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Source: Sberbank CIB evaluation is based on sector companies’
financial reports;
Sberbank CIB calculations are based on data from Thomson Reuters GFMS.
At the Barcelona conference last year we launched the inaugural edition of LBMA’s Annual Review. This was the first of our publications to benefit from the recent brand refresh and now it’s the turn of the Alchemist - we hope that you enjoy it.

While the Review highlighted LBMA’s milestones and achievements during 2017, obviously we can’t stand still and need to keep our attention very much focussed on the challenges for 2018 and beyond. We will continue to be committed to delivering greater integrity and transparency to the global precious metals market.

Responsible Sourcing remains key and LBMA recently published the Precious Metals Integrity brochure explaining how we have delivered greater transparency into our programme. We will shortly be launching a Request for Proposal to invite potential solutions to assist LBMA in further strengthen gold supply chain integrity by developing new technology to ensure provenance. While this initiative is currently only for gold, the other metals are not forgotten and LBMA made Responsible Silver Guidance mandatory for all Good Delivery silver refiners from 1 January and we are developing guidance for platinum and palladium.

Another important project is the global Precious Metals Code (PMC). In early February the Bank of England issued Statements of Commitment to the PMC, FX Global Code and the UK Money Markets Code (the “Codes”). By doing so the Bank demonstrated that it is committed to adhering to the principle of these Codes when acting as a market participant in the relevant markets.

Adherence to the PMC is mandatory for all LBMA members and voluntary for all other entities participating in the wholesale precious metals market. As part of their Membership obligations LBMA Members have until 1 June 2018 to implement and attest their adherence to the PMC. A training programme is being devised to assist members in this process. Please get in touch if you have any questions.

We will shortly be launching four short educational films, focusing on the key aspects of the work of LBMA namely Who We Are, Good Delivery, Responsible Sourcing and finally How the Market Works. The website is being refreshed to co-incide with the launch of the new films, so keep an eye out.

On a lighter note, the LBMA Annual Party takes place on 8 March at Aqua Nueva. Once again it is complimentary to all members and presents an opportunity for everyone to get together in a relaxed and convivial environment. I hope to see as many of you there as possible.

Ruth Crowell, LBMA Chief Executive and Executive Director, LBMA Board

Ruth is responsible for the strategic development of the LBMA, in partnership with the Chairman and the Board. She maintains accountability to and the quality of, the Association’s Membership and Good Delivery Refiners as well as representing LBMA’s interests in relation to regulators, investors, media and international precious metals markets.

Prior to joining LBMA, she worked in bank finance and US corporate law and also acted as a monitor at the UN Commission on Human Rights in Geneva. She has an MSc in History of International Relations from the LSE and a degree in English Literature from Kenyon College in Ohio.
SILVER LININGS?

BY DR JONATHAN BUTLER PRECIOUS METALS BUSINESS DEVELOPMENT STRATEGIST MITSUBISHI CORPORATION RTM (EUROPE)

Having spent the last several years in gold’s shadow, could co-ordinated global economic growth finally give silver the chance to shine?

SILVER UNDervalued

For good reasons, silver is known as the poor man’s gold. Always the cheaper metal, silver’s price has been falling relative to gold ever since reaching an all-time nominal high of $49.80 in April 2011. Currently, it would take around 80 ounces of silver to buy one ounce of gold. By comparison, the long-term average since the early 1970s is just 58 ounces of silver to buy an ounce of gold, illustrating how undervalued silver is right now on a relative basis.

Adjusted for inflation, silver’s long-term average price over that period has been $21.35, again considerably undervalued with 2017’s average price of $17.07. Reversion to the mean in both relative and absolute terms is one argument for higher prices over the longer term. Another is that, unlike gold, silver has a significant base of industrial offtake and could benefit from stronger physical demand in a world of synchronised growth.

Silver however spent 2017 trading in a sideways $3 range and failing to benefit either from an upswing in actual and anticipated offtake, or the general risk-on market sentiment as equities hit record highs and industrial metals such as copper hit their highest since 2014. A softer dollar and hedging of riskier trades with gold similarly failed to inspire much buying interest in silver – investors remained for the most part disinterested, and at times became quite bearish, with money managers on COMEX increasing gross short futures positioning in silver (wagers that prices will fall) to the highest in 12 years. Holdings of silver in Exchange Traded Funds made only modest gains overall, though they did spike to record highs mid-year as investors took advantage of a dip in the price of silver.

It was in the western retail investment market that there was a noticeable drop after a stellar previous year. Sales of American Eagle silver coins by the US Mint dropped by 54% in 2017 to 37.7 Moz, after three exceptional years, perhaps as traditional buyers were distracted by roaring equity markets and the allure of cryptocurrencies in 2017. Plus, with the Trump administration in the White House, many traditional, conservative coin buyers may have seen less need to hedge against economic and political risks by buying silver.

Expectations of greater industrial demand due to tax cuts and fiscal stimulus do not seem to have figured much in their reckoning on silver.

