

Examining Market Sentiment Towards Gold

PHILIP KLAPWIJK

Managing Director, Precious Metals Insights Limited

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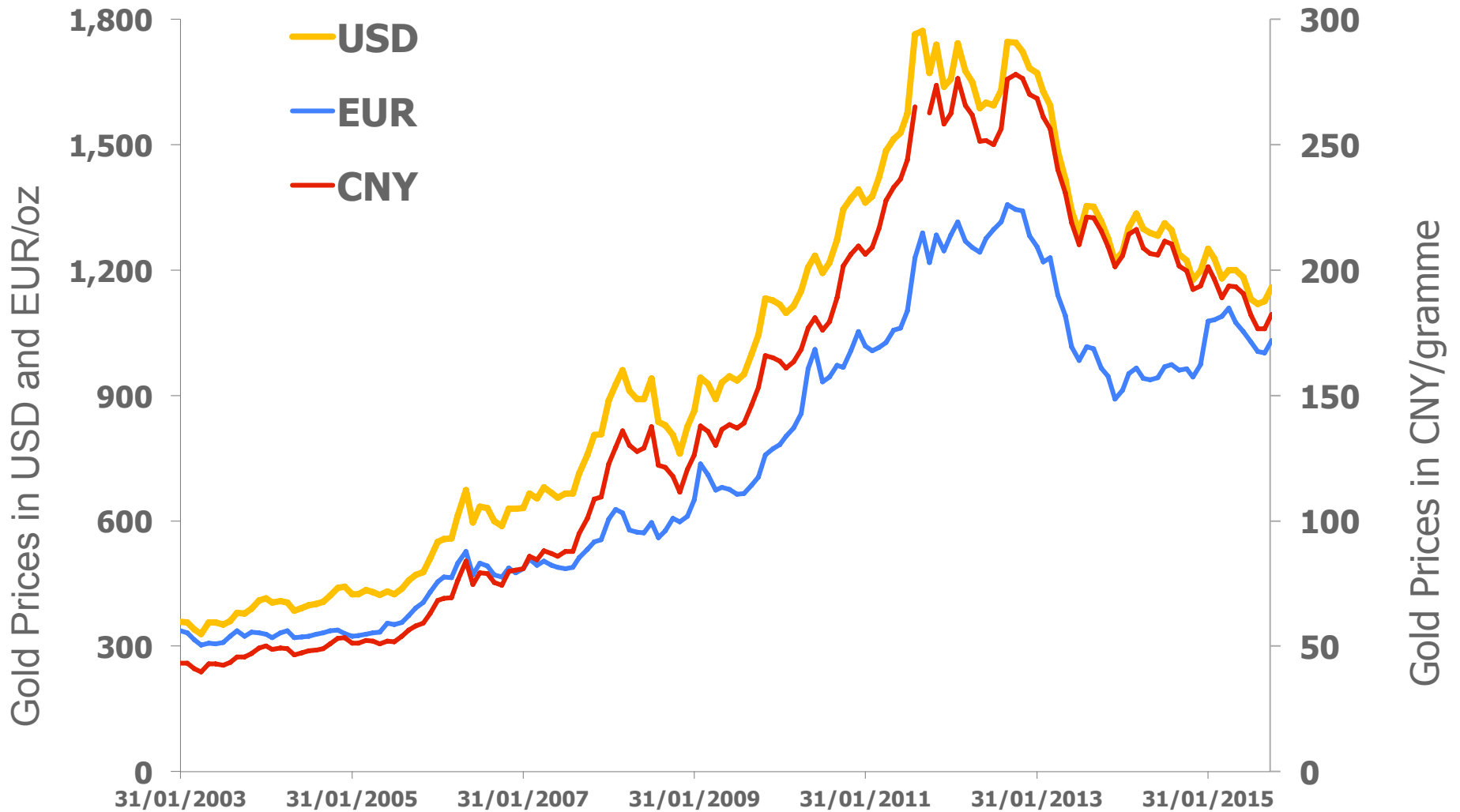
Shanghai, 10th December 2015

'Market Sentiment'

- Price trend the best single barometer of 'market sentiment'
 - USD price and prices in other currencies (e.g. EUR, CNY)
- Which Gold Market?
 - 'Western' versus 'Asian' Markets
 - Bullion: Investment (institutional, retail); Official Sector;
 - Jewellery: 'investment' ('high purity') versus 'adornment'
- 'Market Sentiment' Changeable:
 - Rapidly in response to economic factors and expectations thereof (e.g. USD Exchange Rate, Interest Rates, Inflation)
 - More slowly to gold market supply/demand developments

From “Bull Market” to “Bear Market” in All Currencies?

