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Gold Market Outlook

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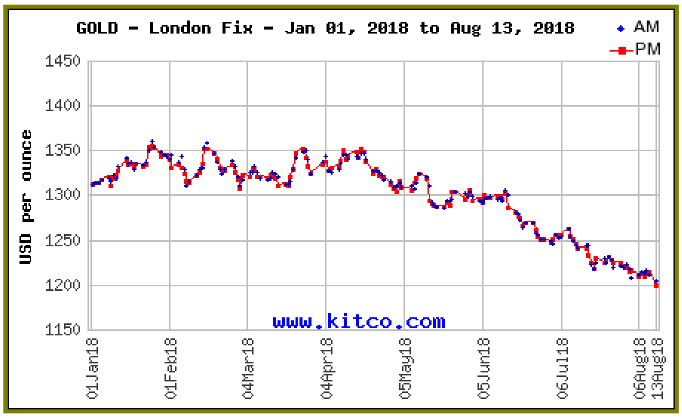
► Gold demand remains soft in Q2 2018



Referring to my Q2 2018 **Gold Market Outlook**, I already indicated the reasons for the weakening gold price from a 2018 interim high of $ 1,351.45 on April 18. These included rising Fed fund rates to a 1.50-1.75% range in the United States, but not increased since March 21, 2018, despite the US economy growing faster this year than expected (current estimate +2.8%), but on the other hand having strengthened the dollar against the euro from 1.23 to currently 1.14 since then (+8%).

In addition, I pointed at the impact of the launch of the **bitcoin** last year, putting the spotlight on the booming cryptocurrency market. With the bitcoin initially having shown a strong recovery since last month to approximately $ 6,400 after a fall to $ 5,848 from a high of $ 8,675 on May 14, it weakened again to under $ 6,000 on August 14.

Gold not always consistent hedge against the dollar

Year-to-year	London gold trding in US$	Change in %	Euro/US$	US$ value in %
2008	**865**	**3**	**1.40**	**-11**
2009	**1,104**	**28**	**1.43**	**-2**
2010	**1,410**	**28**	**1.33**	**8**
2011	1,571	11	1.29	3
2012	1,664	6	1.32	-2
2013	1,202	-28	1.38	-4
2014	1,199	0	1.21	14
2015	1,062	-11	1.09	11
2016	1,159	9	1.05	4
2017	1,297	12	1.19	-12
April 18, 2018 (high)	**1,351**	4	1.23	3
June 29, 2018	1,250	-4	1.17	-2
August 14, 2018	1,197	-8	1.13	-5

Having remained under pressure, an initially stabilized level between $ 1,290 - $ 1,300, the gold price continued to fall back and even broke the $ 1,200 barrier on August 14. This is to be accounted for by the strengthening of the dollar in conjunction with a continuing decline of gold demand in Q2 of this year, as stated in the **World Gold Council**'s **Gold Demand Trends**, **Q2 2018**.
Dropping 4% to 964.3 tonnes, the H1 total demand of 1,959.9 tonnes is the lowest since 2009.

Weakened gold demand was specifically due to lower ETF demand, having slowed sharply from the torrent of 2016/2017 - listed funds saw decent inflows to be accounted for by the World Gold Council to uncertainty stemming from Italian elections and the monetary outlook. But holding of North American listed funds fell by 40.6 tonnes as investors focused on domestic economic strength.

►Despite the Q2 decline, H1 jewelry demand scarcely changed from 519.4 to 510.3 tonnes; H1 2018 1,031.21 tonnes compares with 1,035.81 tonnes in H1 2017

Challenging conditions in a few markets were the main reason for the year-to-year global decline in **Q2 gold jewelry demand** in **India** and the **Middle East**, although weakness in those markets was partly offset by growth in **China** and the **United States**.
Indian summers were confronted with a high local gold price and seasonal challenges. Economic factors and a new VAT regime in some markets hit the Middle East demand. Chinese consumers responded well to industry focus on innovation and branding.

Tonnes	Q2 2018	Q2 2017	y-o-y change
India	147.9	161.0	-8.1
China	144.9	137.6	5.3
World total	510.3	519.4	-1.8

China, **the world's largest bar and coin market**, saw demand in Q2 2018 rise to 69.51 tonnes as gold benefitted from a flight to safety amidst increasing tense trade war rhetoric.
The yuan weakened considerably against the US dollar, falling over 5% over the quarter. The Shanghai Stock Exchange Composite index dropped 14% in H1 2018.