Illustrating the bright spots for fabrication demand in silver, India was a particular highlight, with gross imports rising by 60% to over 12 Moz as greater certainty in the regulatory regime and economic growth lifted physical demand. Similarly, China registered a 27% increase in gross imports. As a key manufacturing centre for solar photovoltaic (PV) technology, we expect China will continue to be a significant user of silver. Both China and India will continue to help drive this demand through their aggressive policies to adopt solar technologies.

A BRIGHTER FUTURE?

Demand for silver in the solar PV sector is expected to be responsible for a record 100 Moz of silver offtake this year globally as manufacturing capacity is expanded globally and solar power generation becomes more cost competitive against conventional sources. This is not the only area where silver could shine in future: vehicle electrification, in all its forms, is a very promising area for silver demand, while the chemical sector has good growth prospects.

Silver has long been an essential metal in the electronics sector: in semi-conductors, bonding wire, switches, contacts, conductive pastes and as a battery material, silver is essential to everyday life. New developments in electrification in the automotive sector have the potential to significantly increase silver’s importance and use in these applications.
Two broad areas of vehicle electrification stand out for silver demand: electrification of the drivetrain, including the battery and transmission system, and electrification of the vehicle’s control systems. The former relates to the increased use of silver in contacts and switches, plus the use of silver in certain battery storage technologies. The drive to ‘green’ the electricity grid to reduce the overall carbon footprint from EVs should also be supportive of silver in solar PV – in particular, its use in home PV recharging stations.

**DRIVING DEMAND**

Vehicle control systems include the plethora of technologies ranging from adaptive cruise control to automatic parking through to fully autonomous driving. Generally speaking, the more autonomous the vehicle control system becomes, the more sensors and electrical circuits that are required. Although the quantity of silver per sensor is tiny, the proliferation of sensors on each vehicle (which can run into the hundreds of individual sensors, cameras, etc.) plus the projected uptake of such vehicles in future bodes well for physical silver demand.

In the chemical sector, an increase in the production of ethylene oxide (used in plastics, packaging and textiles) is likely to be driven by both demand pull and an increased supply of cheap ethane feedstock material thanks to the US gas shale revolution. This ought to continue to drive up demand for silver in this application by close to 10 Moz in 2018.

Notably, nearly all of these growing applications for silver typically require 99.99% purity silver. Tighter market conditions as a result of flat supplies should result as the year progresses and help drive prices over the longer term.

**UNDERPINNING PRICES**

Silver could benefit from the same broadly supportive macroeconomic conditions as gold. Provided Treasury yields creep up relatively slowly and are balanced to a degree by rising inflation, and the US dollar environment remains fairly benign, silver has the potential to perform reasonably well as a non-yielding asset.

In addition, industrial demand, leading to tighter market conditions in future, ought to provide a solid underpinning to silver prices – perhaps allowing silver to catch up a little against gold and to shine in its own right.
BULLISH ON GOLD, THE SHARES OR THE METAL?

BY MICHAEL BEDFORD CFA, CONSULTANT TO METALS FOCUS AND CEO, WOODHILL ASSET MANAGEMENT

It is more than six years since the peak in the gold price at over $1,900 per ounce, which was followed by a precipitous decline to a low of $1,100 at the end of 2015. For most of the large gold-mining companies, this ushered in a period of repairing balance sheets. But as the gold price is now expected to strengthen in an uncertain political and economic world, what follows for the gold companies?

At Metals Focus, we have been analysing key financial, operating and investor data on a quarterly basis going back to 2009, for a peer group of the leading global gold companies.1 We like to think we analyse the data in a unique way, which certainly helps to highlight differences around the main business model for a senior gold-mining company. In this article, we will deliberately stay clear of talking about individual companies, but rather the aggregate of their efforts. For potential investors, this might help sway whether to invest in the sector, rather than help decide which company to invest in.

**FINANCIAL LIQUIDITY**

Returning to our original brief history of the sector, the equivalent2 gold production for the peer group we look at was rising at just under 5% per annum from the beginning of 2009, peaking in the fourth quarter of 2013. Debt was largely the financing agent for the expansion plans that nearly every senior gold-mining company was embarking upon. Net debt3 peaked at $32.1bn in the second quarter of 2013. However, the average gold price received by mining companies peaked in the fourth quarter of 2012 and fell by $300 per ounce within six months. The market capitalisation for the sector did not wait – it fell far quicker and further, in fact by half within nine months. Almost overnight, financial liquidity became paramount. Our preferred measurement of financial liquidity is the ratio of net debt to EBITDA,4 our modified ratio peaked at 4.4 in the second quarter of 2013, at a level which should have demanded more attention from bankers, bondholders and equity holders. A ratio greater than 3 is normally deemed dangerous. It certainly galvanised a new sweep of C-suite managers, and strategies changed quickly to balance sheet repair and cash flow. This has been the dominant strategy for the last four years.

A 10% increase in the gold price can result in a 20% increase in earnings, assuming all other metrics remain constant.