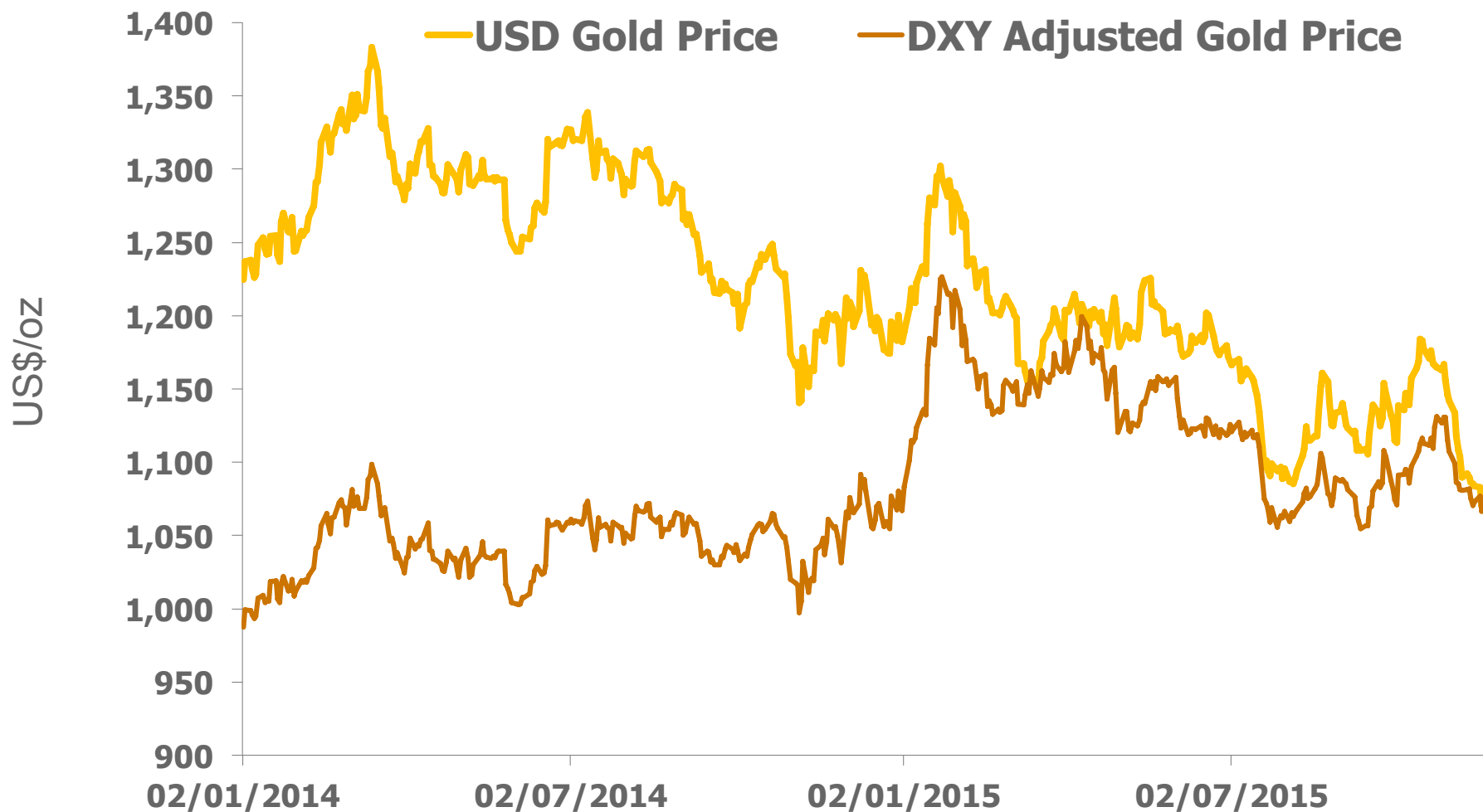
Trends clear in USD and CNY over last decade, somewhat less so in EUR for 2014-15



Source: LBMA; SGE

Gold Price in USD and Adjusted by US Dollar (DXY) Index*

2015 downtrend in price appears to be not just USD exchange rate related

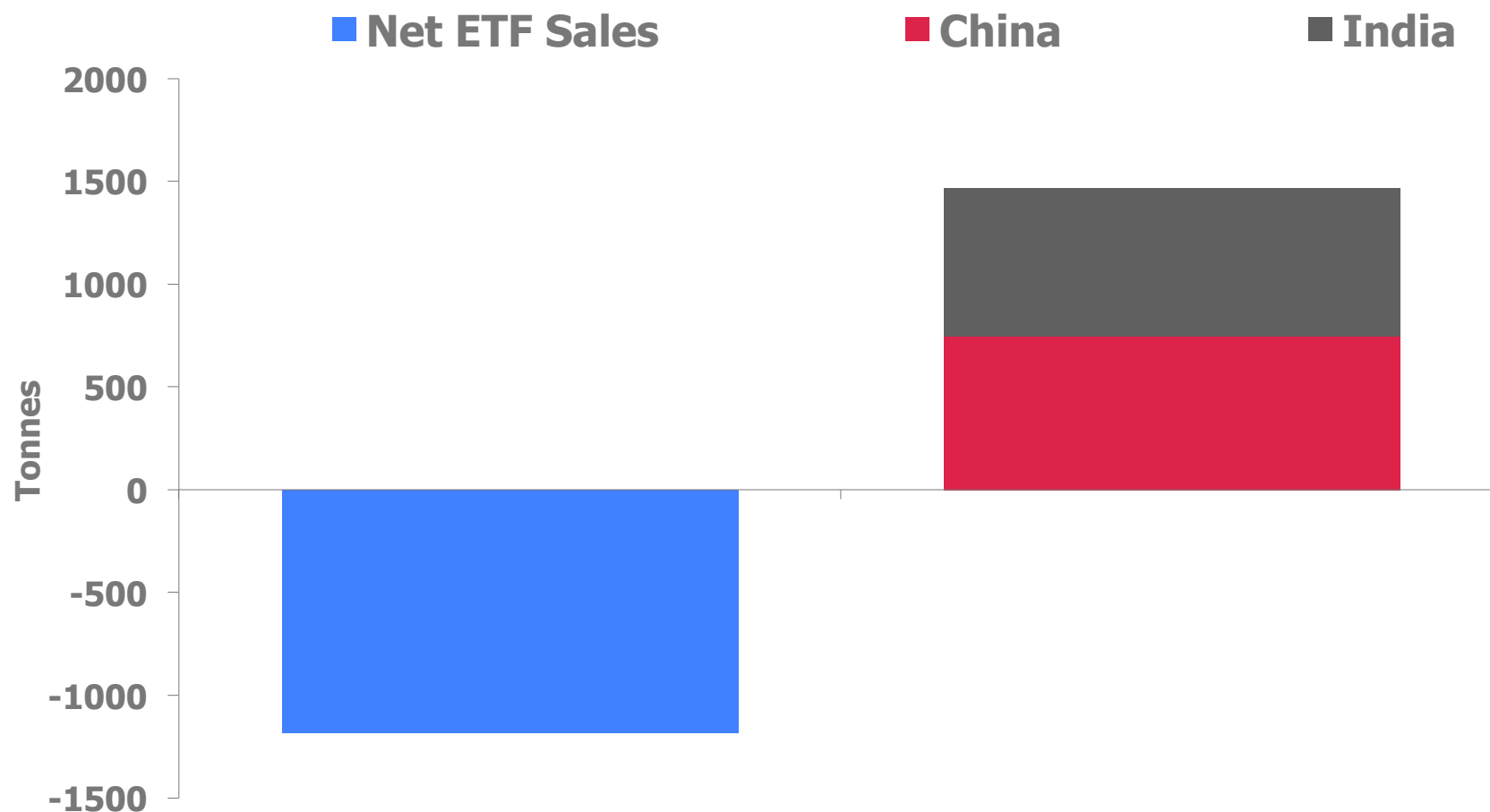


*DXY Adjusted Gold Price = Daily USD Gold Price multiplied by DXY Index, divided by 100

