Despite that, the dollar still depreciated in the first months after the first hike, as this also coincided with a more aggressive tightening from the ECB, putting pressure on the US-European rate spreads. Despite a sharp increase in yields during the 1994 cycle, the US dollar depreciated considerably after the first rise and continued to decline throughout the whole process. This is explained by the relatively low yields compared to other advanced countries and destabilising fixed income volatility that made US securities less attractive.

Turning to this year, if history is a guide then we should expect to see the US dollar rise ahead of the rate increase, followed by a downward correction thereafter. Clearly, the first leg is already underway with the dollar's strong rally since mid-2014. That said, we may still see the dollar upward trend continue after the increase announcement. With interest rates at near-zero across the developed world, a spike in US rates is likely to attract long-term investor interest. Moreover, with the Fed moving towards tighter policy, and the world's other major central banks heading in the opposite direction, the prospects of flows out of other economies into the US are strong, providing support for the greenback.

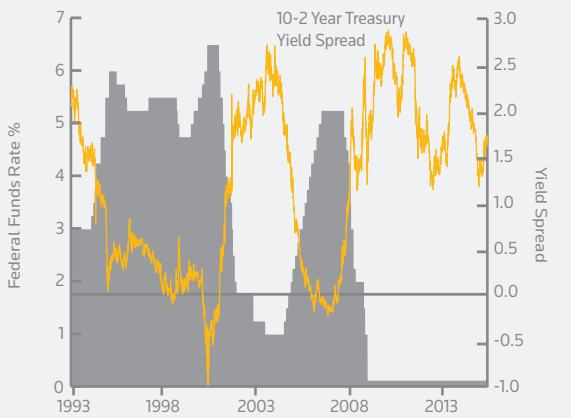
We expect to see a return in investor interest in precious metals, more likely after the first increase announcement, as investors start to implement their fresh expectations about the economy, bond prices and yield curves, and rebalance their portfolios. Moreover, concerns around slowing global economy and the potential impact of a stronger dollar on the stability of emerging economies may boost some safe haven interest, helping to drive precious metals prices higher in the latter part of the year.

US DOLLAR INDEX & FEDERAL FUNDS RATE



Source: Thomson Reuters

10-2 YEAR T-BILL YIELD SPREAD & FEDERAL FUNDS RATE



Source: Thomson Reuters

E-SCRAP: IMPACT OF REGULATIONS

Precious metals supply from the recycling of end-of-life electronics (EOL) is a relatively new, sizeable, above ground source to the market, making it an increasingly important area to research and monitor. Much of the increase in precious metals supply from e-waste recycling can be attributed to the introduction and enforcement of e-waste regulations, which have effectively boosted collection rates across the globe. The "Smelter E-Scrap Feedstock" chart below illustrates the volume of e-scrap feedstock delivered to smelters, the final step toward metals refining. This growth has mostly been a function of the increase in collection rates over the period, from just 22% of total e-waste generated in 2000 to 43% by 2014. Smelter feedstock volumes have increased at a 13% compound annual rate since 2000 as a result.

The "Gold in Collected EOL Computers and Cell Phones" chart illustrates the volume of gold contained in e-scrap collected for recycling and refurbishment. Gold contained in collected e-waste has increased at a 15% compound annual rate since 2000. As of 2014, gold contained in EOL electronics collected amounted to 7% of gold electronics demand that year.

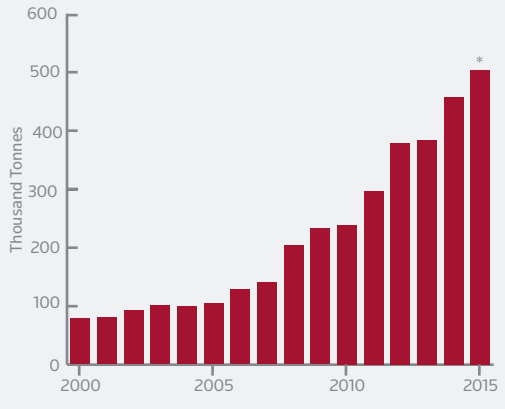
Approximately 11.6 million tonnes of e-waste was generated in 2014 in **Europe**, according to a United Nations University report. E-waste management is governed by a regional regulatory policy called the Waste Electrical and Electronic Equipment Directive (WEEE Directive). The WEEE Directive is the most comprehensive and large-scale regulation of e-waste in the world. The Directive initially set targets for collection volumes of e-waste per capita. Going forward, the Directive will be setting targets for recycling rates based on the volume of electronics in use in a three-year rolling period.