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1. The Gold Peer Group Analysis is a subscriber-only service, updated each quarter. The Peer Group covers: Agnico Eagle Mines, AngloGold Ashanti, Barrick Gold, Gold Fields, Harmony Gold, Kinross Gold, Newcrest Mining, Newmont Mining, Polymetal, Randgold Resources and Sibanye Gold. 2. Equivalent gold production is gold production plus by-product production converted by value to equivalent gold production. 3. Net debt is gross interest-bearing debt less cash and cash equivalents. 4. EBITDA is earnings before interest, tax, depreciation and amortisation.
CAPITAL EXPENDITURE

So, how successful has the peer group been and is it now time to switch course? Given that cash flow was the priority, perhaps not surprisingly, production has fallen. From its peak in the fourth quarter of 2013, equivalent gold production for our peer group has fallen by 10%, and gold-only production by 9%. Arguably, this is a reasonably impressive result and shows the ‘inventory’ effect that all senior gold-mining companies enjoy. But without investment, the inventory does become depleted. Total capital expenditure for this peer group peaked at $6.3 billion per quarter at the end of 2012. By the beginning of 2016, this figure had dropped to just $1.6 billion. All companies cut capital expenditure, some more aggressively than others. Project capital expenditure, not surprisingly, took the brunt of the cuts, but also sustaining capital expenditure, corporate costs and expensed exploration (that portion of exploration responsible for adding longer-term production ounces). This is often where drilling down into individual company data can be useful. We think some companies have over-cut capital savings, making the companies appear, to some extent, more robust cash generators than they are. Total capital expenditure is now rising again and has reached a level of $2.2 billion per quarter. But this is still well below a level, in our view, that is required to sustain production.

CASH COSTS

Costs have also been reduced during this period of austerity, albeit quite modestly. Cash costs (before any capital spend) have fallen by 12% from their peak at the beginning of 2013, small when compared to a corresponding 53% drop in the price of oil. Typically, energy costs form a significant portion of cash costs, especially for open pit operations. It would also appear that labour costs have remained at elevated levels. What should happen now? Certainly, net debt has been curtailed to more comfortable levels. Using our preferred financial metric, the ratio of net debt to EBITDA, less sustaining capital, is now only 1.5 times, albeit at a time of globally low interest rates. Cash costs are rising again, up 4% from their low point, but at a slow pace. However, the real issue facing the companies and investors is capital – how much needs to be spent to maintain a sustainable business model? Inventories are running ever lower, not yet critical, but nonetheless lower. The reserve life for this peer group peaked at 27 years at the start of 2013. It now stands at 18 years, some 33% lower than it was, and is it now time to switch course? Given this peer group is contracting, not least to persuade investors that errors of the past are not being repeated.

INVESTMENT IN EXPLORATION AND NEW PROJECTS MUST RESUME. FOR SOME COMPANIES, THE NEED IS GREATER THAN OTHERS.

Typically, there are three reasons given to invest in gold shares. The first is the gearing affect (a 10% increase in the gold price can result in a 20% increase in earnings, assuming all other metrics remain constant). The second is dividends. Some investors like the idea of a yield, being ‘paid’ to own the gold share. Dividends have tended to be rare in this sector. Even at its peak, yields were much thinner compared with other diversified mining companies. And right now, as we look at the sector, meaningful dividends still look quite far away. Reinvesting in the production portfolio will take preference, in effect reducing that gearing affect too, by lifting the real cost of production to shareholders. Remember, we are not talking about production increases here, but rather maintaining production and a sustainable business model. And then lastly, the third reason to invest in gold shares is growth. As we have seen, the peer group is contracting, to prioritise cash flow. Meaningful production growth seems a distant dream for some producers; it will require a far higher gold price to encourage new greenfield investment, not least to persuade investors that errors of the past are not being repeated.

INVESTMENT

In conclusion, not all companies in the peer group we analyse are the same, so bespoke analysis is always required. But for the peer group that makes up our quarterly reporting service, the priority will be to return to a sustainable business model at a reasonable cost. Meaningful growth in dividends and production might then follow, but only in our view with a much higher gold price. Our peer group review provides an invaluable tool to properly understand the senior gold producer business model and allows for the bespoke analysis required to distinguish winners from losers.
The Original Bullion Coin

KRUGERRAND
Value that Endures
The following is the transcript of Jagjit’s keynote address at LBMA Conference in Barcelona on 16 October, 2017.

INTRODUCTION
Thank you for inviting me to this very stimulating conference. I have had a number of interesting conversations with people already this morning and what is particularly encouraging is how carefully people are listening to us economists at the moment, which is reassuring in these uncertain times. We had an event in the UK that some of you know may know about called a ‘Referendum’ last year, where it was not entirely clear that everyone was listening to economists at that time. So it is an absolute pleasure to come here and enter a world in which you might be heard.

What I am also reminded about in my opening remarks is the famous Chinese curse ‘May you live in interesting times’. It is clear to me that since I took over Directorship of the institute last year, I and the rest of the world seem to be living in quite extraordinary times. It is a world that I think not many of us fully understand, and that also goes for central banks around the world. We charge these “superheroes” to maintain some equilibrium between aggregate demand and supply in the various countries and regions of the world. WE CHARGE THESE “SUPERHEROES” TO MAINTAIN SOME EQUILIBRIUM BETWEEN AGGREGATE DEMAND AND SUPPLY IN THE VARIOUS COUNTRIES AND REGIONS OF THE WORLD.