Source: LBMA; Bloomberg

Net ETF and China / India Retail Investment* 2013-15

Global gold ETF sales more than offset by demand for bars & coins in China and India

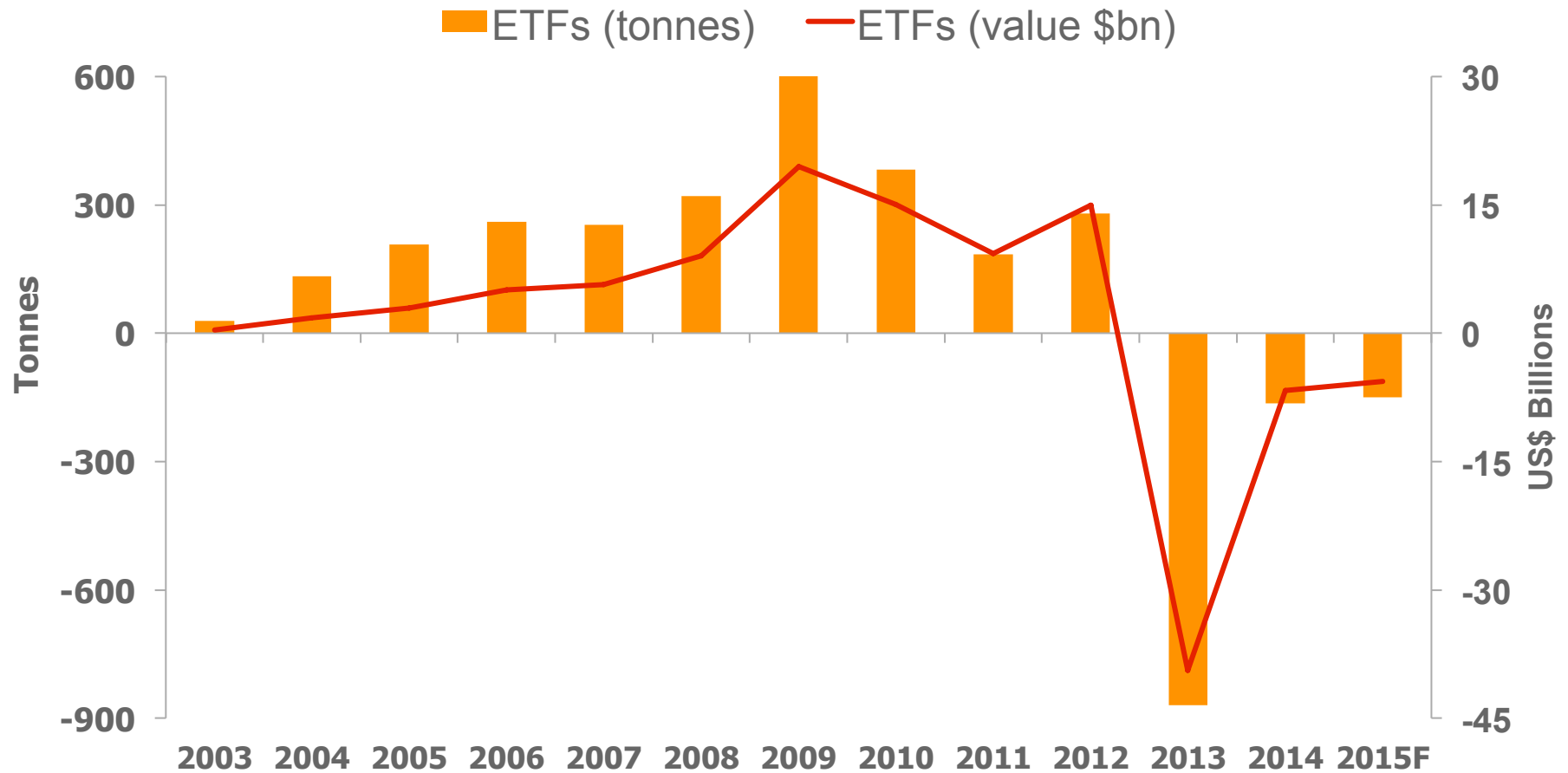


* China plus India Cumulative Retail Investment in Bars & Coins for 2013-15 period

Source: Bloomberg; Metals Focus

Annual* Change in Gold ETF Holdings

ETF holders' sentiment turned negative in 2013; net outflows have since continued

