

Central Banks: Inactive or Active?

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BLOOMBERG PRECIOUS METALS FORUM

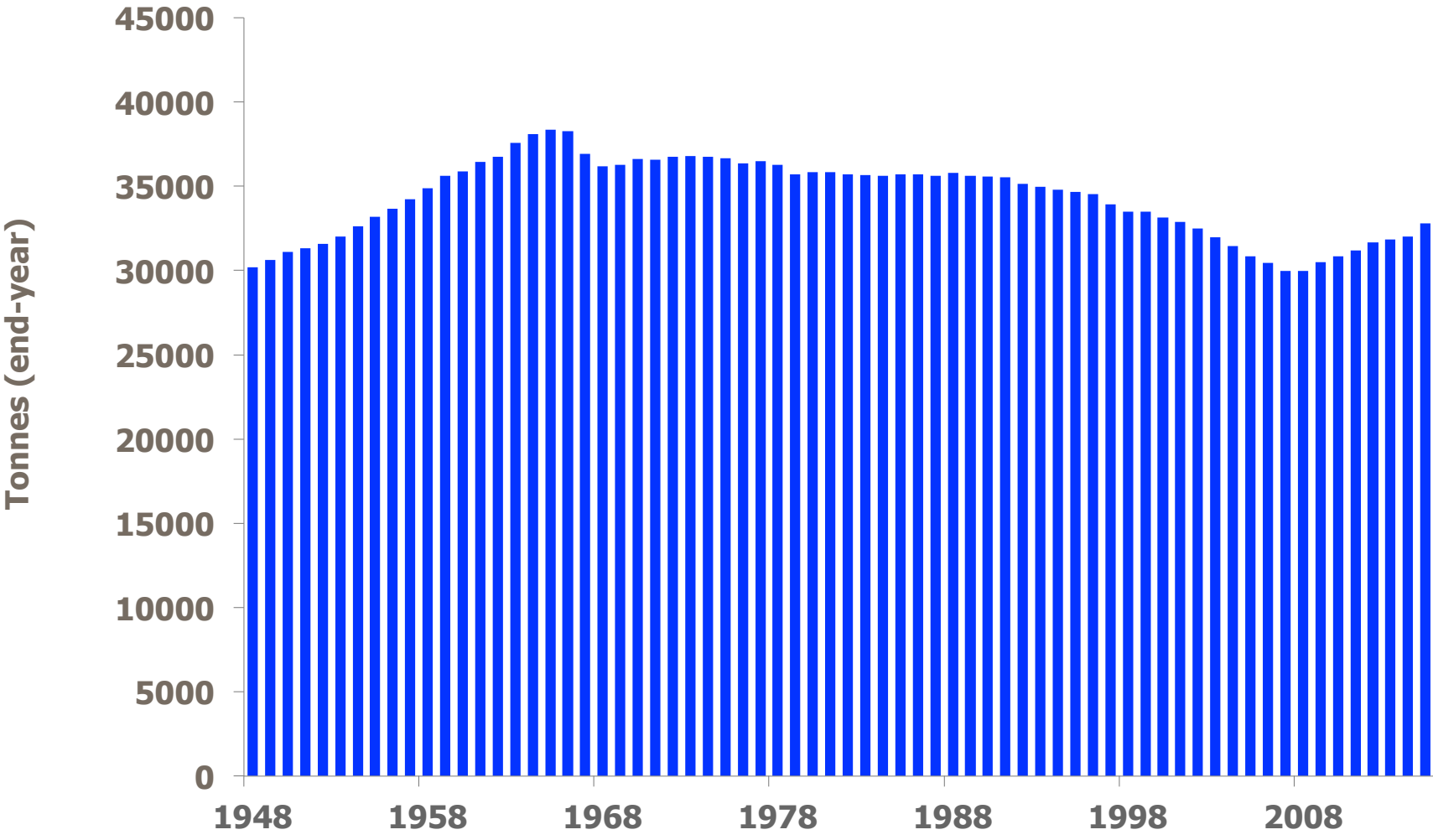
London, 18th May 2016

www.preciousmetalsinsights.com

Central Banks: Inactive or Active?

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- Official sector holds roughly 18% of above-ground gold stock
 - Shift from net seller to net buyer of gold since 2010
 - Gross gold sales have collapsed (especially from Europe / Central Bank Gold Agreement)
 - China and Russia by far the most important buyers; relatively few other countries have added gold to reserves
 - Massive reduction in gold loans / swaps by central banks in last 10-plus years
 - Credit issues with counterparty commercial banks
 - Collapse in borrowing demand from producer hedging
 - Slump in gold lease rates