That is one of the problems that I am going to address today.

ADVANCED VERSUS EMERGING ECONOMIES
Let me go on with a rather downbeat note about the state of the world as it is seen from the advanced economies, quite distinct to the emerging economies. In the past few days, I have been lucky enough to go to the Far East, where the robustness of growth in those economies is starkly different to the other places I visited last week, which included Berlin and Dublin. One way of characterising the advanced economies is what we might call a “bad state of nature” – and I do not just mean the storm that is currently hovering over Ireland. It is one in which we have low wages, low productivity levels, low interest rates and, surprisingly enough, alongside that, low levels of unemployment, of which the flip side is high levels of employment at those relatively low wages that I have just suggested.

That is a common characteristic in advanced economies in the 10 years since the start of the global financial crisis. I think it is a constellation of observations with which central banks and fiscal policymakers are struggling to deal. In that world, they go to their rulebook and think that we have to respond to low growth by lowering interest rates and injecting demand into the system. But we now had 10 years of that and it has not quite had the impact that we might have envisaged prior to the start of the financial crisis. Yes, there has been an increase in output, but income per head in the advanced economies has mostly moved sideways in this period. Compare that to the long period of growth since the start of the Industrial Revolution and the creation of sustained economic growth, after which people began to expect income-per-head growth rates of some 2% a year, under which circumstances every generation could expect to be twice as well off as its previous generation. This process simply has not continued in the large part of the advanced economic world over the past 10 years.

INTEREST RATES
The monetary policy debate to which I have contributed and worked on, both in academia and at the policy level has talked about ultra-accommodative interest rates. The idea here was to help economies that had high levels of private debt adjust to lower levels of private debt without falling off – to use a phrase that is common in Westminster at the moment – a cliff-edge. That was the idea of low interest rates. It was always supposed to be temporary. Indeed, the initial quantitative easing (QE) was, itself, supposed to be temporary measure rather than a new regime in itself.
Let me go back to the basic trade-off that any central banker faces. For those of you familiar with British history, Gillray was a famous cartoonist working out of Fleet Street. In his depiction of the Bank of England in 1797 was an image of Midas inverting the traditional mythology. The original idea was that anything he touched turned to gold. In 1797, the Bank of England left the gold standard, which had been adopted by accident by Newton in 1717 by getting the relative price of silver and gold a little array, so I am sure he would not have been eligible to be chairman of the London Bullion Market Association for making that pricing mistake.

For the following 80 years or so, sterling was fixed in terms of gold, but following the shocks of poor harvests and the demands of Napoleonic and revolutionary wars, the Bank of England was forced off the gold standard. The common concern was that all the gold in the vault would then spew out as paper, as the Bank of England would issue too much paper, leading to a sustained inflation, the idea of which we would become familiar in the end. In fact, this idea of the need to have flexibility to respond to shocks and yet adhere to rules is an idea that we see time and time again in monetary policy debates. It is almost endemic. It permeates every debate that we have.

Right now, the debate is very much between those who would like to see interest rates normalised, if that is the appropriate expression, because interest rates have been low for a very long time, and there is a sense in which there may be asset bubbles being blown. On the other hand, there are those who argue for more flexibility and to not repeat the mistakes that we possibly saw in Japan in the 1990s with attempts to normalise too quickly. When we understand the context, I think we can understand very clearly debates then and now, because we can always frame the monetary policy question with a debate between flexibility and rules, going back to Gillray’s cartoon.

East Asian economies relative size now

60%

Rest of World

GOLD

During the long period of the gold standard up to about 1914, the price of gold was relatively constant in terms of goods and services. As soon as we left the gold standard in the UK in 1931– and Bretton Woods was linked to gold until 1971 – we saw tremendous volatility in gold prices, which I will come back to a little later for those interested in gold prices, who might want to know what the drivers may be. There may be various types of demand for gold, either for industrial use or for jewellery, but I am going to posit another idea right at the end, so bear with me.

Let us subscribe to the Fisher equation, which refers first to the natural rate of interest, which clears the global market for savings and investment. To that, we might add an expected inflation rate, which will give us the Fisher equation. In normal times, the policy function is one in which central banks raise interest rates by more than inflation increases or by cutting interest rates by more than inflation falls. What you see are very high-frequency but relatively small changes in interest rates as central banks are able to stabilise the economy in what I call ‘good times’.

With a large enough negative shock, however, such as a global financial crisis that permeates the economy in an enduring and persistent manner, and possibly helps bring down productivity growth rates for a variety of reasons, the economy will find itself stuck where we are currently – in the ‘interest-rate doldrums’. At this point, we still have a market-clearing level of savings and investment, but interest rates are stuck at a very low rate and central banks are unable to respond to shocks in the way that they could before, particularly if there are negative shocks.

Note that over any prolonged period, we should anticipate positive and negative shocks. If the central bank cannot respond to them, we are going to find ourselves absorbed into this low state or bad equilibrium. That is possibly to what we have stumbled, now 10 years on from the financial crisis. We were not able to move to stabilise the economy quickly enough, so the question is: how do we plot our way out? Bad Equilibrium.