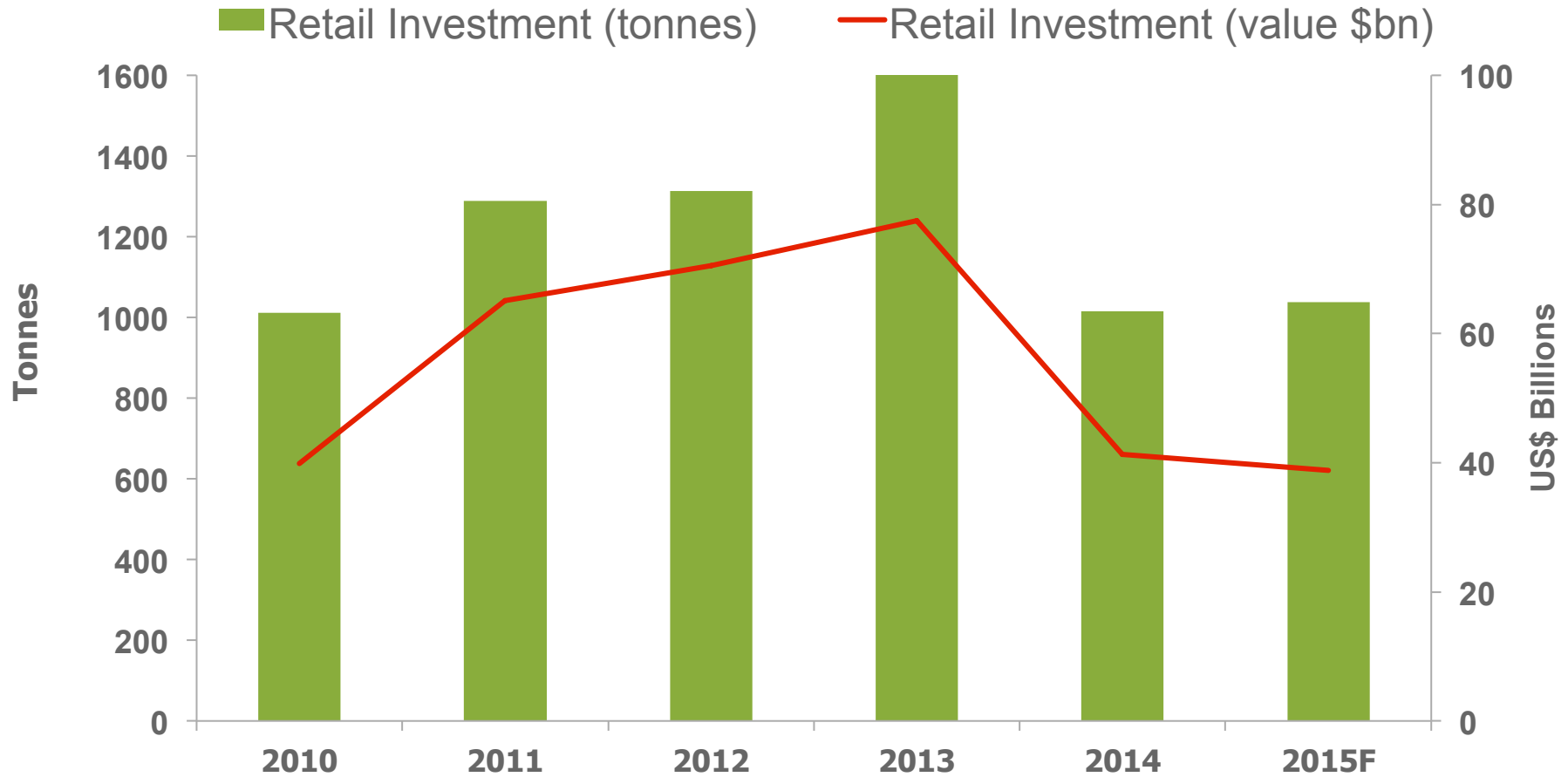


*2015 is forecast based on Jan-Nov data.

Source: Bloomberg

Retail Gold Investment*

In the past two years retail gold investment has fallen sharply, especially in value terms

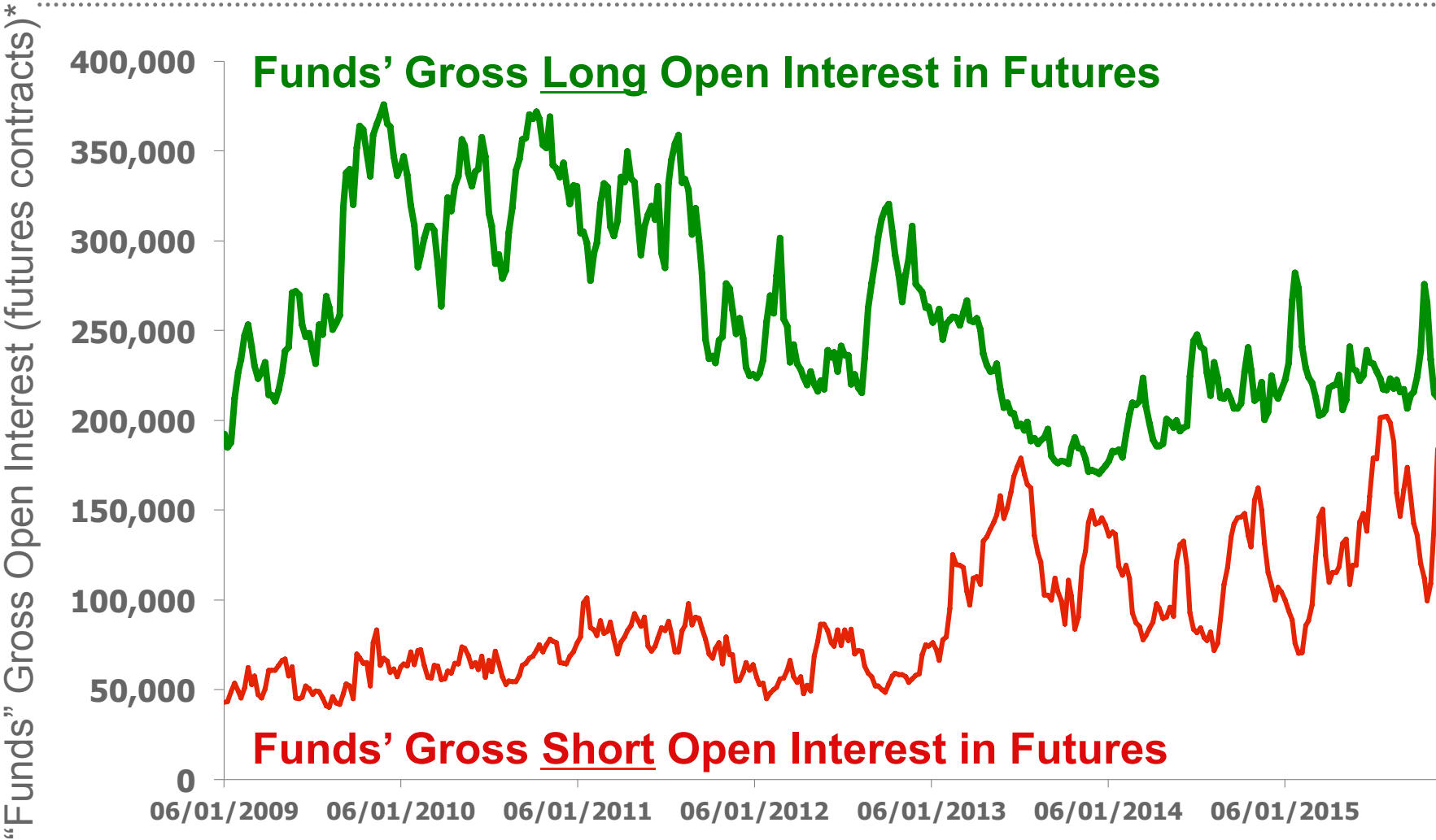


*Net retail investment in bars and coins.