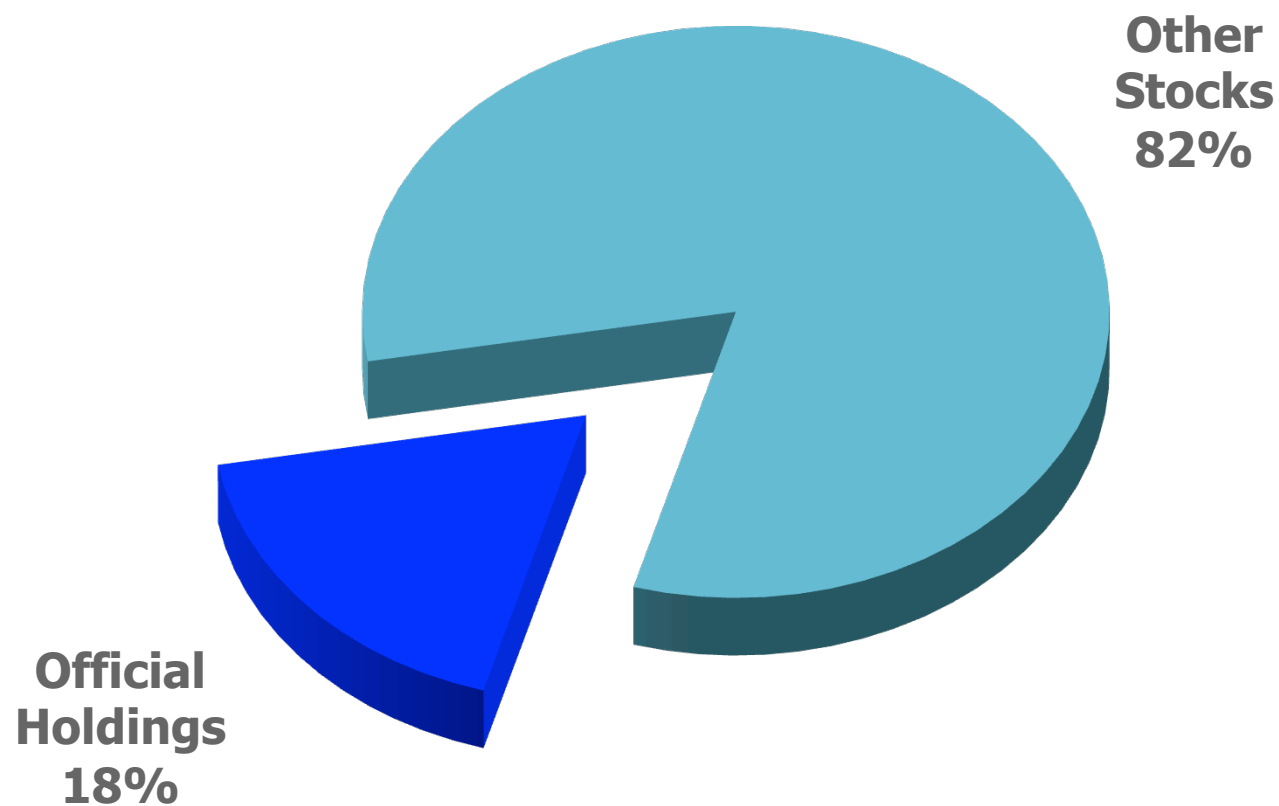
TOTAL OFFICIAL SECTOR GOLD RESERVES



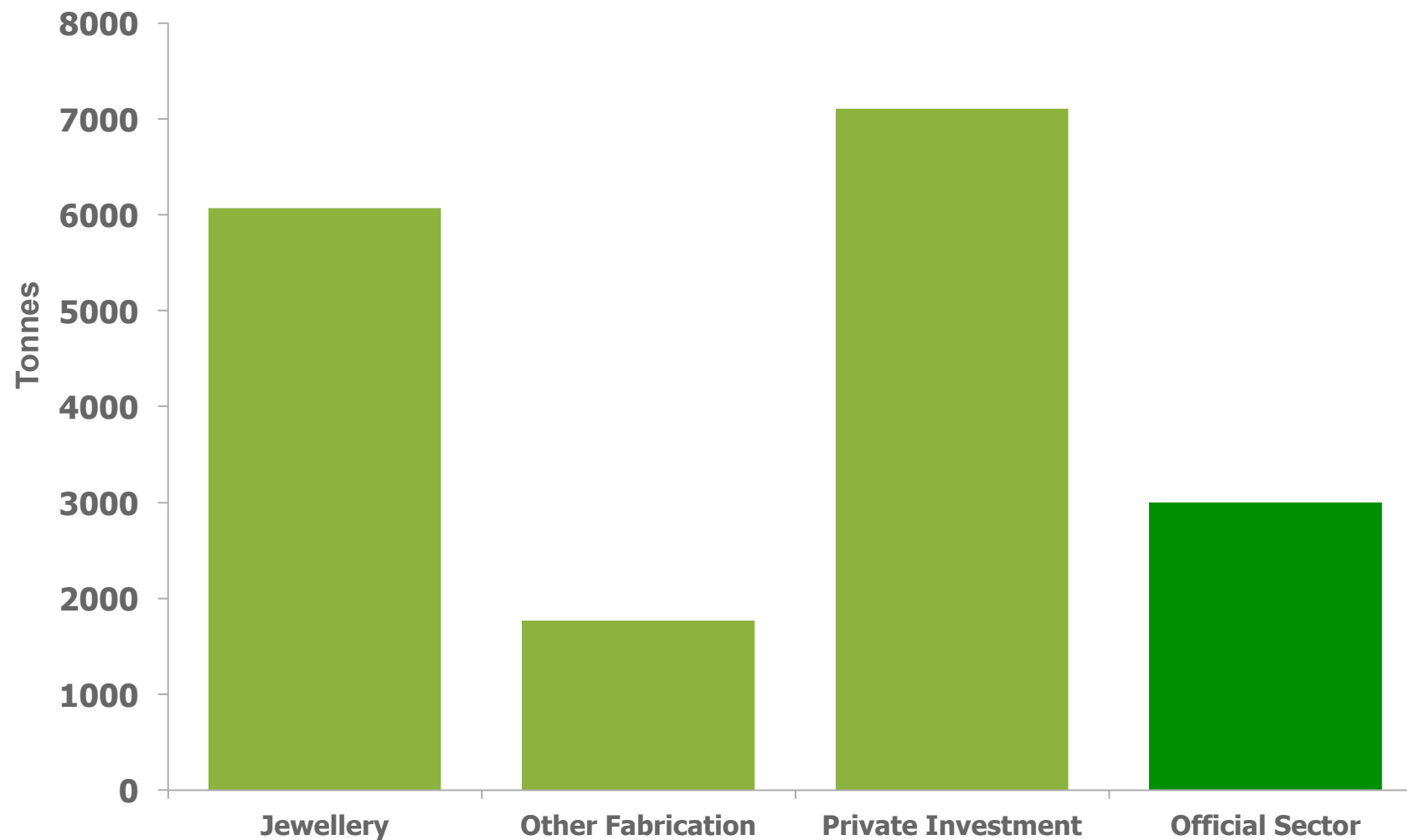
Source: IMF

ABOVE-GROUND STOCKS OF GOLD

Total Above-Ground Stocks, end 2015 = 186,700t

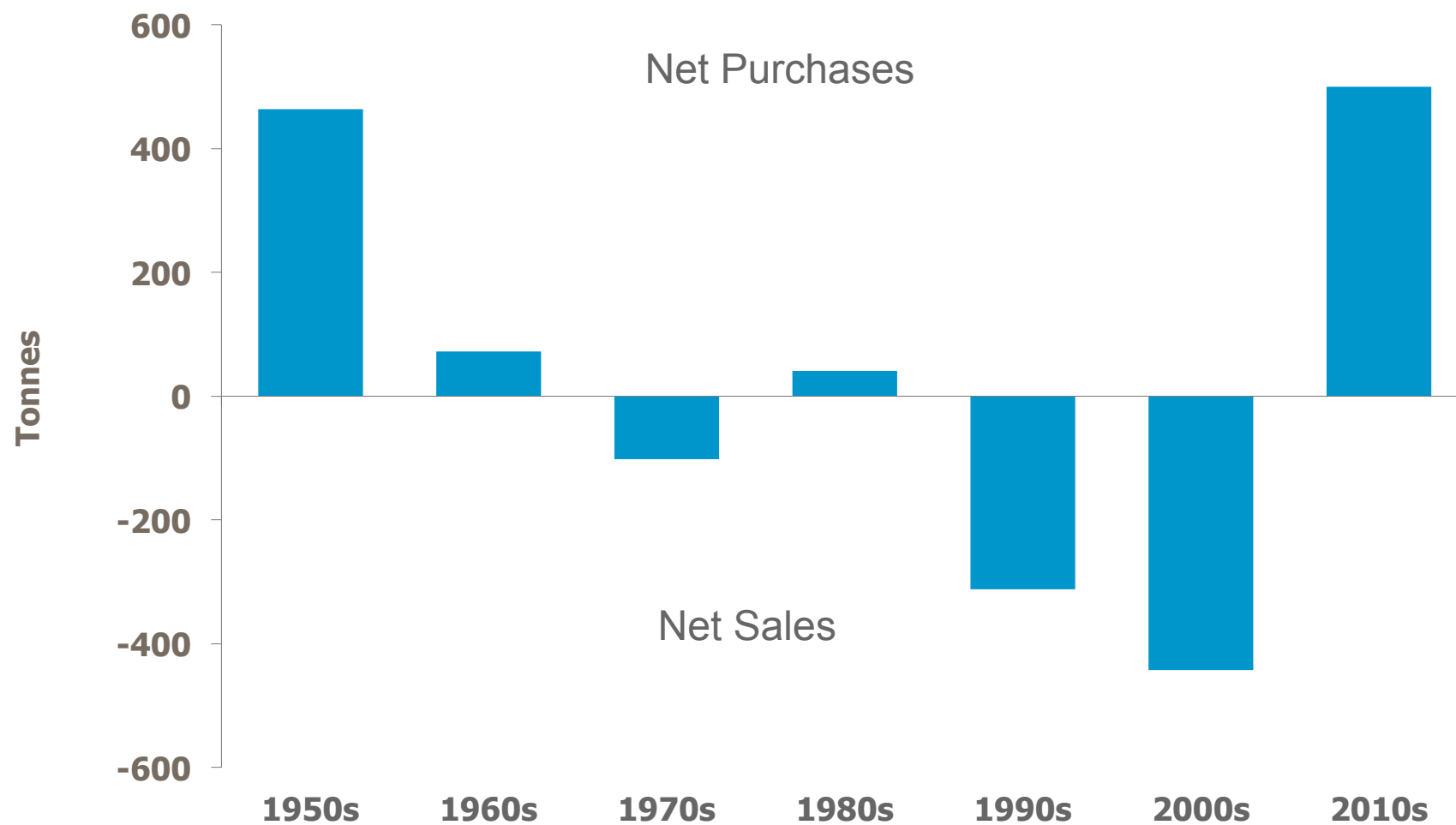