Let me go a little deeper into the point about the bad equilibrium. Between 1950 and 2010, in real terms, average world GDP per capita rose from constant price USD2,000 to 8,000 – a fourfold increase in 60 years, which is a remarkable achievement. This is in constant terms. In 1950, the advanced economies – typically the G7 and the rest of Europe – had something like three times the level of income compared to that observed on average in the rest of the world.

The remarkable story, however, of the last 20 years is the increase in income of many emerging economies, particularly in East Asian. In the 1950s, 1960s and 1970s, they were at around 50% of the average level of income per head; however, in this current decade, they are at the average, which is a remarkable human achievement that has drawn some 60% of the world’s population to the average level of income in the world. You will be able to quickly work out, therefore, that these economies broadly approximate to some 60% of world GDP. Therefore, even though the income per head is only around the average of the world, their relative size is now considerably bigger. That means that, in aggregate, this bloc has an increasing impact on decisions made throughout the world and we have to think about those interactions.

I will give you one example before explaining why that is important. What it means is that these large economies, and their business models, have different preferences over savings and investment than the advanced economies. And what that has tended to do is reduce real interest rates. The Institute has done an estimate of 620 long-term real interest rates using structural models and market prices, as well as uncertainty bands. Over time and on a secular basis, real interest rates have fallen, which means that we are discounting the future at a lower rate less than we did before. This is the direct impact of those growing economies that have grown and saved rather than necessarily through the more traditional route of domestic investment and capital formation.
In the UK, we have had the referendum with the result that we will leave the European Union. We have had other kinds of elections in other parts of the world – and you probably do not need me to list them as you will know which ones I am referring to, and one not a million miles away from here in this very city – that all, in some sense, reflect this increasing inequality of wealth or opportunity that might be developing is happening in the West.

Just to drive the point home, what I want you to think about is global savings and investment. A downward-sloping investment function tells you how much you will invest at a given interest rate. As interest rates fall, you will invest more as less profitable ventures can now be made sense. The ‘upward-sloping savings schedule suggests that at higher interest rates we will have an incentive to save more. In a world before the emerging and developing countries (EDCs) came along, the real interest rate was at some point that cleared the savings market for the advanced economies. At relatively high interest rates. However, 60% of world GDP is from economies that have a different savings schedule and a different investment schedule, and they would clear the global savings-investment markets at lower interest rates. And this means that the world interest rate is driven down and we will see current-account deficits in the advanced economies as they borrow those excess savings from the rest of the world, the EDCs.

The key point, however, is that this transition lowers real interest rates, which has profound consequences for the operation of monetary policy and for public debt. Monetary policy gets harder because you are going to bump against the lower zero band in a world in which real interest rates are falling. It is also harder to understand fiscal policy because, in some sense, fiscal constraints are relaxed: real rates are lower and it should be easier to run deficits and invest. But often in advanced economies, however, it is not exactly clear in what we should invest. It is not very clear how you can find infrastructure projects very quickly in economies that are already hugely developed, so it leads to a problem for fiscal policy as well. The danger is that the low interest rates are used up by government consumption: expenditure on things that do not increase productive capacity. And that might be something that we have seen in many advanced economies.

IMPORTANT CONSEQUENCES

This economic model leads to important consequences for the rest of the world. Lower real interest rates raise asset prices. They are very good things for people who already have assets and wealth, but they create inequality and tensions for those who do not. It is a form of initial condition that we talk about in economics. It is something that may be very hard for any generation to offset if they have not, at the start of this period, been holding wealth. Those outside the initial “lucky” set are going to find themselves, relatively speaking, immiserated, which is a phenomenon that we are seeing develop increasingly rapidly in the advanced world. This is, I think, very much at the root of some of the disturbances that we have seen.

What has happened in this new world in which central banks and fiscal policy authorities have had to do new types of operations, however, is that a negative relationship has developed, which we think is something to do with the operation of QE. Central banks have bought bonds, which has tended to reduce risk premia embedded in fixed income instruments in advanced economies, and this excess liquidity is finding its way into other markets and helping to support the gold price. That is why we think we are seeing a negative relationship. It is new and different, and not what we would anticipate from the history of gold’s purpose in the international monetary system.

POLICY NORMALISATION

It is clear that recent income growth has frustrated large fractions of the advanced world population. Clearly, the greater growth in emergent economies, is a great achievement but it has thrown open complications for the operation of policy that I do not think our policymakers have fully understood. The impact on real rates has jacked up asset prices and played an important role in setting off momentum for populist policies. I am not saying that such policies are right or wrong. I am simply saying that it is a root cause of the momentum that we have observed.

Normalising policy, which I think should continue, is very hard, because the absorbing equilibrium that I talked about is a tough one from which to escape. There are large numbers of academic papers that have described this problem. One solution is to think about policies that increase investment demand and increase future capacity. But I do not necessarily trust the public sector to find a way, and the private sector cannot, without confidence, implement these investment strategies alone.