The **United States** is the largest generator of e-waste by country in the world, of an estimated 7.1 million tonnes (17% of the global total) in 2014. There are 25 states in the country that had e-waste regulations in place at end of 2014, covering 66% of the country's population. Of the e-waste generated annually, around 45% is collected and 30% of generated e-waste is recycled. The United States has a large refurbishing and reuse rate, which has been growing at a faster pace than recycling volumes.

China discarded six million tonnes of e-waste in 2014, amounting to 14% of the global total. In 2011, China produced a total of 150 million units of e-waste, of which 40% was collected. The Ministry of Environmental Protection and the Ministry of Finance of the People's Republic of China set up a fund in 2012 dedicated to the development of the e-scrap recycling industry. At present, about 50% of the e-scrap collected is recycled at small and unlicensed workshops. It is illegal to import e-waste into China, but there are still smuggling activities, which have become an integral source of raw material supply to manufacturers. There is a rough estimate that the smuggling activities could be as much as 2 million tonnes of E-waste import into China annually.

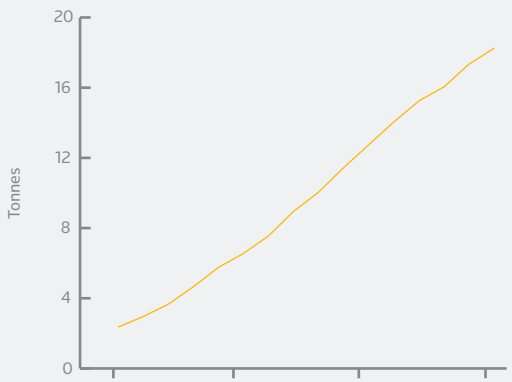
India's first policy framework on electronic scrap handling came into effect as legislation on 1st May, 2012. Data shows that as of November 2014, there were 12 states in the country with registered collection centres, which in aggregate is 138 units with a total capacity of 349,155 metric tonnes per annum. This is a far cry from the actual e-waste generated. A report by The Associated Chambers and Commerce of India (Assocham) last year revealed that more than 90% of e-waste collected is managed by the unofficial sector.

SMELTER E-SCRAP FEEDSTOCK



Source: GFMS, Thomson Reuters *Est

GOLD IN COLLECTED EOL COMPUTERS & CELL PHONES



Source: GFMS, Thomson Reuters

BULLION COIN UPDATE

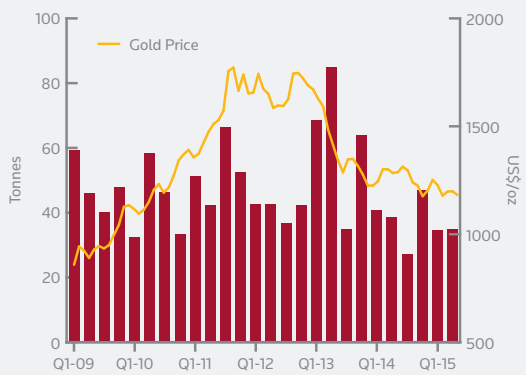
According to the GFMS quarterly coin survey, gold coin sales picked up strongly in the second quarter of 2015, growing by 21% on a year-on-year basis. While market demand for bullion coins appears to revert to longer term averages after a bout of fervent buying between the years of 2009 to 2013, demand for bullion coins has surged compared to last year as appetite for safe haven assets has returned. Comparing to the previous quarter, gold coin sales fell by 12%. This, however, is mostly seasonal in nature as the first quarter is generally the strongest quarter for bullion sales, characterised by restocking by large bullion dealers for the year ahead and the introduction of newly-minted coin series by bullion mints in the beginning of the year. This robust coin demand may have cushioned the slide in the gold price, with second quarter price averaging $1,192/oz, a decline from $1,218/oz in the previous quarter.