Source: Metals Focus; LBMA; Precious Metals Insights

Funds* Gross Long & Short Futures Positions on Comex

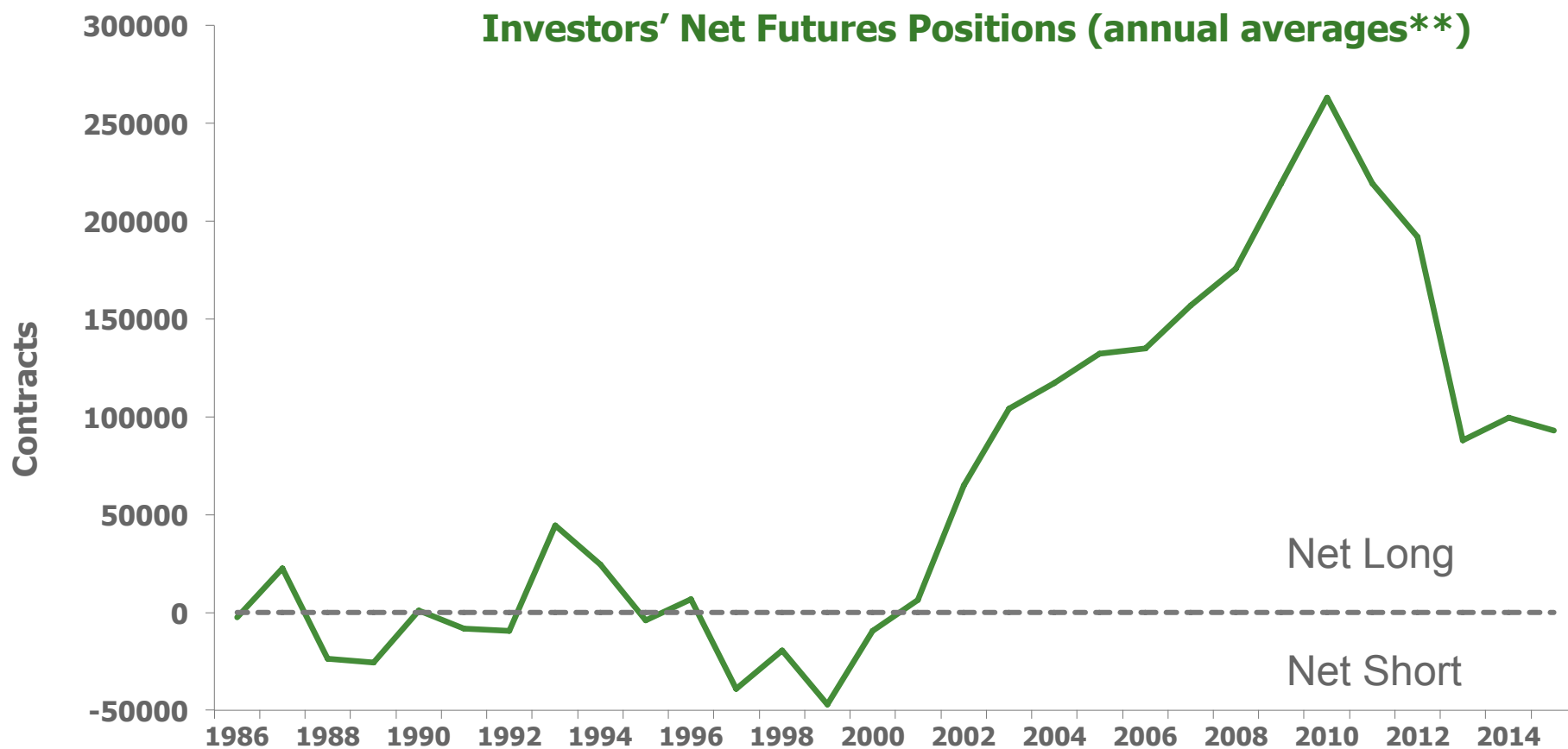
Since 2013 a dramatic shift in funds' speculative positions in gold futures



*Non Commercial + Non Reportable Positions are taken as a proxy for Funds' positions in Comex futures
Source: CFTC

Funds' Net Gold Futures Positions on Comex*

Data on average net positions indicate sentiment still not as bearish as in 1986-2001



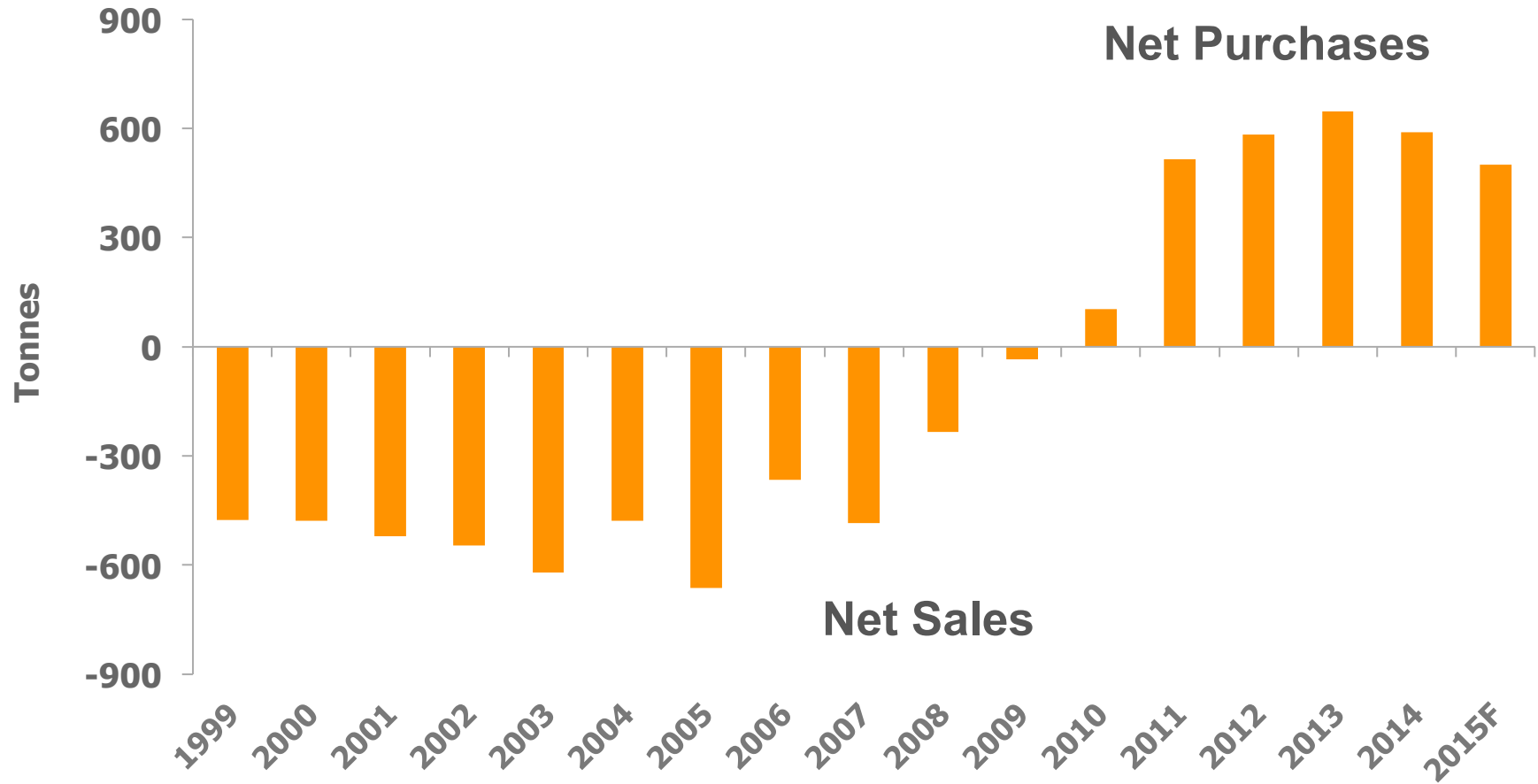
*Funds' net positions taken as sum of net non-commercial and non-reportable futures positions; annual averages