And so for that, we might need some form of relationships that bind countries and strategies together. Unfortunately, some of the paths we have taken in the last year seem to be about unbinding those very long-run relationships that have been so key to world growth in the last 60 years or so.
WINNERS OF THE 2017 PRECIOUS METALS FORECAST SURVEY

BY AELRED CONNELLY, PR OFFICER, LBMA

Rules of the Survey
The aim of the annual survey is to predict the average, high and low price range for the year ahead in each metal as accurately as possible. The prediction closest to the average price wins a 1oz gold bar. In the event of a tie, the forecast range is taken into account.

And the 2017 Winners are...
The LBMA is delighted to congratulate the four winners in the 2017 Forecast Survey, Gold - Bart Melek (TD Securities); Silver - Tom Kendall (ICBC Standard Bank); Platinum - Glyn Stevens (Independent) and Palladium - William Adams (Metal Bulletin Ltd). They each collected a 1 oz gold bar kindly donated by PAMP.

In a tight finish, Bart Melek, TD Securities, held off all challenges with his forecast of $1,256, just over a $1 below the actual average price. In a close second was Ross Strachan (Thomson Reuters, GFMS) with his forecast of $1,259 and in third place was Bhargava Vaidya (B.N Vaidya & Associates) with $1,260.

For silver, Tom Kendall, ICBC Standard Bank, secured first prize with his forecast of $17.10, an impressive performance being just five cents off the average price of $17.05. However, it was a very close call as Eddie Nagao (Sumitomo Corporation) also forecast the same price, but Tom came out in the photo finish courtesy of a narrower forecast range. In third place, to bag his second third place finish was Bhargava Vaidya with his forecast of $17.25.

It paid to take a bearish outlook for platinum, and Glyn Stevens, Independent, was one of the few who did, and he scooped first prize courtesy of his forecast of $935, $13.49 below the actual average price. Eddie Nagao took his second runners-up spot with his forecast of $928. Bart Melek, supplementing his first prize for gold, took third place with his forecast of $984.

Collecting first prize was William Adams, Metal Bulletin Ltd, with his forecast of $850, $19 below the actual average price. Taking second place was Thorsten Proettel (LBBW) with his forecast of $840 and in third place was Ross Norman (Sharps Pixley) with his forecast of $828.

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<th>Actual average price in first half Jan 2017</th>
<th>Analysts’ 2017 forecast average</th>
<th>Actual 2017 average price</th>
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(a) 3-16 January 2017 inclusive.
2018 PRECIOUS METALS FORECAST SURVEY

Strongly divergent views dominated this year’s forecasts with the 34 analysts divided on the paths that precious metal prices will take in 2018. Opinions differed as to the level of US real interest rates, the likely impact of geopolitical factors and the pace of global economic growth.

Our contributors were also divided as to what would have the greater impact and hence we received forecasts for gold as high as $1,510 and as low as $1,120 and it was a similar story for the other metals.

With gold forecast in a trading range of $390, silver $9, platinum $518, palladium $750 we could be in for a dramatic year in precious metals. Somewhat surprisingly the mean of all the contributors forecasts were rather more staid. The outliers cancel each other out which left the average price for each metal in 2018 little different from those seen in the first half of January.

A summary of the results of the Survey are outlined below and the full Survey including detailed commentaries from all the contributors is available on the LBMA’s website - www.lbma.org

### Metal Prices

<table>
<thead>
<tr>
<th>Metal</th>
<th>Actual price first half of January 2018</th>
<th>Analysts’ 2018 forecast average</th>
<th>% change</th>
<th>2017 actual year average</th>
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<tbody>
<tr>
<td>Gold</td>
<td>$1,320</td>
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<td>Palladium</td>
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<td>$869</td>
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</table>

(a) 2-15 January 2018 inclusive (based on the pm $ prices)
Corporate Clients

Precious metals solutions based on global insight and trusted expertise.

Whatever your activities in the precious metals market, it pays to be with a partner with global presence and trusted experience.

Commerzbank delivers insight and product structuring capabilities across the full spectrum of non-physical precious metals solutions.

• Gold, Silver, Platinum, Palladium, trading on a Spot and Forward basis
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• Trading centres in Frankfurt, London and Singapore

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COMMERZBANK
The bank at your side
The first survey was conducted in 1997 when analysts were required to provide high and low forecast ranges for gold and silver along with accompanying commentaries. The requirement to also provide an average price forecast was introduced in 1998 along with prizes of a 1oz gold bar, which were awarded to the analyst whose forecast average was closest to the actual average price. In 2002 platinum and palladium joined the party.

19 analysts contributed to the 1998 survey with nearly twice as many taking part in 2018. Rhona O’Connell contributed to the first survey, and she has the distinction of being the only analyst still contributing!

The international dimension to the survey continues to this day, with contributors located from Tokyo to New York, to South Africa to Switzerland. The only thing that has really changed are the contributors, apart of course, from Rhona.