CHANGES IN ABOVE-GROUND STOCKS BY SECTOR, 2010-15 (NET CUMULATIVE CHANGE)



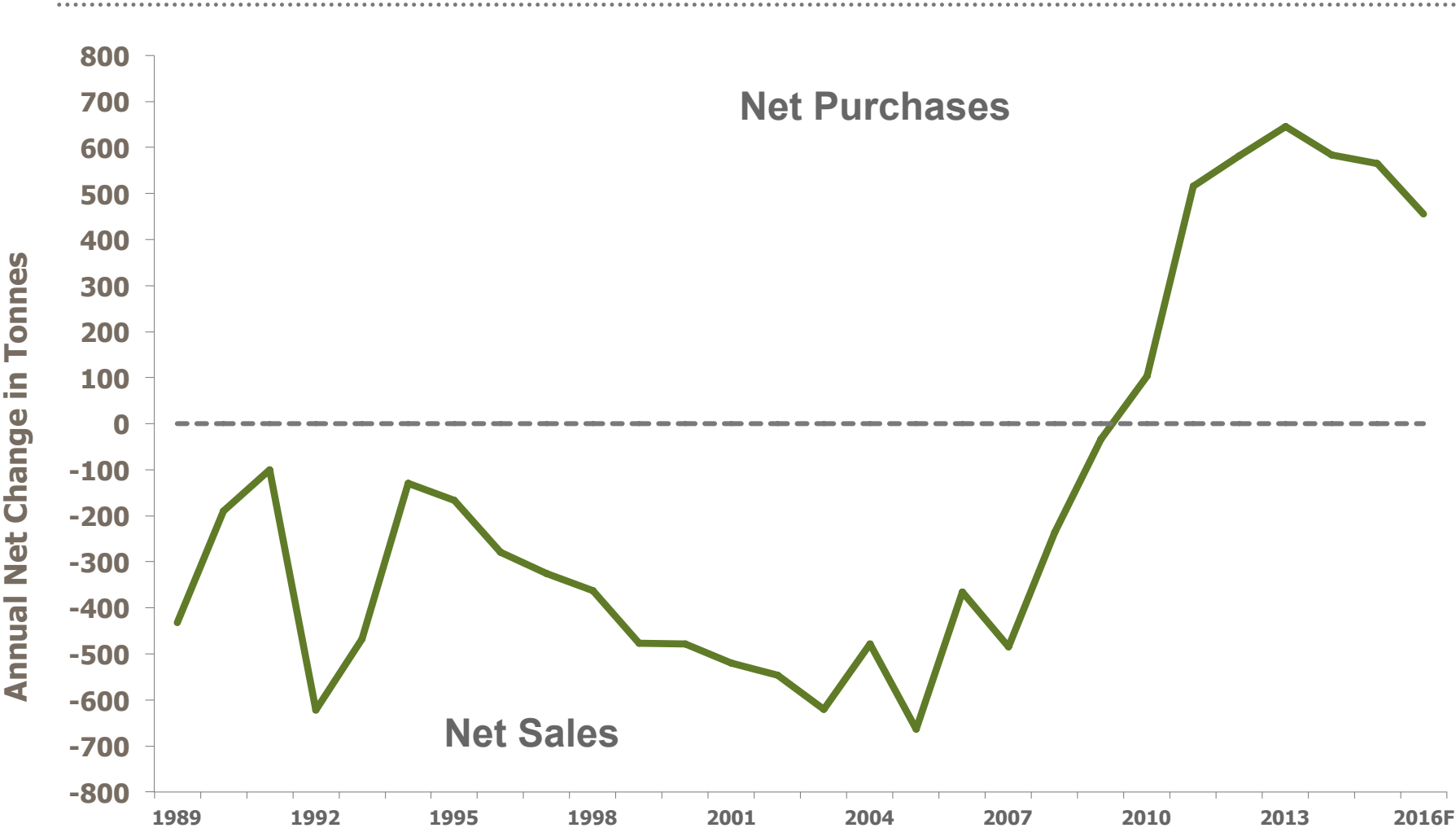
Source: Metals Focus

OFFICIAL SECTOR PURCHASES & SALES (ANNUAL AVERAGE IN TONNES, BY DECADE)