**2015 average to 17/11/15

Source: CFTC; Precious Metals Insights

Official Sector Net Sales and Purchases

Swing from Net Sales to Net Purchases partly reflects improved official sentiment towards gold



Source: Thomson Reuters GFMS; Metals Focus

Jewellery Demand in 'High Purity' Markets*

Since 2013 peak, jewellery demand in 'high purity' markets has fallen in spite of lower gold prices

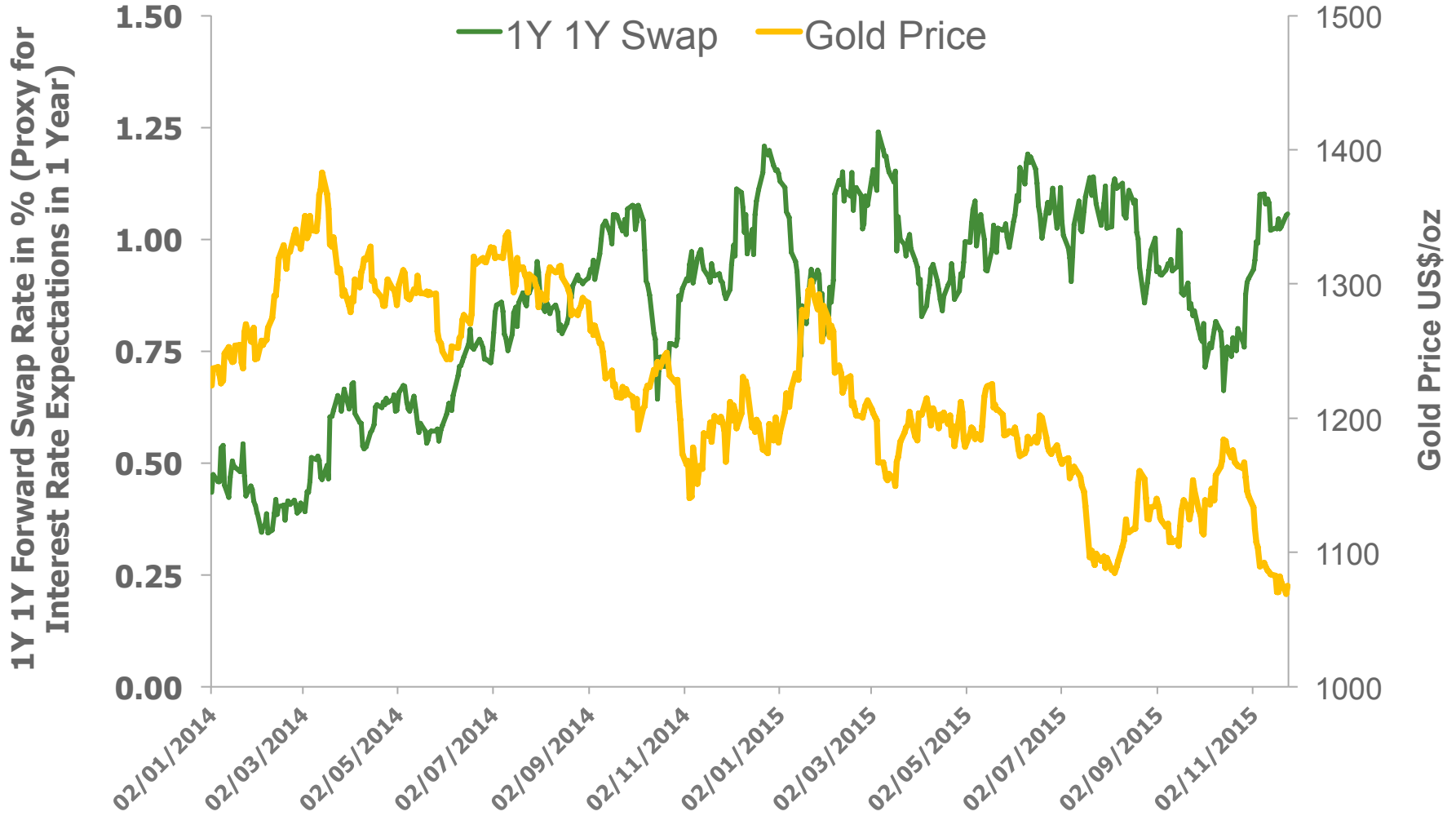


*High Purity Markets = Middle East, Indian Sub-Continent, China, other Asia (excluding Japan and Australasia).

