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Gold Market Outlook

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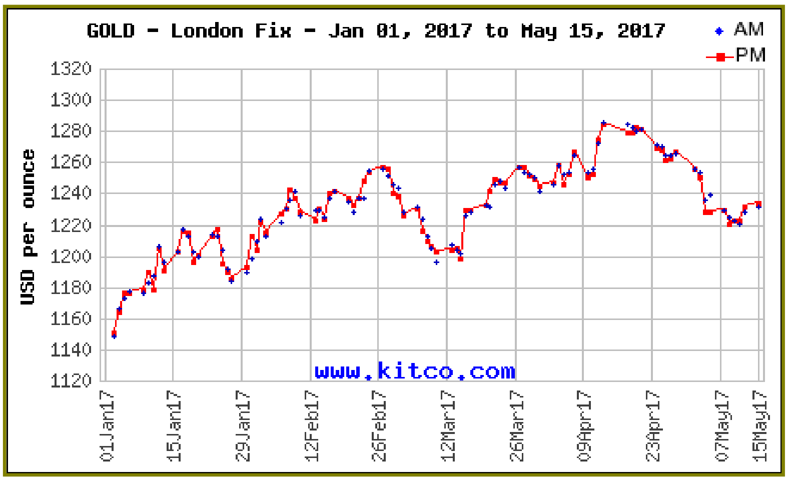
► The myth on gold to be a global monetary instrument

After having risen to an interim high of $ 1,282.10 on 20 April, the gold price continued its correction to an interim low of $ 1,220.40 on 9 May, to be accounted for a dismantling of the pro-European Emmanuel Macron having been elected as the new president of France, which came as a relief to the international financial markets.



Followed by the triumph of German chancellor Angela Merkel's Christian Democrat Party (CDU) over the left social party (SDP), this also indicated a preference for political stability in current international turbulent times and dismantle the Euro Zone after Brexit.

Nevertheless, with social and economic differences individual EU member countries growing and feeding nationalistic populism, most countries regardless of fixing the outcome of their elections, like happened in France, are not manageable from a political consideration.
This even more also applies to Italy, where the next general election is due to be held not later than May 2018.

Meanwhile, unresolvable political tensions between the global superpowers, the US, China, Russia, are an overlooked threat for reversing the course of the international financial markets. These are fed by investment strategies focused on speculative alternatives to deal with historically low interest rates since last year, which are accounting for industrial equity markets getting overvalued.

From this perspective, I remain bullish on the outlook for gold, without exaggerating its potential for the wrong reasons, including the impact of growing inflation (see my April 2017 Gold Market Outlook and also applying to dated views on gold to be a global monetary instrument.
(http://www.metalcommodities-ip.com/wp-content/uploads/2015/10/GL_MarketOutlook_April2017doc.pdf)

► Global gold buying central banks fall to 6-year low

Since becoming a member of the World Trade Organization, effective 11 December 2001, **China** has emerged to Asia's largest and the world's second largest economy next to the United States.

Consequently, China's national currency the yuan is well on its way to replace the Euro as the future global reserve currency and has driven gold to the background as a monetary instrument, as indicated by only 2.4% of China's total monetary reserves tied up in gold, compared to 55% held by the Euro Area including the ECB.

In this respect, it has to be noted that through the Central Bank Gold Agreement (CBGA), effective September 1999, its signatories were allowed restricted sales quota over a 5-year period of September 1999 – 2004, followed by three identical 5-year periods, with the 4th Agreement running from September 2014 – 2019, with sales having almost totally dried up.

With sales limits of 2,000 tonnes fully sold in the 5-year period of CBGA 1, the sales limit was increased to 2,500 tonnes in the 5-year period of CBGA 2 (September 2004 – 2009), but an amount of 616 tonnes not sold and hardly any sales executed in the following periods of CBGA 3 and CBGA 4. This was compensated for by the buying of central banks of emerging countries, led by China, Russia and Turkey, which on balance resulted in multi-decade high of net buying from the official sector of 646 tonnes in 2013.

With **China**'s exchange rate undervalued for a long time, according to the IMF and academic economists, this was largely connected with having appreciated about 25% against the dollar by the China/US foreign exchange rate having declined from 8.0 in 2005 to almost 6.0 by the end of 2014. At this level the IMF declared the yuan to be "fairly valued". Since then the yuan gradually depreciated again to 6.95 at year-end 2016.