The y-o-y rise was from a relatively soft quarter in Q2 2017. Bar and coin demand has held in a relatively steady range over the last June quarters, hovering between 60 and 80 tonnes.

There were some important policy developments in **China** too. In a move to increase market transparency and boost investor protection, the People's Bank of China (PBOC) announced draft regulation concerning the risk management practices of business which sell gold investment products over the internet, as well as the management of gold accumulation plans and gold asset management business.

Despite a spurt of investment demand for coins around Akshaya Tritiya in April, **bar and gold demand** in **India** fell 5% y-o-y to 39.3 tonnes. The government's intense focus on unaccounted wealth continued to scare off some investors, while buoyant performance on the Mumbai Stock Exchange Index – up 4% in the first six months of the year, was a significant draw for others, especially urban investors.
But, more broadly, many Indian investors viewed the local gold price as relatively expensive because of the recent depreciation; the average rupee gold price in Q2 was 7.4% higher y-o-y and 2% higher q-o-q. The inauspicious period of Adhik Maas from 16 May to 13 June dampened activity further.

Turkish demand suffered at the hand of a deteriorating economic outlook and a weak currency. Demand halved y-o-y and dropped 11% q-o-q as the Turkish lire gold price rose to a record high in late May, almost touching TRY 202/g. Turkish brisk expanding economy and the threat of a weakening lire has created relatively buy and bar and coin demand in recent quarters. Having bought into a rising gold price over the past 12 months, the recent leap higher off the back of a plummeting currency proved too much for many investors.
Fresh buying activity fell in Q2 and recycling rose as investors locked in profits from gold's price association. The snap general election in June and the start of Ramadan dampened investor interest towards the end of the quarter, but might have been increased due to the accelerated fall of the Turkish lira crisis this month.

By contrast, **Iran**'s weakening economy, growing sense of insecurity and a currency which in Q2 2018 almost halved in value, boosted bar and coin demand. It shot up to 15.2 tonnes, a 200% increase y-oy to reach its highest quarterly level since Q1 2014. Coin demand was healthy as the Iranian central bank increased the amount of gold coins released to the market. Gold coins have performed well in recent quarters as, unlike gold jewelry, they do not attract 9% VAT.

European bar and coin demand slipped 15% y-o-y to 33.5 tonnes **Germany**, which accounts for the lion's share of the European market, saw demand fall 9%. This combined with a relatively soft Q1 to produce the weakest H1 since 2008. Bullion dealers in the region noted that retail investors were less concerned than ETF investors about the impact of the Italian elections and European Central Bank interest rate rises and that at a gold price above € 35/kg for much of Q2 (due to the euro weakness) was perceived as relative expensive.
Some dealers reported an upturn in activity as the euro-dominated price fell sharply towards the end of the quarter, but it was too little too late. For Europe's Q2 bar and coin demand estimate.

Having languished in recent quarters, the **US** market remained in the doldrums. Although demand rose 9%, this was solely a reflection of an extremely weak Q2 2017. With investment of just 11.3 tonnes, H1 2018 is the weakest start to the year since 2007. US bullion dealers have, however, reported that the secondary market remains buoyant, with healthy two-way activity.
And towards the end of the quarter, when the US dollar gold price reached lows of $ 1,250, retail investors showed signs of interest once more.

Global gold backed ETFs saw another quarter of muted growth: Inflows of 33.8 tonnes were considerably lower than the 62.5 tonnes increase during Q2 2017. H1 inflows of 63 tonnes were the lowest since the first half of 2015, despite mounting global trade tensions and relatively volatile stock markets.
By the end of H1 2018, global holdings stood at 2,434.3 tonnes, at a gold price of $ 1,250, representing a market valuation of US$ 4.0 billion. ETFs have been steady, but investment over the last four quarters with holdings increasing by an average of 7.2 tonnes per quarter.

The **World Gold Council** comments that in something of a reversal of the Q1 trend, inflows in Q2 were directed towards European-listed funds, while North American funds saw net outflows.
Around mid-April, these issues began to subside and the US economy showed continued improvement, taking the momentum out of US inflows.
Europe saw political instability escalate and this – in conjunction with market depreciation of the euro - encouraged a flight to safety in European-listed gold-backed ETFs.