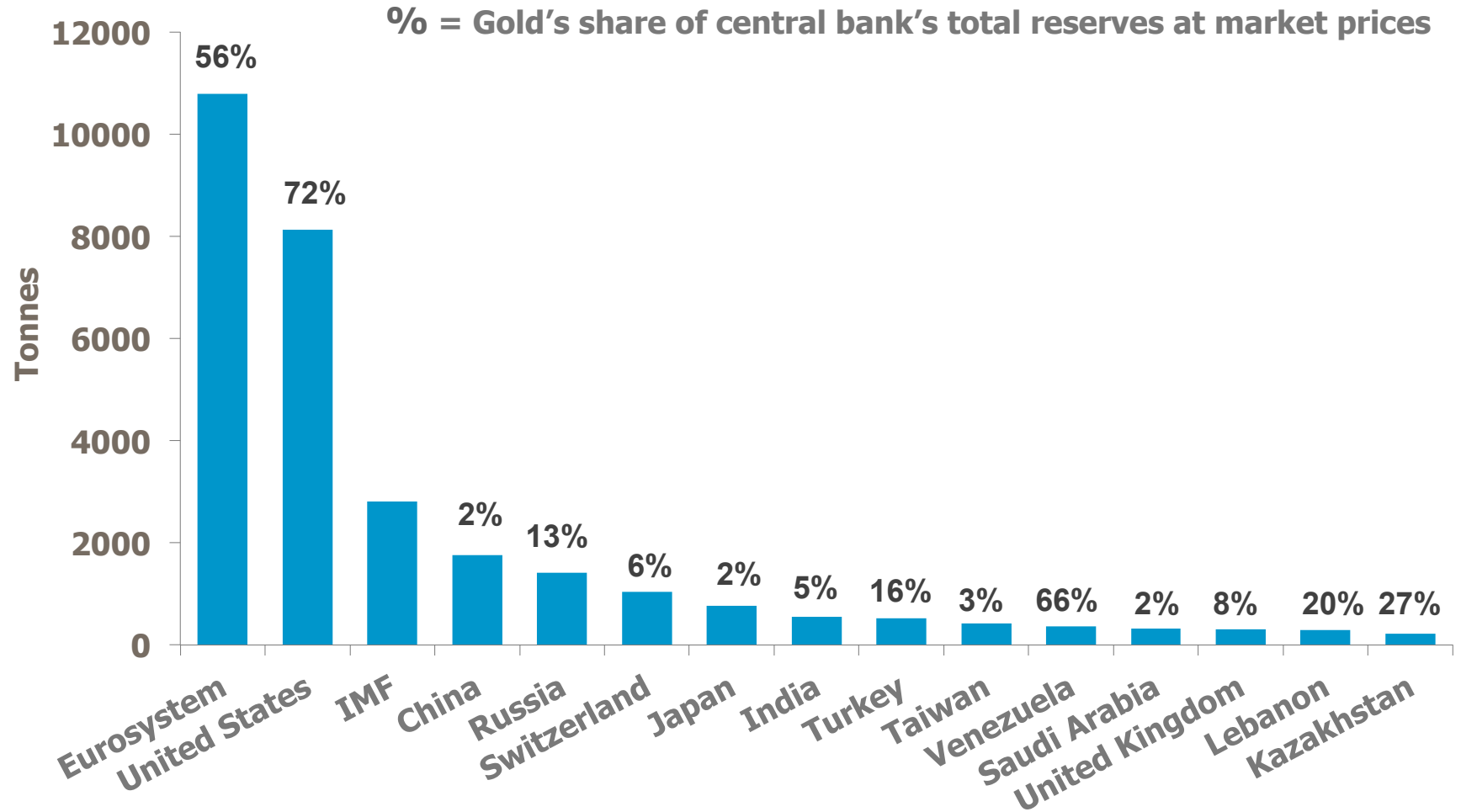
Source: IMF; Thomson Reuters GFMS (from Bloomberg); Metals Focus

ANNUAL NET CHANGE IN OFFICIAL SECTOR HOLDINGS



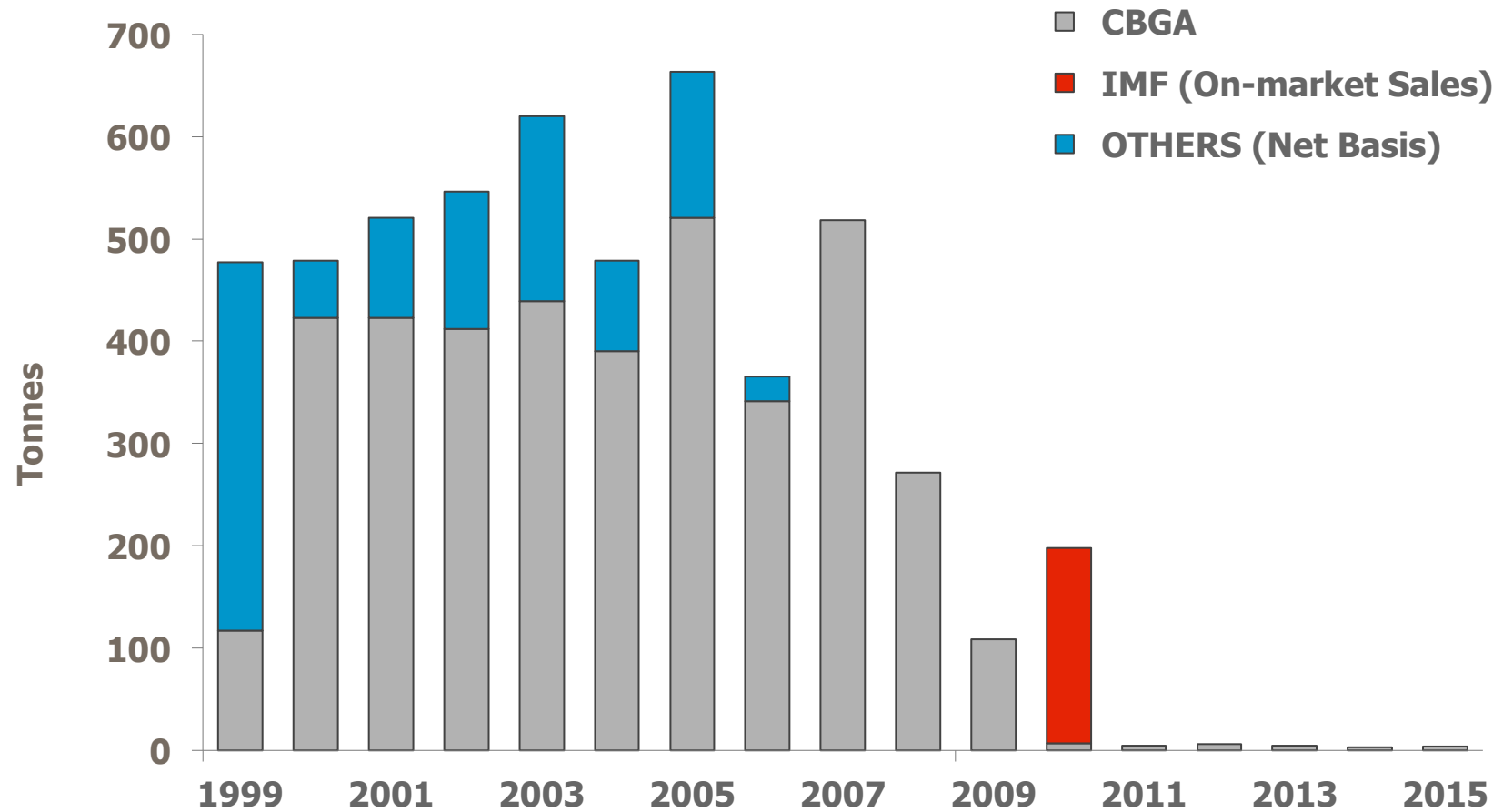
Source: Thomson Reuters GFMS (from Bloomberg); Metals Focus; Precious Metals Insights