Between 2008 and 1011, **China**'s trade surplus with the US declined by nearly half from $ 298 billion to $ 155 billion, but dobled to $ 366 billion in 2015, compared to a total trade surplus of US$ 510 billion.

This gave Donald Trump reason to label China as a currency manipulator on his first day in office and impose heavy tariffs on imports of goods, which could become a trade war and a catalyst to drive gold prices higher.

However, net buying from the official sector has recorded successive losses during the last 3 years, due to the falling number of central banks interested in raising gold reserves. By having been increasingly dependent on China and Russia**,** where buying slowed in 2016, the global buying fell dramatically by 35% from 577 tonnes in 2015 to a 6-year low of 377 tonnes in 2016.

Although China's gold reserves increased with 80 tonnes during 2016, lifting its total holdings to 1,843 tonnes by year-end, this makes a slow-down in buying by the Peoples Bank of China (PBOC) compared to May 2009 – June 2015, as well as the second half of 2015 when 64 tonnes and 104 tonnes of gold were bought, respectively. The last two months of 2016 saw the PBOC half buying, with this trend continuing in 2017-to date.

This slow-down is in line with China's total monetary reserves having stopped to grow due to a lower economic growth under 7% in the last two years. After having reached a record of US$ 4,000 billion in June 2014, current holdings are stabilizing around US$ 3,000 billion.

Western Central Bank gold holdings compared to non-gold monetary reserves

	1950	1965	May 2017	
World gold holdings (in tonnes)	-	-	33,375	
11 Central Bank gold holdings (in tonnes)	26,300	31,900	20,086	*
Value of gold holdings (US$ billion)	29.5	33.4	804	**
Value of non-gold holdings (US$ billion)	34.0	45.8	1,020	
Gold in % of total reserves	84	73	44	

* 21 signatories to Central Bank Gold Agreement 4 (September 2014 - 2019) including European Central Bank; plus United States
** based on gold price of US$ 1,244.85 per ounce (as at the end of March 2017)

World official gold holdings and total monetary reserves

Western countries

March 2017	*Gold reserves tonnes*	*Monetary reserves (billion $)*	*Gold as % total monetary reserves **
United States	8,134	399	75.1
Germany	3,378	179	69.4
Italy	2,452	132	68.3
France	2,436	140	64.2
Switzerland	1,040	661	5.8
Netherlands	613	35	64.0
Portugal	383	26	54.8
United Kingdom	310	130	8.8
Spain	282	59	17.5
Austria	280	22	46.3
Belgium	227	23	36.8
Sweden	126	55	8.5
Greece	113	6	65.4
Sub-total	**19,774**	**1,867**	
World	**33,375**		
Euro Area (incl.ECB)	**10,786**	716	55.5
ECB	**505**	68	27.3
CBGA-4 signatories	**11,952**	1,425	30.9
(Euro area, incl ECB + Switzerland and Sweden)			
IMF	**2,814**		
BIS	**104**		

* *based on gold price of $ 1,244.85 per troy ounce as at 31 March 2017*

Source: IMF/World Gold Council

Asian countries

March 2017	*Gold reserves tonnes*	*Total monetary reserves (billion $)*	*Gold as % total monetary reserves*
China	1,843	3,007	2.4
Japan	765	1,128	2.5
India	558	337	6.1
Taiwan	424	422	3.7
Philippines	196	75	9.6
Thailand	152	165	3.4
Singapore	127	235	2.0
South Korea	104	350	1.1
Indonesia	78	111	2.6
Pakistan	65	19	12.6
Malaysia	39	90	1.6
Total	**4,351**	**5,939**	

Other notable countries

March 2017	*Gold reserves tonnes*	*Total monetary reserves (billion $)*	*Gold as % total monetary reserves*
Russia	1,680	366	16.9
Turkey	428	97	16.2
Saudi Arabia	323	476	2.5
Lebanon	287	51	20.8
Kazakhstan	268	28	35.7
Venezuela	188	11	65.4
South Africa	125	42	10.9
Mexico	120	164	2.7
Libya	117	65	6.6
Romania	104	38	10.1
Poland	103	102	3.7
Australia	80	57	5.2
Brazil	67	354	0.7
Total	**3,890**	**2,001**	