World's 10 biggest economies based on data from International Monetary Fund (IMF)

	US$ trillion	in % global economy	Population *(mln.)* *	GDP per capita ** *(US$)*
United States	20.4	23.3	326.8	62,152
China	14.0	16.0	1,415.0	10,088
Japan	5.1	5.8	127.2	40,849
Germany	4.2	4.8	82.3	50,842
United Kingdom	2.9	3.3	66.6	44,177
France	2.9	3.3	65.2	44,934
India	2.8	3.2	1,354.0	2,135
Italy	2.2	2.5	59.0	35,914
Brazil	2.1	2.4	210.9	10,224
Canada	1.8	2.1	37.0	48,466
Other countries	29.4	33.3		11,727
Global economy	87.5	100.0		-

* *United Nations estimate*
** *IMF Outlook 2018*

With the overview showing the top 10 economies representing approximately 50% of the global economy, of which the **US** accounts for approximately 25%, according to data from a report by PwC by **2050** the global total could double in size to more than $ 160 trillion, of which **China** will have an economy of nearly $ 58,5 trillion, **India** $ 14 trillion and **America** $ 34 trillion.

Interestingly, **Japan** ($ 6.7 trillion), **Germany** ($ 6.1 trillion), the **United Kingdom** ($ 5.3 trillion) and **France** ($ 4.7 trillion) are expected to fall to 8th, 9t, 10th and 12th in the list, respectively, and these countries to be replaced by **Indonesia** ($ 10.5 trillion), **Brazil** ($ 7.5 trillion), **Russia** ($ 7.1 trillion) and **Mexico** ($ 6.8 trillion), which climb to 4th, 5th, 6th and 7th, respectively.

In regard to the small GDP per capita, it has to be noted that mainland **China** in its top 10 largest cities by 2017 had a population of 121.8 million, which roughly equals the population of **Japan** (127 million) and also that of **Russia** (144 million), but this country with a GDP of $ 1.7 trillion, the 11th ranked biggest economy, with a GDP per capita of $ 11,947.

With a high economic growth rate and an urban: rural income ratio of 3:1, this is to be translated into a GDP per capita for **China** of approximately $ 30,000 and estimated to grow to the major western European countries within the next five years.
As such, to get a realistic view on the growing economic power of China, the $ 30,000 figure should be related to comparable populations of western European countries, rather than to the country as a whole.

Besides these predictions over a period of more than 30 years cannot be taken for granted, in particular due to the shift of economic growth and wealth from developed to emerging countries, enhanced by changes in geopolitical power blocks, including trade wars and trade sanctions, as evidenced by the actual US-China trade war and EU sanctions against Russia. These issues will have a negative impact on the future economic growth of the world's biggest economies.

This process is enhanced by the western world challenging **China**'s strongly growing economic power as the second global economy and to surpass the US as the leading global economy by 2024. The geopolitical power conflicts are causing turbulence in the international financial and commodity markets, enhanced by the impact of the not solvable European refugee problem. Next to Brexit, the anti-EU sentiment in Italy, and growing populism in an increasing number of East European EU member countries, prelude the end of the current legal structure of the EU, which to survive should be split into a membership for northern and southern countries.

THE COURSE OF THE DOLLAR AGAINST OTHER CURRENCIES in %

	Euro	Yen	RMB	Rupee	C$	A$	SA Rand
year-to-year 2008 / 2009	-3	2	0	-6	-14	-24	-22
year-to-year 2009 / 2010	9	-11	-3	-3	-5	-11	-10
year-to-year 2010 / 2011	3	-6	-4	20	2	0	22
year-to-year 2011 / 2012	-2	12	-1	1	-2	-2	4
year-to-year 2012 / 2013	-4	22	-3	13	7	17	24
year-to-year 2013 / 2014	13	14	0	3	9	9	11
year-to-year 2014 / 2015	12	0	6	4	20	12	33
year-to-year 2015 / 2016	4	-3	7	2	-3	1	-11
year-to-year 2016 / 2017	-12	-3	-6	-6	-7	-7	-10
year-end 2017 / July 31, 2018	2	-1	4	7	3	5	7
year-end 2017 / August 14, 2018	5	-2	5	9	4	7	17
year-end 2013 to August 14, 2018	21	5	13	13	23	22	38

► EU – Turkey 2016 refugees agreement not working

The **EU**'s refugees agreement with **Turkey** signed on March 18, 2016 in an attempt to solve the enormous influx of refugees in Europe, has still not completely been settled. Under the agreement, Syrian refugees are exchanged between Turkey and EU countries. The arrangement is that the EU sends all Syrians who reached the Greek islands illegally after March 20, 2016, back to Turkey. In return, legal Syrian refugees are accepted into the EU countries.