Sales were underpinned by demand in Europe, which grew robustly by 73% on a year-on-year basis. Surveys with bullion coin dealers corroborated the fact that this was driven by flight to safe haven assets in the midst of the brewing Grexit crisis in June as the uncertainty of the monetary union led to continued depreciation in the euro against the dollar, spurring some buying activity amongst investors in Germany and France. There was also anecdotal evidence of Greek depositors buying gold after the government imposed capital controls and limited cash withdrawals. Turbulence in the stock markets has seen some investors allocate a larger portion of their investments towards gold holdings. Japan also saw very strong year-on-year sales of 29% but this is largely due to base effects from the previous year where retail spending was hit hard by sales tax increase (bullion coin sales in the second and third quarter were very weak in Japan post tax hike).

In contrast, bullion coin sales in North America and China are somewhat muted. Sales in North America, previously a key driver of bullion demand, have declined on a year-on-year basis for every quarter since Q2 2013. A brighter outlook for economic growth, talks of interest rates rise and a stronger dollar have jointly curbed investor's enthusiasm for the yellow metal. Similarly, sales of bullion coins has slowed in China as excessive bargain hunting in the aftermath of the gold price collapse in Q2 2013 resulted in overbought positions, and these positions are still in the red considering where gold price stands at the moment. Clampdowns on corruption have curbed demand for gifting and the recent stock market plunge has eroded the savings of many retail investors, curtailing demand for other expenditure.

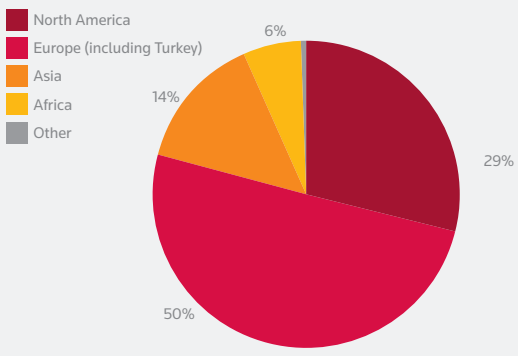
Market Outlook: Strong sales towards the end of the second quarter have caused a few bullion dealers in Europe to operate at low inventory levels, with some claiming their stocks to be almost sold out. We expect these bullion dealers to restock in the beginning of the third quarter, which may help provide some support for bullion coin sales in July. With the Greek debt crisis finding a temporary respite at the moment, it is likely that buying activity will soften in the coming quarters. Meanwhile, as the market turns to the potential Fed interest rate increase in September, this is likely to rein in demand as alternative asset classes may provide more attractive options for investors to park their assets.

QUARTERLY OFFICIAL BULLION COIN SALES



Source: GFMS Quarterly Bullion Coin Survey, Thomson Reuters

QUARTERLY BULLION COIN SALES BY REGION



Source: GFMS, Thomson Reuters

SWITZERLAND

- ***Recent Swiss trips have confirmed that the twists and turns of the Grexit crisis are not replicating the excitement across the European precious metals market for retail clients and the wider global market. Indeed, it was less a case of "why making a drachma out of a crisis" and more in tune with the apocryphal phrase by a former British Prime Minister - "crisis, what crisis!"***

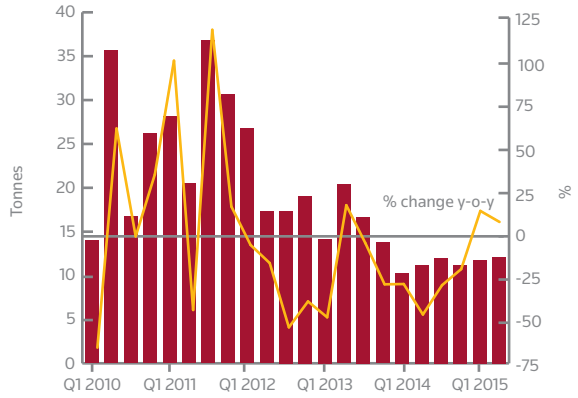
- ***We estimate that Swiss gold bar hoarding was up 11% in H1 2015 to 23.9 tonnes. However, prior to the relatively subdued activity in 2014 the five and half years from mid 2008 gold bar hoarding was at a quarterly average of 24.0 tonnes, hence just more than double the current rate.***