Since 1998

**72 1oz GOLD BARS**
awarded to 40 different analysts

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The LBMA Precious Metals Premiership Table ‘Weighted Score 1998 to 2017’ (a)

<table>
<thead>
<tr>
<th>Contributor</th>
<th>Total number of contributions (b)</th>
<th>1st</th>
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<th>3rd</th>
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(a) Only those who have made 12 or more forecast contributions are included in the table. Points awarded on the following basis. First prize three points, second two points and third one point. The weighted average is calculated by dividing the total number of points by the total number of forecast contributions. Those shaded no longer contribute to the Forecast Survey.
Eight analysts have won two prizes

**2004**

MATTHEW TURNER began the trend in securing the first prize for gold and palladium.

**2007**

ROSS NORMAN (silver and platinum)

**2008**

BOB TAKAI (silver and palladium)

**2009**

PHILIP Klapwijk (gold and silver)

**2011**

ROHIT SAVANT (platinum and palladium)

**2013**

RENE HOCHEFREITER (gold and silver)

**2015**

GLYN STEVENS (platinum and palladium)

**2016**

JONI TEVES (gold and silver)

Aelred Connelly, PR Officer, LBMA

Aelred joined the LBMA in September 2011. He provides support to the Chief Executive in the administration and organisation of the Association’s Public Affairs. He is responsible for Press enquiries, is the editor for the LBMA’s quarterly publication, the Alchemist as well as contributing to other LBMA publications, provision of the website and support for LBMA events.

Prior to joining the LBMA, he worked at the Bank of England for more than twenty-five years, the last five as an analyst in the Bank’s gold bullion department.

Top 15 Contributors - ‘Total Points Gained, 1998 to 2017’ (b)

<table>
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<tr>
<th>Contributor</th>
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(b) Points awarded on the following basis. First prize three points, second two points and third one point. Those shaded no longer contribute to the forecast.

It is possible to represent the results in many ways, but to allow for a direct comparison, a points scoring system has been applied, with three points awarded for first place, two for second and one for third and only those analysts who have made at least 12 forecast contributions have been considered. On this basis two tables have been compiled. Table 1 is a weighted score taking into account total points scored against the number of forecast contributions. Table 2 is based on the total number of points scored without adjusting for the number of contributions.

Table 1 shows Bernard Dahdah out in front with 0.83 points from his twelve forecast contributions (his haul includes two first prizes). In a close second is Glyn Stevens with a return of 0.73 from 26 forecasts, which includes an impressive five first prizes.

If we look at Table 2, Ross Norman is out in the lead with his haul of 28 points, with Philip Klapwijk in second with 26 and Rene Hochreiter in third with 23. Philip and Rene also hold the distinction of each having won six first prizes, more than any other contributor. Glyn is not far behind in fourth with Bernard in 12th place. They all still contribute so it will be interesting to see how these placings may alter in the future.

The results of the 2017 survey and a review of 2018 can be found on pages 12-13. The best of luck to all those taking part.
DID YOU KNOW?

BY AELRED CONNELLY, PR OFFICER, LBMA

Strolling through the City of London I can’t help but be struck by the sheer number of unusual pieces of public art including statues, sculptures, memorials, plaques, many commemorating the rich history of the square mile.

Most people stroll nonchalantly past some golden nuggets of our history and heritage, whilst tourists are too busy taking selfies to notice them. An example stands directly outside LBMA’s offices. It also happens to be LBMA’s designated meeting point for fire drills!

I am talking of course of the statue of George Peabody (1795-1869). He might not be a household name in the same way as the Duke of Wellington and Paul Julius Reuter whose statues stand nearby, but nevertheless to those who know him his achievements continue to be greatly admired on both sides of the Atlantic.

So what did he do to deserve a statue in his honour? He was an American, born into poverty, who became a highly successful businessman, merchant banker and financier, and went on to set up what became JP Morgan with his business partner, Junius Spencer Morgan. He was the father of modern-day philanthropy, in whose shadow have followed other great benefactors including Andrew Carnegie, John D. Rockefeller and Bill Gates, and in the course of his lifetime donated millions of pounds to philanthropic projects across London, Europe and the US. He was particularly well regarded on both sides of the Atlantic. Indeed, his place of birth, Danvers in Massachusetts, renamed itself Peabody. He received the Congressional Gold medal and became the first of only two Americans to receive the Freeman of the City of London. He even turned down a baronetcy from Queen Victoria but did accept a portrait of her painted on ivory and framed with gold and diamonds.

Horrified by the damage caused by the American Civil War, he bestowed generous donations on scores of US bodies and organisations, and his legacy lives on. It is particularly evident today in his Massachusetts homeland where the Peabody Institute provides bursaries and research grants to students as well as maintaining the extensive research library he established. And his legacy also lives on in London, his adopted home from 1837 until his death in 1869. Shocked by the poverty that he saw in the slums of the East End, he set about pioneering social housing for the poor with lots of green space for children.

MOST PEOPLE STROLL NONCHALANTLY PAST SOME GOLDEN NUGGETS OF OUR HISTORY AND HERITAGE, WHILST TOURISTS ARE TOO BUSY TAKING SELFIES TO NOTICE THEM.

Today, the Peabody Group provides social housing across London and the South-East for 110,000 people as well as managing scores of community programmes.