Source: Metals Focus; LBMA; Precious Metals Insights

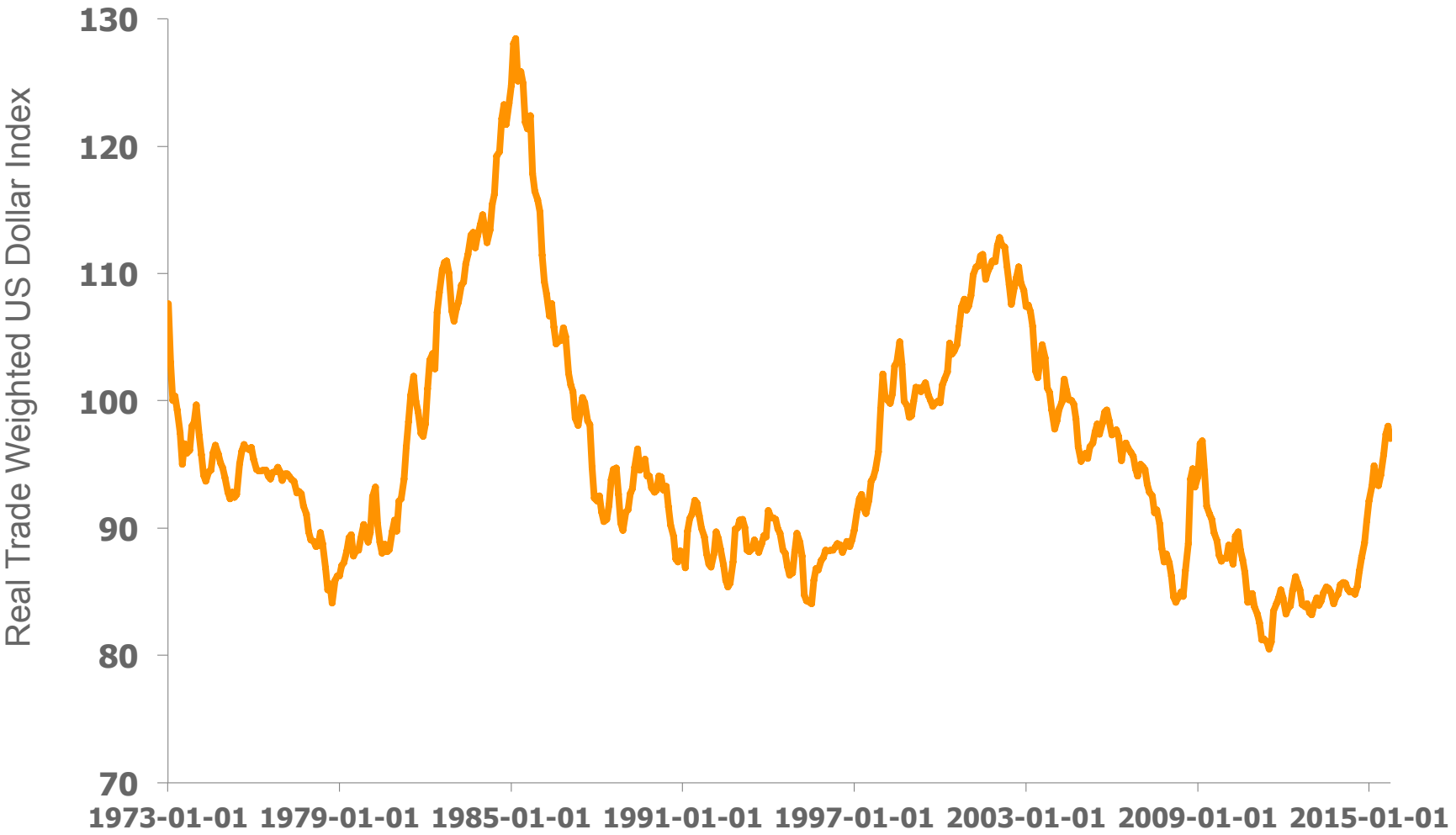
US Interest Rate Expectations and Gold Price

Gold price & market sentiment heavily influenced by expectations for US monetary policy



Source: Bloomberg

Basis past major dollar bull markets the USD should still have some scope for further appreciation



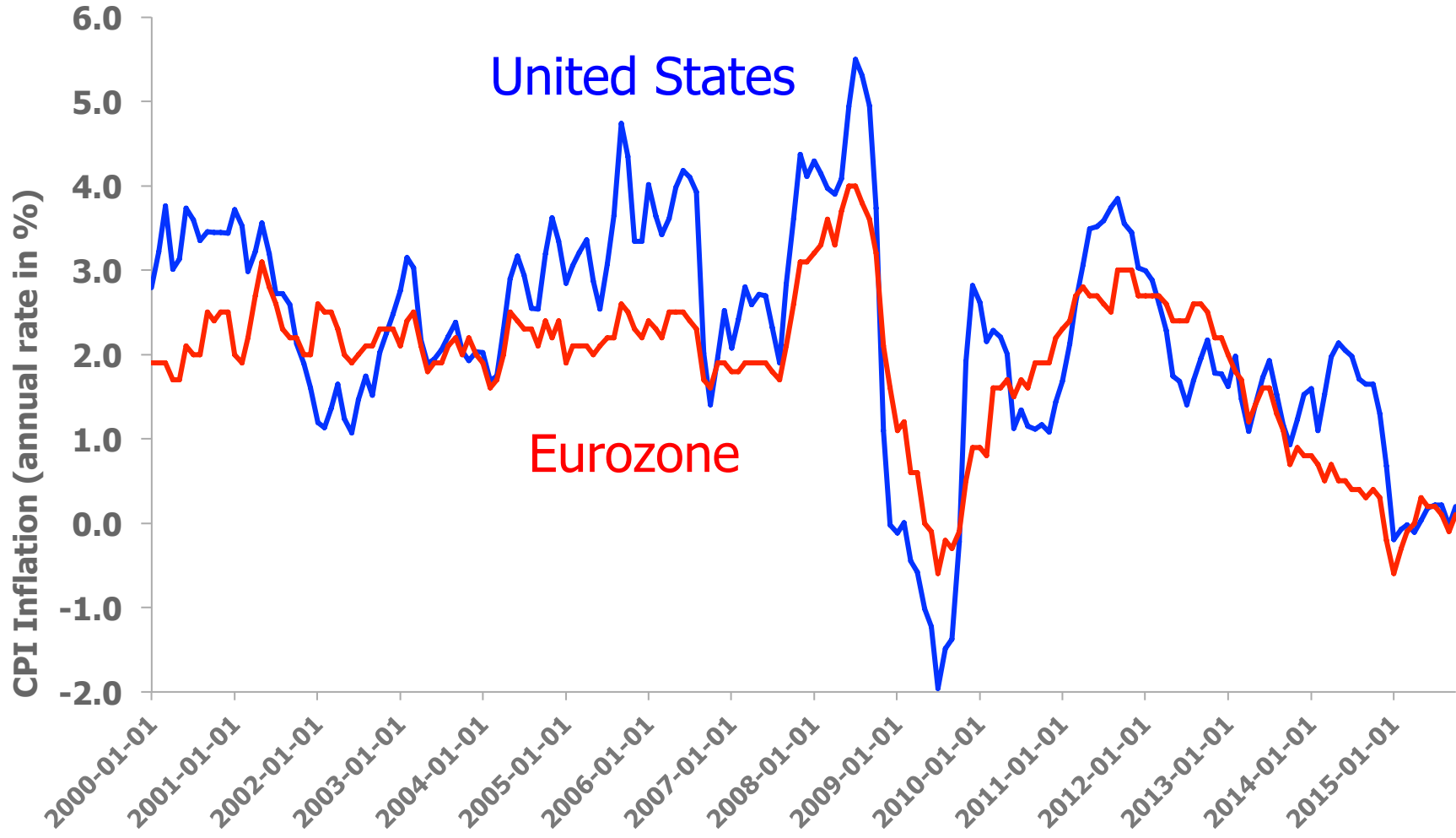
Source: Federal Reserve Bank of St Louis