Germany took in 4,313, the **Netherlands** 2,608, **France** 1,401 and **Finland** 1,002 Syrian refugees. The member states **Hungary**, **Poland**, the **Czech Republic**, **Bulgaria** and **Denmark** did not accept any refugees at all.

According to the **United Nations**, Turkey has been hosting 2.9 million refugees. Turkey, however, says that the number rose to 3.5 million and repeatedly threatened to terminate the agreement because, firstly, the EU has not paid the stipulated amount, and secondly, the visa freedom for Turkish citizens provided for under the agreement, has not been implemented.

Under the agreement, **Turkey** was promised € 6 billion in financial aid, to be used by the Turkish government to finance projects for Syrian refugees. According to the EU Commission, € 3 billion bas already flowed into Turkey to cover the costs of educating half a million Syrian children.

With the EU Commission having decided in March of this year that the second instalment of € 3 billion promised under the refugee agreement would be made available, the Turkish government on the other hand, declared that it had so far received € 1.85 billion from the EU. In this respect, it is to be noted that financial assistance from the EU fund reaches Turkey through projects and not to be delivered for government purpose.

In the first half of 2017, almost 9,000 people came to Europe via the Aegean Sea, while in the second half of the year this figure has risen to 20,000. According to the EU Commission, the number of refugees via Turkey fell by 97% compared to the period before the agreement.

On June 29, 2018, **Germany**'s Chancellor Merkel confirmed at the sidelines of an EU leaders summit in Brussel, bilateral migrant agreements with **Spain** and **Greece** on a common European asylum system but failed to make an agreement with **Italy**, which is crucial to achieve a possible European solution.
To go into effect, operational details still have to be worked out.

Course of gold price compared to silver

		GOLD	SILVER	gold/silver ratio
2018	**August 14**	**1,197**	**15.03**	**79.6**
	June 29	1,250	16.03	78.0
2017	**Year-end**	**1,297**	**16.87**	76.9
2016		1,159	16.24	71.4
2015		1,062	13.82	76.8
2014		1,199	15.97	75.1
2013		1,202	19.50	61.6
2012		1,664	29.95	55.6
2011		1,571	28.02	56.1
2010		1,410	30.45	46.3
2009		1,104	16.99	65.0

While **silver** in contrast to **gold** is not to be considered a monetary instrument and named as "gold for the poor", as it has a relatively high industrial application.

Compared to gold, it is striking to see that gold and silver have a balanced ratio since 2014.

Course of gold price versus HUI-Index

		Gold price	Change in %	HUI index	Change in %
2018					
August 14		1,197	-4	152.57	-13
June 30		1,250	-4	174.52	-3
May 31		1,305	-1	180.04	1
April 30		1,313	-1	178.47	2
March 30		1,324	0	175.41	2
February 28		1,318	-2	171.87	-13
January 31		1,345	4	196.44	2
Year-end 2017	2017	1,297	-4	192.31	-11
September 8 (high)	2017	1,351	2	216.70	3
August 29	2017	1,319	6	210.49	13
June 30	2017	1,242	0	185.71	-6
March 31	2017	1,245	3	197.23	-5
January 31	2017	1,213	5	207.45	14
Year-end 2016	2016	1,159		182.31	
Year-to-Year	2017	1,297	12	192.31	5
	2016	1,159	9	182.31	64
	2015	1,062	-11	111.18	-32
	2014	1,199	0	164.03	-17
	2013	1,202	-28	197.70	-55
	2012	1,664	6	444.20	-11
	2011	1,572	11	498.73	-13
	2010	1,410	28	573.32	33
	2009	1,104	28	429.91	42
	2008	865		302.41	

Investment comments:

The **HUI-index**, which represents major international gold producers, basically offering an investment hedge to the gold bullion price, is suffering from this year's decline of the gold price by 8% from $ 1,297 to $ 1,197 to date, by having shed 21% from 192.31 at year-end 2017 to 152.57 to date.
It has to be considered however, that the discovery of new gold deposits, extending reserves, as well as joint ventures with and takeovers by major companies, can have a significant positive effect on separate market valuations.

Generally, despite the decline of the resistance level of the gold price from $ 1,300 to 1,200, gold producers remain profitable at net margins above $ 300.

Considering that based on an expected further increase of the Fed fund rate against a maintained flat rate by the ECB will result in a continuing rise of the dollar against the euro, and for that reason will prevent a recovery of the gold price, I still expect that as a result of ongoing intensifying geopolitical tensions in the world, as evidenced by the US-China trade war and trading sanctions against Russia, will finally be the driver of higher gold prices, thereby also pointing at the growing possibility of a new cyclical Wall Street crash at today's record stock valuations later this year.