- ***Demand for Swiss gold watches has slumped in the second quarter of the year, not helped by weak Asian demand and destocking from the watch industry.***

The previous flare ups and bailouts for Greece led to a dramatic surge in European precious metals demand and the peak for retail demand in this region; however discussions with industry players in Switzerland have indicated that this has not been replicated in 2015. It would be inaccurate to characterise European investment demand as weak overall, at least by long-term levels. Indeed, there are positive signs from some areas with parts of the German speaking parts of Europe, and particularly Germany itself, experiencing an upturn in investment demand in the first half of the year. However, this has been more muted than on previous occasions and less widespread. This development is particularly interesting for three reasons; first that recent events, not least the "No" vote in the Greek referendum, means that the country was arguably closer to Eurozone exit than ever before. Second, the eurozone is experiencing quantitative easing for the first time and finally, more countries, including Switzerland, are running with negative interest rates.

While the Swiss National Bank (the central bank) has set interest rates below zero this is not the same as commercial banks doing the same and hence is not sparking gold interest from investors, at least not yet. Meanwhile, the introduction of quantitative easing has aided demand a touch for Swiss refiners from those in the Eurozone. The improvement in the European economy though has meant that this has been muted, especially as the rationale of those who argue that QE will lead inexorably to a massive inflation problem has taken a knock from the experience from the Federal Reserve since the global financial crisis. In terms of Greece, it appears to be a case of once bitten twice shy for many parts of the investor universe, as while they bought previously as a safe haven they believe in, this has been shaken to some extent by the price decline over the past few years. In addition there is a much greater degree of scepticism among investors about whether Greece will actually exit and hence the lack of fresh buying. There are also justifiable grounds to believe that there would be far less contagion than would have been the case as banks don't have as much Greek debt on their balance sheet any more and their capital ratios are more robust. It is also the case that some investors (retail and institutional) had already built up big positions, notably in the wake of the banking crisis and while they do not wish to sell, they also do not want a higher share of the overall portfolio in gold.

SWISS RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

SWISS MARKET OUTLOOK

Looking ahead, while actual Grexit would surely have sparked more activity in the short term, with this probability receding it is worth noting that the fresh impetus of quantitative easing and an escalation of Greece's problems have, as one contact put it, far from led to the phone ringing off the hook, as it had previously. In fact, the subdued price action we are anticipating means we would not expect Swiss investment to return to levels since earlier this decade. Meanwhile, we think that while the pace of decline in Swiss gold watch demand may abate.

THE VOLATILITY SMILE

Over the last six months, the 22-day realised volatility has seen a decrease from nearly 20% at the beginning of January to almost 13% by end-June. The drop has been more pronounced for gold denominated in Australian dollars, which fell by nearly 10% during the same period. Although volatility recovered from a four month-low in April after speculation rose over the prospects of a Fed rate hike, concerns around the health of the global economy continued to dampen further upticks. As a result, the implied volatility surface, derived from an observed option price for different maturities and strikes, fell overall and caused the volatility skew to shift in the process.

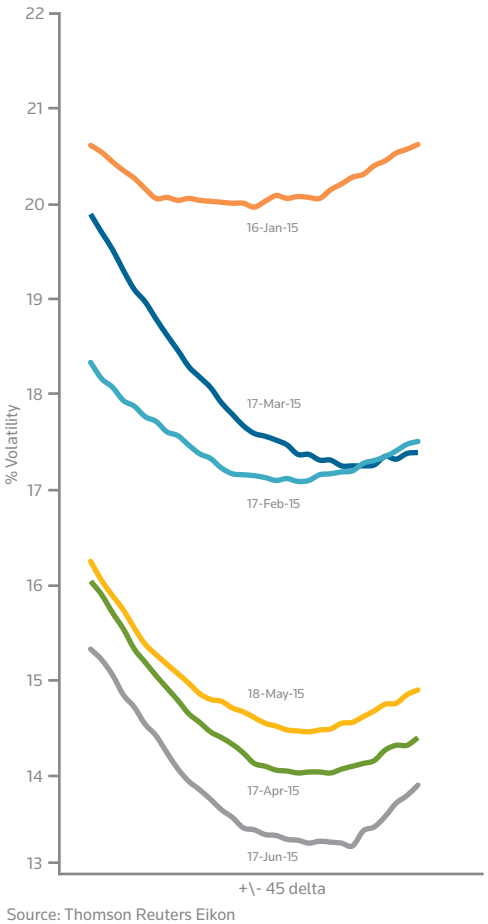
The skew, commonly referred to as the volatility smile, is subject to market forces that exert control over its shape. The overall drop in volatility in the gold market can be attributed to the narrow trading range since mid-March. Over this period, gold failed to break important technical levels, thus suppressing an uptick in volatility. As with any other instrument, negative price movements tend to cause volatility to spike; a reaction which is proven to be milder for positive jumps. Such risk leads investors, who are predominantly net long, to protect their exposure to the downside and ultimately drive higher the premium paid for put options. Over 2014, gold producers opted to use more options contracts than forward contracts to hedge their exposure. The change could be partially attributed to the apparent discount of option contracts present during periods of low volatility.