TOP 15 GOLD RESERVE HOLDERS



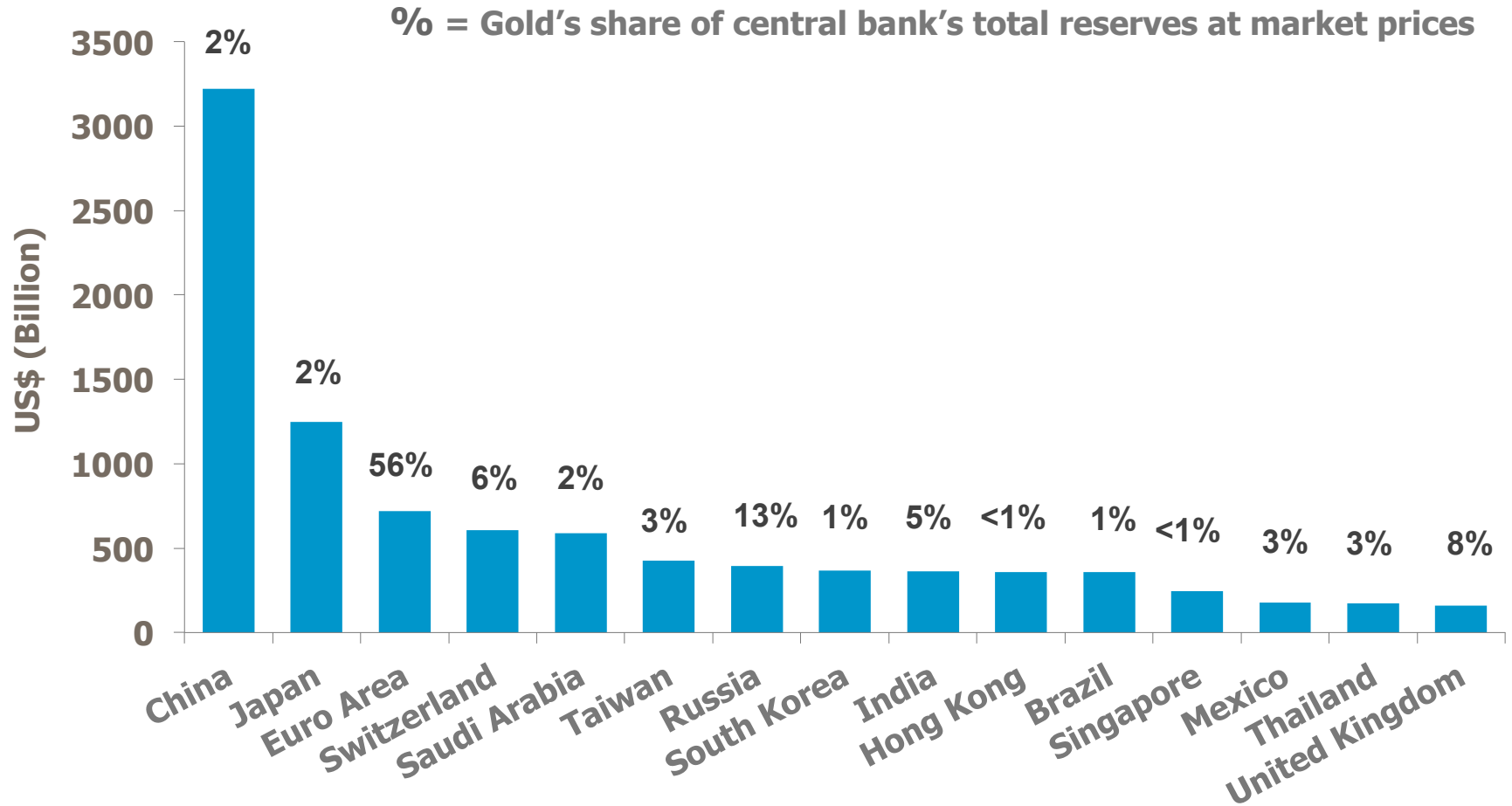
Source: IMF

OFFICIAL SECTOR SALES



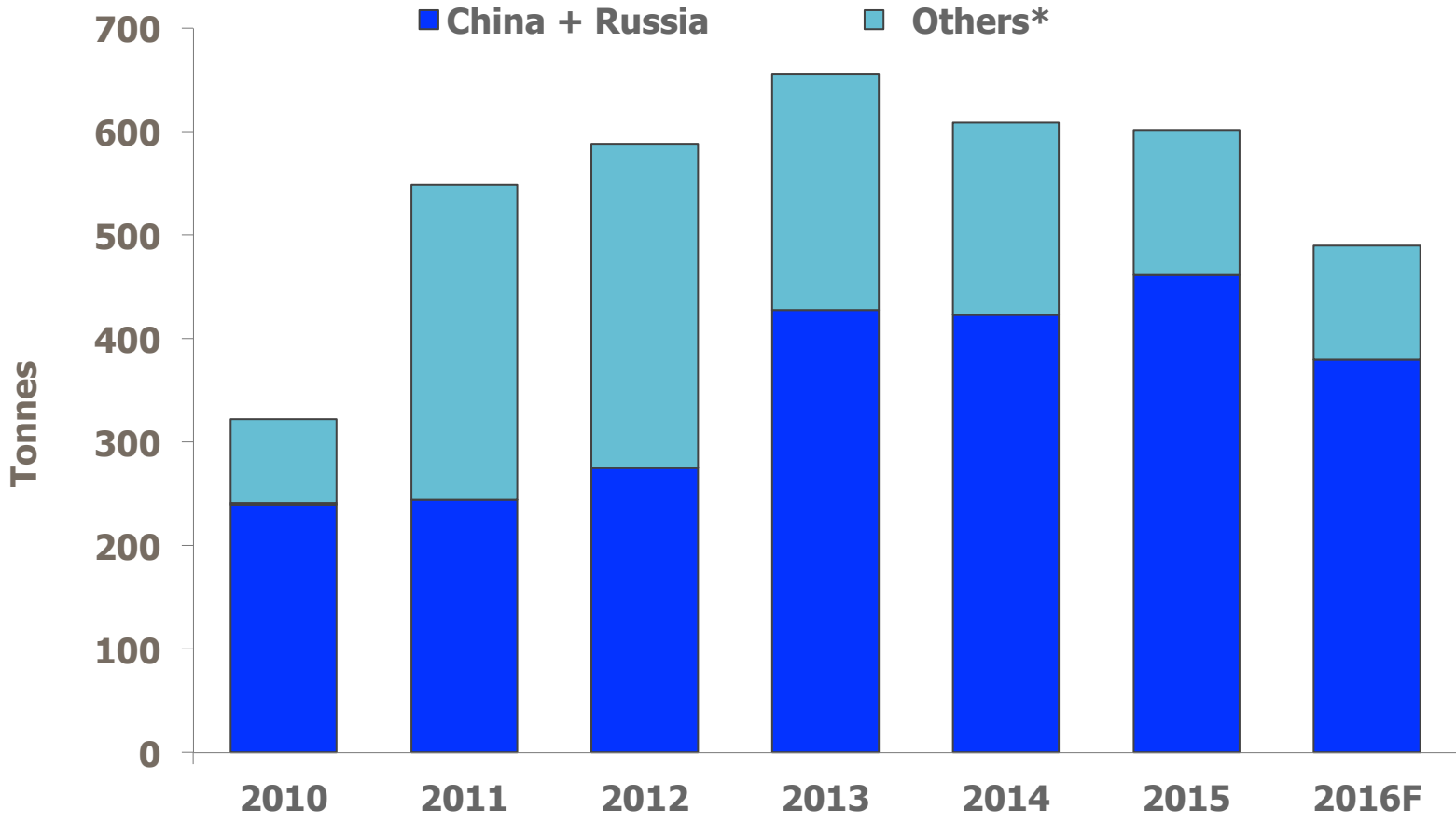
Source: Thomson Reuters GFMS (from Bloomberg); Metals Focus