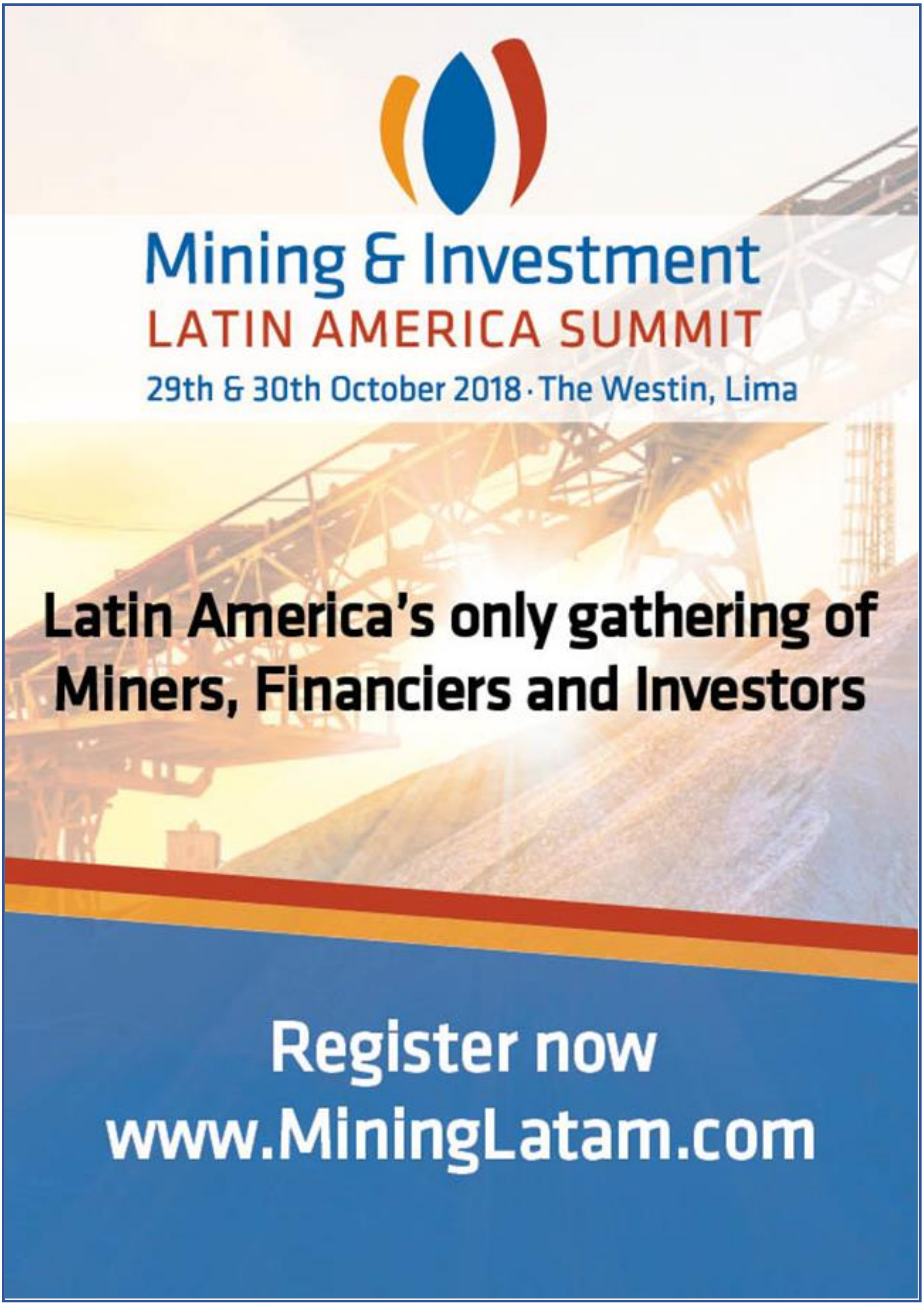
Consequently, I maintain my gold price target of $ 1,350 – 1,450.

CALENDAR OF MINING EVENTS

Media Partners – second half of 2018

September	5 - 7		**World Nuclear Symposium** - London
October	8 - 9	*	**The Mining Show** – Dubai
October	22 – 23	*	**Mining Investment Oman -** Oman
October	29 – 30		**Mining Investment Latin America** - Lima, Peru
November	12 - 13		**Kenya Mining Forum** - Nairobi, Kenya

* *Marino G. Pieterse presenting*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