The interplay between price movement and option premium talks to market sentiment with respect to the underlying instrument, and can thus be used to further understand investor expectation. When volatility is expected to increase, the symmetry of the volatility smile changes, displaying either a reverse or forward skew. If investor expectations are realised the smile will shift up the volatility scale. Conversely, if implied volatility remains static or falls, this would suggest that market conditions failed to evolve in line with consensus. As investors subsequently unwind their downside protection the gradient of the skew, or risk reversal, flattens. Charted below, we look at the evolution of the three-month volatility smile, a tenor that shows a pronounced evolution over the past six months.

In mid-January the smile exhibited a broadly symmetrical distribution at a high level of volatility, indicating strong demand for options and investors taking upside and downside bets in roughly equal measure. A reverse skew had developed by mid-February (which has been sustained in the market for the past five months) suggesting that the gold market had moved to protect against downside risk, in so doing bidding up the price of puts relative to calls. The risk reversal became more extreme in March as the market continued to add bets (an indication of a net purchase of puts) of further falls in the market. The drop we have seen in gold volatility over the last few months reflects the narrow range gold has traded since mid-March. With the passage of time, we have seen investors slowly price-in a milder downward move for volatility, causing the relative cost of buying options to fall and arguably gain appeal to some over forward sales contracts.

Ultimately, the shape of the smile informs us of the extent to which investors are managing price risk and the direction of the bets being made using options. It should be borne in mind that the investment community en masse will not always make the right bets and it will be interesting to see whether an uptick in volatility will be preceded by higher out-the-money put premiums, or vice versa. Only time will tell.

THREE MONTH VOLATILITY SMILE



Source: Thomson Reuters Eikon

SCRAP

- ***Scrap supply increases for the first time since Q1 2012, up by 1% or 2.7 tonnes year-on-year. The market is yet to turn a corner, however, and excluding Turkey supply fell by 13.5 tonnes.***
- ***Scrap supply in Turkey was at the highest level since Q2 2010, up over 200% year-on-year, as average quarterly prices closed above 100 lira/gramme for the first time.***
- ***The Americas, Africa and Australia were down year-on-year while Asian markets were mixed, with the world's largest supplier of scrap, China, delivering 51 tonnes to the market, up 6% year-on-year.***

One word sums up the difference between Turkey and the rest of the world when it comes to scrap; price. Owing to weakness in the lira Turkish gold prices have hit their highest ever quarterly average and daily prices even came close to 2011 highs. Coupled with high levels of purchasing in 2013, as the price fell below 80 lira/gramme, and only modest upward sentiment for gold prices, many took the opportunity to sell bars, coins and jewellery back into the market. This has led to higher exports from the country as material is sent for refining to London Good Delivery status.

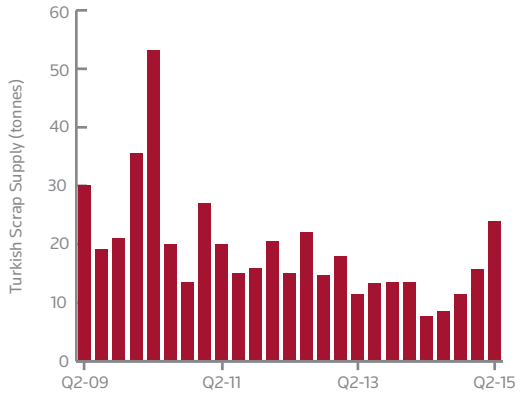
Of the major gold markets Turkey saw the largest price increase in Q2 at 6% quarter-on-quarter. In renminbi the price fell 3% and in the US dollar 2% quarter-on-quarter. This saw little new incentive to supply material back into the market in order to book a quick profit in the other major world gold markets. In the UAE scrap supply fell by 12% year-on-year with similar falls seen elsewhere in the Middle East.