Source: IMF/World Gold Council

Total monetary reserves and gold holdings of Western countries compared to emerging countries			
	Monetary reserves	*Gold reserves*	*Gold in % monetary reserves* *
March 2017	*in US$ million*		
21 signatories to CBGA 4	1,425	440	30.9
Euro area, incl. ECB	716	397	55.5
USA	399	300	75.1
Total	**2,540**	**1,137**	
China	3,007	72	2.4
Russia	366	62	16.9
India	337	24	6.1
Total	**3,710**	**158**	

** based on gold price of US$ 1,244.85 per ounce as at the end of March 2017*

Gold market not always a safe haven and hedge against dollar					
Financial crisis 2008 - 2009	**London Trading in US$**	**Change in %**	**Period of change**	**dollar/Euro ratio**	**Change in %**
Year-end 2007	836.50	17	3 ½ months	1.47	-6
March 17, 2008 (High)	1,030.80	24	2 ½ months	1.58	-7
May 1, 2008	853.00	-16	1 ½ months	1.55	2
July 16, 2008	977.50	15	2 ½ months	1.58	-2
September 11, 2008	740.75	-24	2 months	1.43	10
October 10, 2008	918.00	24	1 month	1.37	4
October 24, 2008 (Low)	692.50	-25	1 week	1.26	8
Year-end 2008	865.00	25	2 months	1.40	-11
February 20, 2009	989.00	14	2 months	1.26	10
April 20, 2009	870.00	-12	2 months	1.30	-3
December 3, 2009 (High)	1,226.10	41	7 months	1.51	-16
Year-end 2009	1,104.00	-10	1 month	1.43	-5
Period of 2010 - 2016	**London Trading in US$**	**Change in %**	**Period of change**	**dollar/Euro ratio**	**Change in %**
Year-end 2010	1,410	28	1 year	1.33	7
Year-end 2011	1,571	11	1 year	1.29	3
Year-end 2012	1,664	6	1 year	1.32	-2
Year-end 2013	1,202	-28	1 year	1.38	-5
Year-end 2014	1,199	-1	1 year	1.21	2
Year-end 2015	1,062	-11	1 year	1.09	10
Year-end 2016	1,159	9	1 year	1.05	4
April 28, 2017	1,266	9	4 months	1.09	-4

Overview gold prices versus HUI-Index

		Gold price	Change in %	HUI-Index	Change in %
2017					
May 19	2017	1,252	-1	197.11	3
April 28	2017	1,266	2	191.93	-3
March 31	2017	1,245	-1	197.23	1
February 28	2017	1,256	4	196.09	-5
January 31	2017	1,213	5	207.45	14
2016					
December 31	2016	1,159	0	182.31	2
December 13	2016	1,157	-2	178.46	0
November 30	2016	1,178	-7	178.08	-16
October 31	2016	1,272	1	212.28	7
October 7	2016	1,259	-5	199.26	-14
September 30	2016	1,323	1	231.14	4
August 31	2016	1,309	-2	221.68	-19
July 29	2016	1,342	-2	274.32	1
July 6 (high)	2016	1,370	4	271.75	10
June 30	2016	1,321	9	246.60	22
May 31	2016	1,212	-6	201.32	-14
April 28	2016	1,286	4	233.46	31
March 31	2016	1,237	0	178.24	6
February 29	2016	1,235	11	167.49	39
January 31	2016	1,113	5	120.80	9
Year-end	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	

Compared to the course of the **HUI-Index**, which represents the world's largest gold producers, it is striking to see that while the gold price recovered by 9% in the first 4 months of 2017, the HUI-Index did not benefit from its usual leverage potential by showing a slightly lower increase of 8.3%, after having started the year with a strong performance of 14% compared to the gold price gaining 5%.

Nevertheless, fundamentally justified by approved margins, I remain convinced that the HUI-Index will outperform the major industrial equity markets in 2017.

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June	11 – 12	**Mining Investment Europe** – Frankfurt, Germany
June	23 – 24	**DRC Mining Week** - Lubumbashi, DRC
July	10 – 11	**Investing in LATAM Mining Cumbre** – Santiago, Chile
August	11 – 13	**India International Gold Convention** – Goa, India
October	2 - 3	**Dubai Mining Show** - Dubai
November	15 – 16	**Kenya Mining Week** – Nairobi, Kenya

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