TOP 15 FOREIGN EXCHANGE HOLDERS



Source: IMF

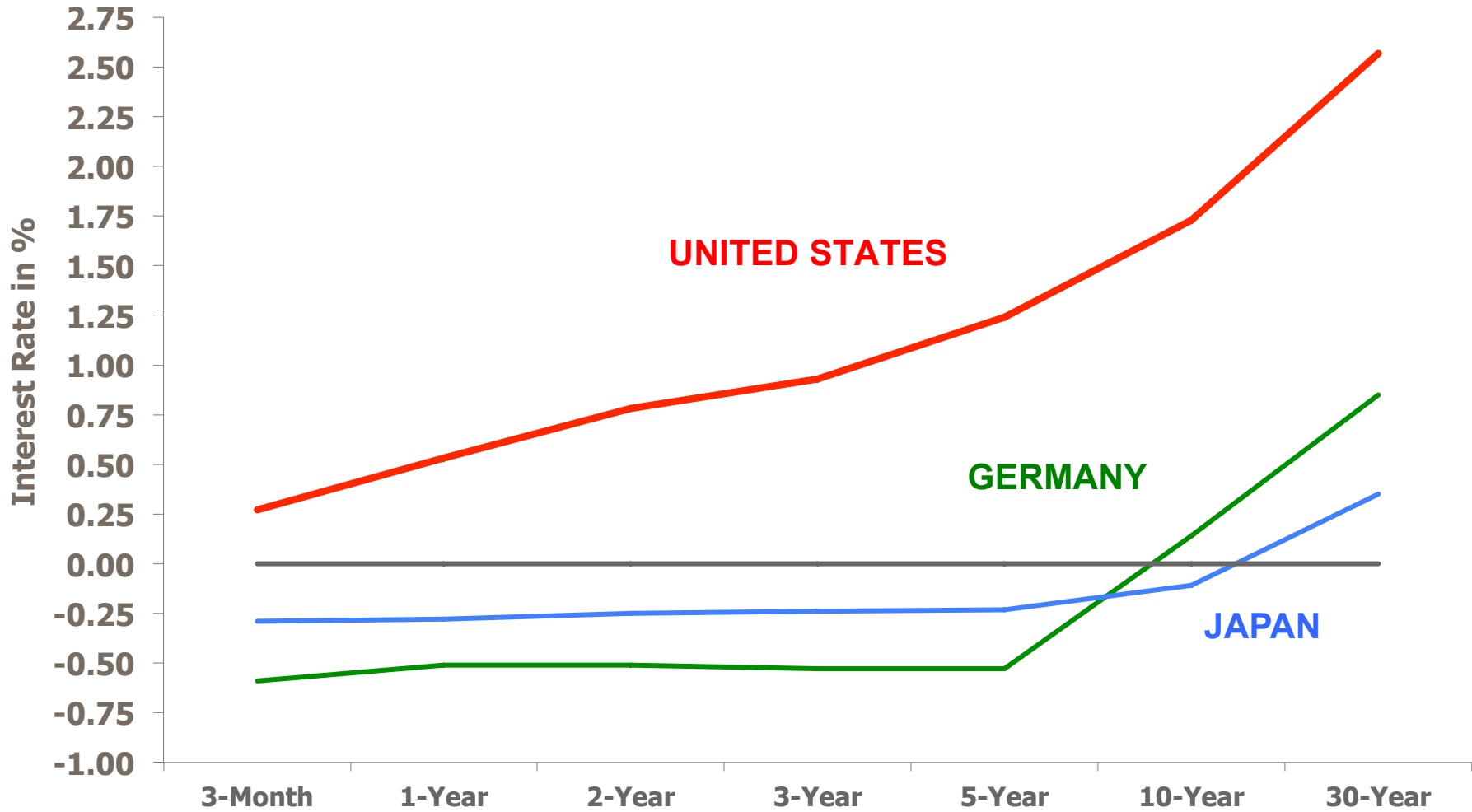
OFFICIAL SECTOR PURCHASES



*Gross Purchases

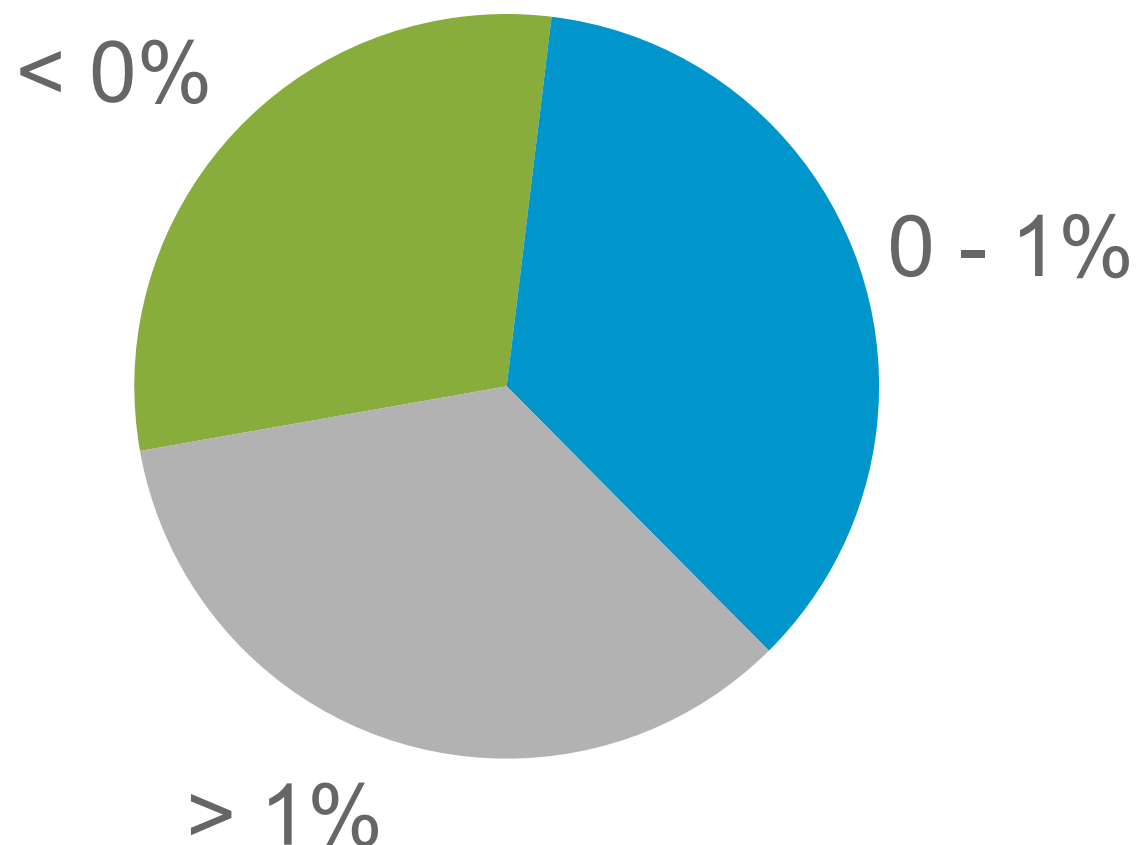
Source: Metals Focus; Precious Metals Insights