Dollar/Euro exchange rate likely to fall below parity given divergent monetary policy in US and Eurozone



Source: European Central Bank

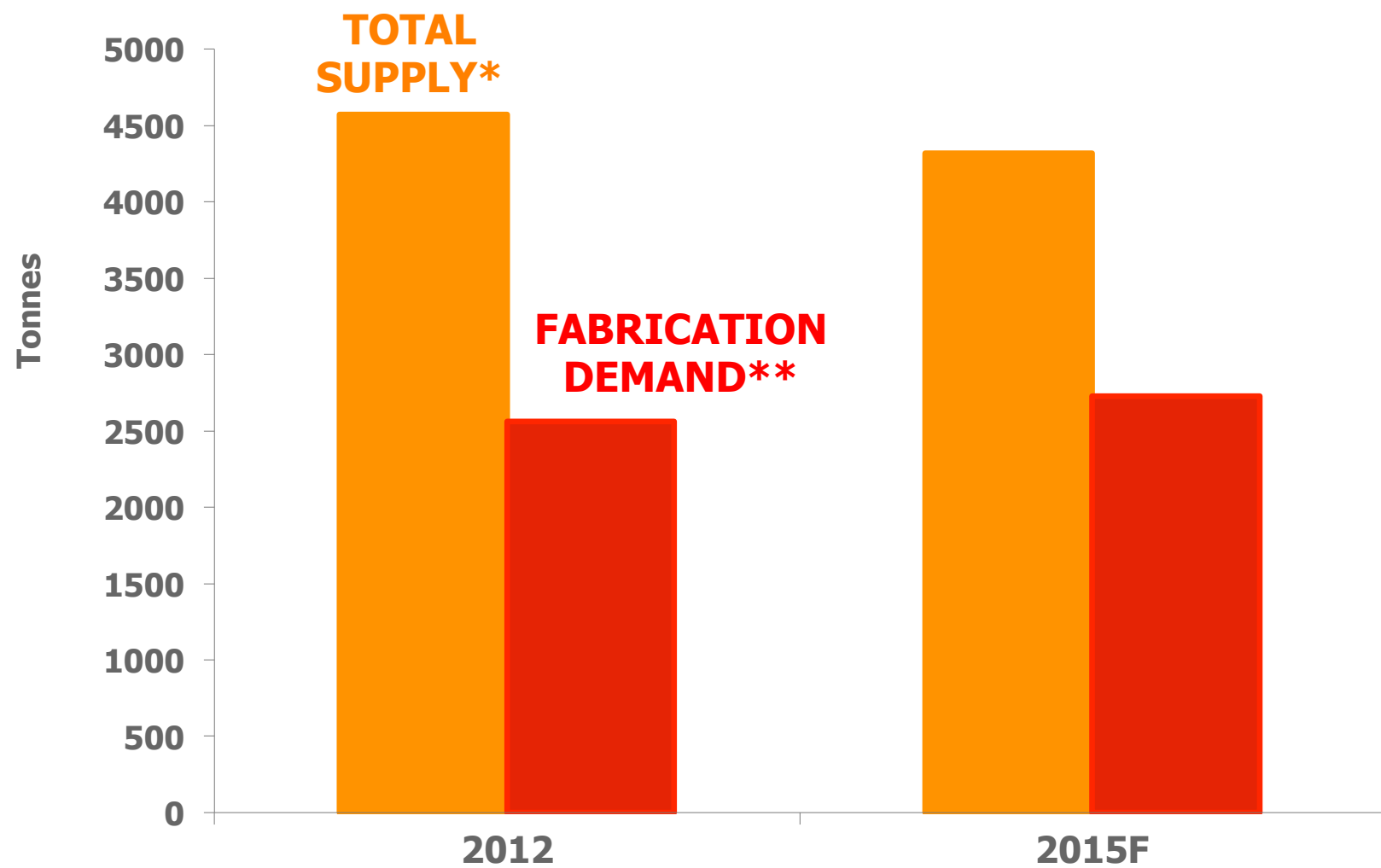
Inflation in both the US and Europe has fallen sharply to zero levels basis the CPI



Source: Federal Reserve; ECB

Global Gold Supply and Fabrication Demand

Bullion 'surplus' between total supply and fabrication demand has fallen but even more so has propensity of investors (collectively) to absorb the bullion 'surplus'



*Total Supply (mine production + scrap recycling) **Fabrication Demand (jewellery + industrial – excludes all coins);
Source: Metals Focus

Examining Market Sentiment Towards Gold – Conclusions

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- Since 2012 Market Sentiment towards gold has become increasingly negative
 - Expectations of a rebound in prices have been dashed time and again
 - Market Sentiment not ‘monolithic’:
 - More speculative end of the market has become a lot more ‘bearish’
 - Physical gold buyers remain optimistic, especially for the longer run
 - Central banks continue to be firmly on the ‘buy side’
 - Sentiment unlikely to become more positive in the shorter term:
 - Gold price probably set to make new lows for this bear market to-date
 - US interest rates should rise in December and further increase in 2016
 - US dollar bull market in mature phase but unlikely to end next year
 - Inflation the “dog that does not bark”
 - Supply / demand factors slowly moving in favour of higher gold prices in the longer run but will not be of much help in the short run especially given investor disinterest

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