There were increases in China and India, however, of 6% and 9% respectively, equating to 2.7 and 1.4 additional tonnes of supply. In India, in part, this is a reflection of particularly weak markets a year ago for scrap. In both countries we have also seen a move by some retail investors to cash in gold holdings in order to speculate on the equities markets. Gold has been seen as a poorly performing investment for many recently and with little positive being said about the outlook for gold in the media many retail investors have called it a day for now.

SCRAP MARKET OUTLOOK

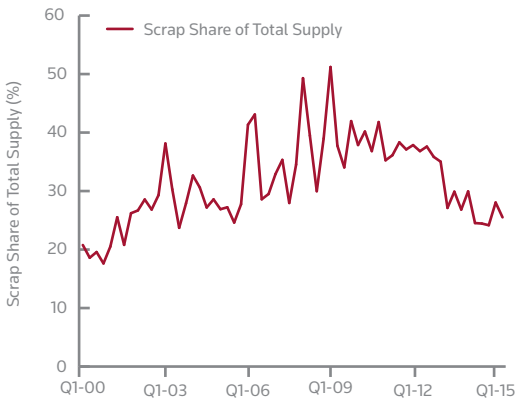
Scrap volumes remain substantially lower than the peaks seen in 2009 and without substantial price increases coupled with economic distress we do not foresee a return to those levels in the near future. We are close to the bottom in terms of scrap volumes coming into the market however, and excluding the volatile Turkish market, we would expect to see modest growth in scrap coming back to the market in the coming quarters.

TURKISH SCRAP SUPPLY



Source: GFMS, Thomson Reuters

SCRAP SHARE OF TOTAL SUPPLY



Source: GFMS, Thomson Reuters

© THOMSON REUTERS 2015.

All content provided in this publication is owned by Thomson Reuters and/or its affiliates (the "Thomson Reuters Content") and protected by United States and international copyright laws. Thomson Reuters retains all proprietary rights to the Thomson Reuters Content. The Thomson Reuters Content may not be reproduced, copied, manipulated, transmitted, distributed or otherwise exploited for any commercial purpose without the express written consent of Thomson Reuters. All rights are expressly reserved.

TRADEMARKS

"Thomson Reuters" and the Thomson Reuters logo are trademarks of Thomson Reuters and its affiliated companies. The third party trademarks, service marks, trade names and logos featured in this publication are owned by the relevant third parties or their affiliates. No use of such mark, names or logos is permitted without the express written consent of the owner.

DISCLAIMER OF WARRANTIES AND NO RELIANCE

This publication is provided by Thomson Reuters on an "as is" and "as available" basis. Thomson Reuters makes no representations or warranties of any kind, express or implied, as to the accuracy or completeness of the Thomson Reuters Content. Thomson Reuters is an aggregator and provider of information for general information purposes only and does not provide financial or other professional advice. Thomson Reuters is not responsible for any loss or damage resulting from any decisions made in reliance on the Thomson Reuters Content, including decisions relating to the sale and purchase of instruments, or risk management decisions.

ISSN: 2055-1800 (Online)
ISSN: 2055-1797 (Print)

PUBLISHED JULY 2015 BY THOMSON REUTERS
The Thomson Reuters Building, 30 South Colonnade
London, E14 5EP, UK
E-mail: gfms@thomsonreuters.com
Web: https://thomsonreuterseikon.com/markets/metal-trading/

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, US dollar prices and their equivalents are for the PM fix of the London Bullion Market.
- 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.

ACKNOWLEDGEMENTS

The estimates shown in the *GFMS Gold Survey* and its quarterly updates 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.



www.valcambi.com
www.tanaka.co.jp

© 2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and the Kinesis logo are trademarks of Thomson Reuters. S020029 03/15.

THOMSON REUTERS™