GOVERNMENT BOND YIELD CURVES



Source: Bloomberg

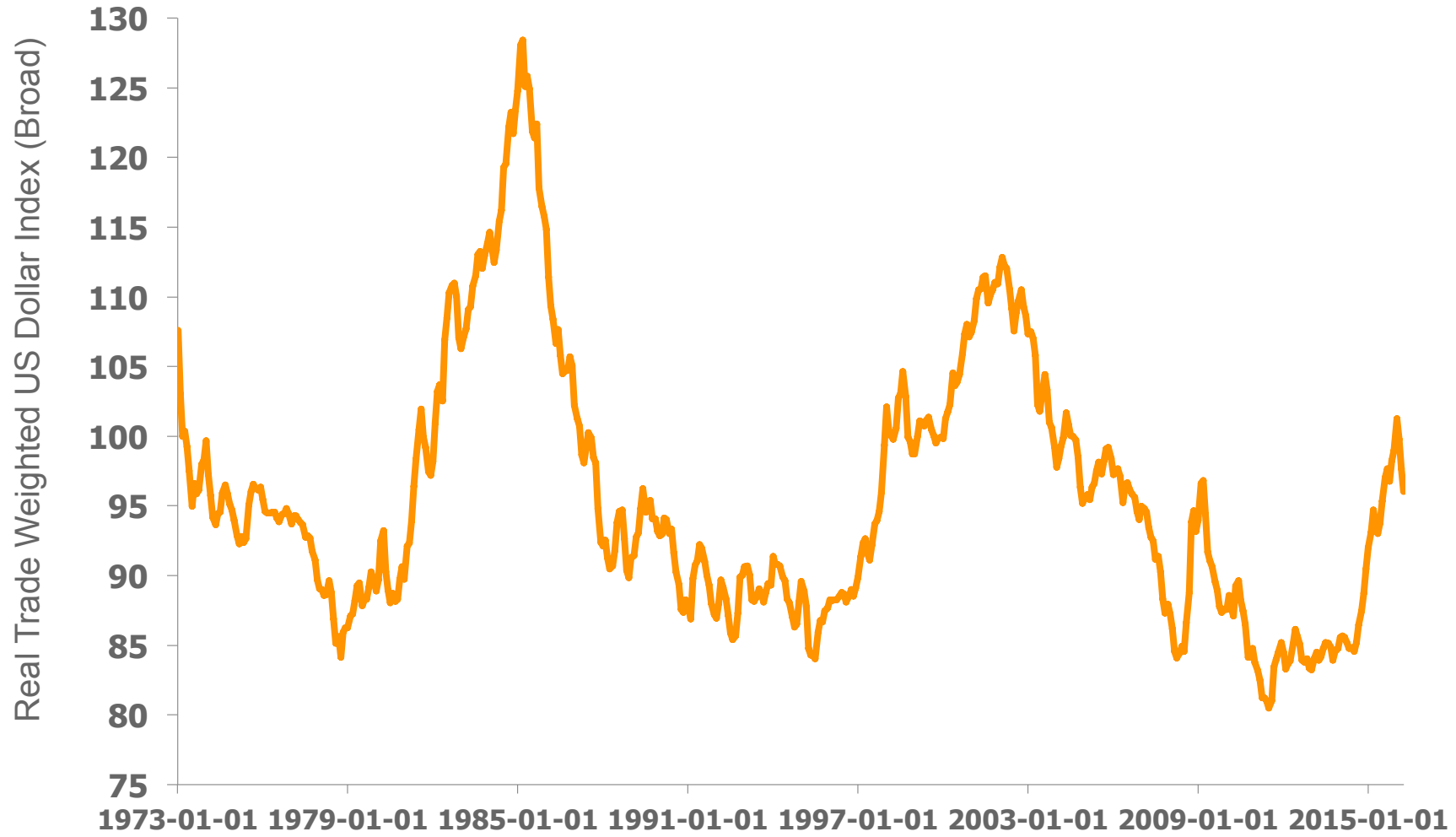
OUTSTANDING INVESTMENT GRADE SOVEREIGN BONDS DISTRIBUTION BY YIELD*



*As of 21/03/16: Sovereign Debt from Australia, Canada, Denmark, Euro Area, Japan, Sweden, Switzerland, UK, USA

Source: WGC

REAL TRADE WEIGHTED US DOLLAR INDEX



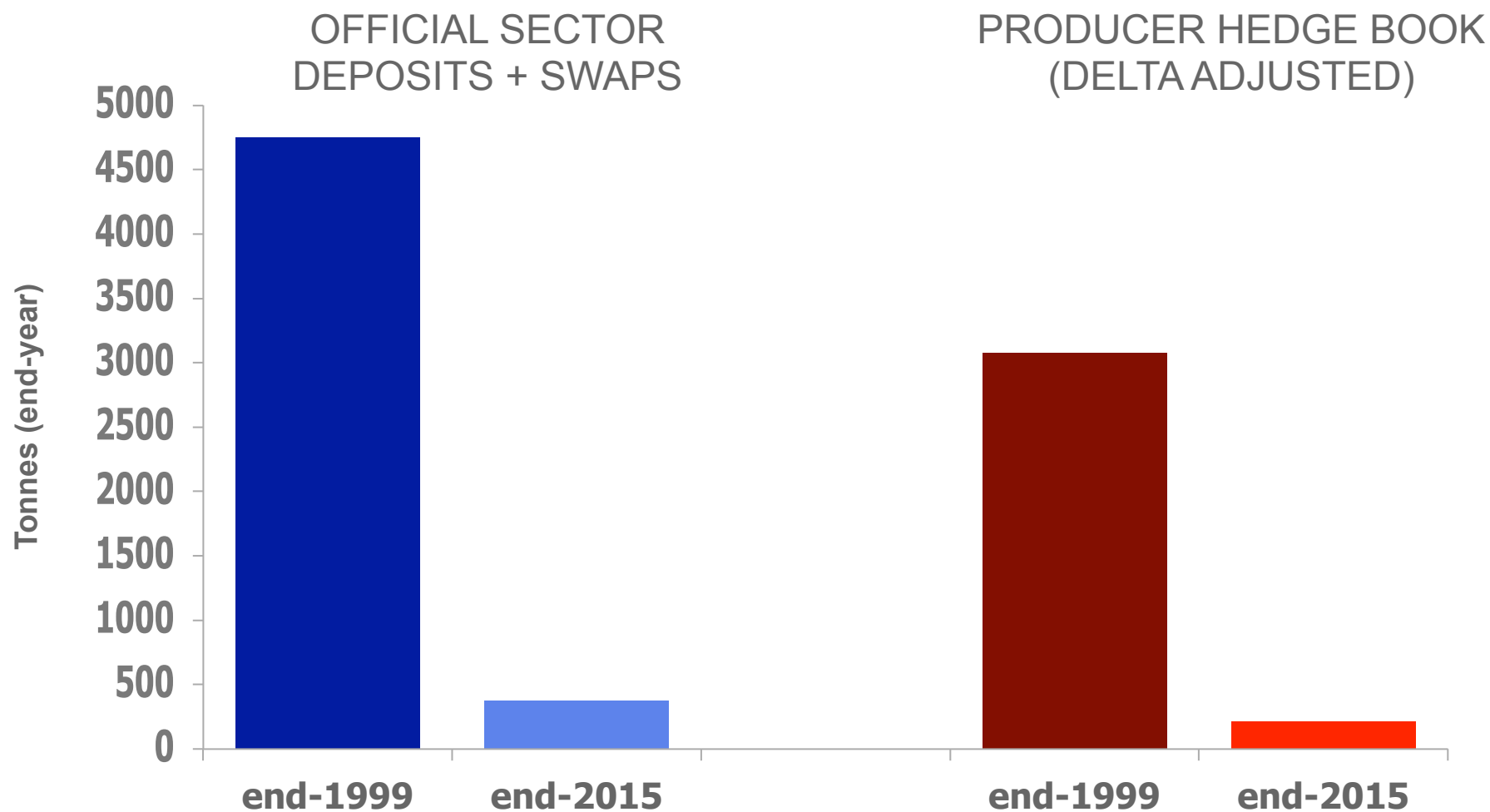
Source: Federal Reserve Bank of St Louis

GOLD PRICE



Source: LBMA

OFFICIAL SECTOR LENDING & PRODUCER HEDGING



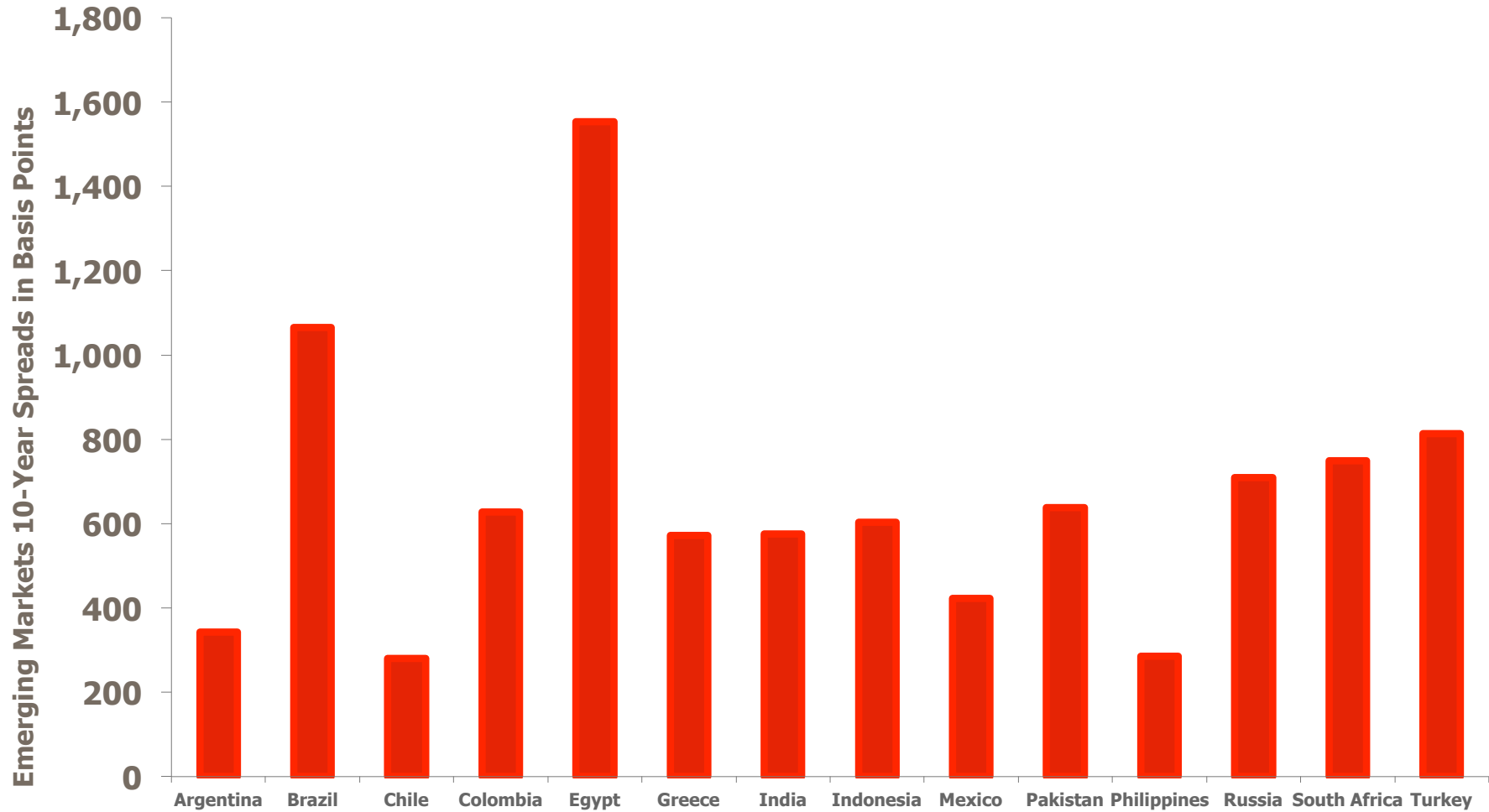
Source: Precious Metals Insights; Metals Focus

GOLD LEASING RATES (12-MONTH; ANNUAL AVERAGES)



Source: Various

EMERGING MARKETS 10-YEAR GOVERNMENT BONDS' SPREADS OVER US 10-YEAR



Source: Bloomberg

GOLD 25-DELTA RISKS REVERSAL*



*Difference in implied volatility between 25-delta call and put options. Illustrates whether interest in the gold options market is skewed to the call side (if positive) or the put side (if negative), as well as the extent of the skew

Source: Metals Focus; Bloomberg

Central Banks: Inactive or Active?

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- Net official sector purchases should continue over the next few years at least:
 - Existing large holders (CBGA, US, IMF) still unlikely sellers
 - Bias towards purchases rather than sales in Rest-of-World
 - China and Russia may continue to add gold to reserves
 - Some countries could use existing gold reserves for swaps:
 - Outright sales may be too politically or market sensitive
 - Gold swaps can provide access to hard currency loans at significantly reduced borrowing costs for countries with a low credit rating
 - Using options to earn a return on 'idle' gold reserves or to protect their value makes sense but central bank reserve managers are very conservative

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