In 1867, the Prince of Wales set up a subscription fund to pay for a statue “as a testimony of the deep feeling and gratitude entertained by the English people for his munificent donations for the benefit of the London poor”. Donations flooded in and the statue was commissioned and completed in bronze by the American sculptor, W.W. Story. It was unveiled by the Prince of Wales in 1869 on the site of the church of St Benet Fink close to the Royal Exchange. Unfortunately, George Peabody was not in attendance as he was recuperating in France from illness and died four months later in his London residence in Eaton Square.

I am not convinced that he would have been enamoured by a rather unflattering contemporary description of him as looking “homely”, with “a rumpled face ... knobby chin, bulbous nose, side whiskers, and heavy-lidded eyes”. But if you ever find yourself walking past his statue, look up, and even if you can’t marvel at his physical appearance, you can at least stand in admiration of his many achievements, most notably his philanthropy and social vision, which were ahead of their time and are still evident around us 150 years after his death.
In early November, the LBMA arranged a two-day trip to the Argor-Heraeus refinery in Mendrisio, in the predominantly Italian-speaking area of the canton of Ticino in southern Switzerland.

I met the rest of the crew at Heathrow – my colleague, Penelope Stockdale, Natalie Scodie, Account Director at LBMA’s design agency, RZed, as well as the photographer Andy Lane and the cameraman, Martyn Gibson. The famous five!

The purpose of the trip was to add to LBMA’s stock library of precious metal photos as well as to take some live film footage, which could be used to dress LBMA’s range of publications, new films and website.

What should have been a routine journey, turned into an ordeal as we struggled with a satellite navigation system and road signage that were determined to make our journey as arduous as possible as we negotiated what can only be described as the scenic route, albeit with nice scenery. After two hours, we reached Mendrisio only to be faced with a series of roadworks that guided us through a network of unfathomable one-way systems. We could see the Argor-Heraeus refinery but we couldn’t reach it. So a two-minute journey morphed into an hour and a half ordeal. Finally, we pulled up outside the refinery, where we were warmly greeted by our host, Argor-Heraeus’s Director of Refining and Bank Products, Phaedon Stamatopoulos.

We began the time-consuming process of unloading the photographic equipment from the car. I didn’t realise just how much kit we would need to bring. We had flash lights, mirrors, screens, covers, tripods, lenses, bigger lenses, lens adaptors, trolleys, more lenses. I am surprised that we managed to find space in the car for some cameras! In fact, we had a mountain of kit, so it was rather appropriate that Argor-Heraeus’s refinery is nestled in the foothills of Monte Generoso.

The plant was much bigger than I had expected, serene and cool on the outside but very noisy and hot on the inside. As Phaedon gave us a tour of the plant, he explained that its operations revolved around the refining of:

- gold, silver, platinum and palladium
- ingots for bank, and traders, and products for the electronic and chemical industries
- semi-finished products and solutions for the watchmaking and luxury jewellery market
- as well as providing services for the physical trading of precious metals.

It was interesting to hear Phaedon say that Argor-Heraeus is not only committed to LBMA’s Responsible Sourcing programme but is also very much focused on sustainability and the environmental impact of its operations. So, the by-products and emissions during the refining process are captured and recycled, thus minimising their impact on the environment.
As we moved around the refinery filming the various processes, it was fascinating to see a mix of modern technology and manual labour, and so much gold and other precious metals either in the process of being made, stamped or in their finished state ready for distribution. It was a hive of activity unfolding before our very eyes. The heat from the furnaces was overwhelming, although not surprising given that the melting point of gold is 1,063°C!! It was the sheer scale of the operations which was breath-taking, from the laboratories undertaking assay testing, through to the robots producing kilo bars and other small bars, to the department producing semi-finished products for the jewellery industry. I particularly enjoyed observing the casting of large Gold and Silver Good Delivery bars and the consummate skill of the operators, and really appreciated the precision required in pouring molten metal into the heated moulds.

All in all, it was a truly fascinating trip, which will provide LBMA with a rich source of imagery and live film footage to add colour and freshness to all of our publications and the website, which will undergo a brand refresh over the coming months. LBMA would like to extend its gratitude to Argor-Heraeus, the staff who made us so welcome on our visit and, most of all, to Phaedon, who made it all happen and who proved a most convivial host.
As an LBMA Good Delivery Refiner it is your responsibility to understand and comply with the current regulations prevailing in the industry. In addition, the increasing demands of transparency from various stakeholders means that it has become crucial to continuously demonstrate the assessment made to your regulatory and reputational risks if you are to remain a credible player in the financial markets.

The LBMA, being the lead standard setting body in the precious metals industry worldwide, has set up numerous international compliance standards. The first edition of the LBMA Responsible Gold Guidance (“LBMA RGG” or the “guidance”) was established in 2011 to respond to the requirements determined by the OECD Due Diligence Guidance for Responsible Supply Chain of Minerals from Conflict-Affected and High-Risk Areas (“OECD Guidance”). The purpose of the LBMA RGG is to help refiners to avoid conflict financing and human right abuses through their sourcing decisions and impose anti-money laundering and anti-terrorist financing obligations.

Since its implementation, it follows a dynamic approach and is continuously reviewed in order to set the highest possible standards within the precious metals industry. Therefore, the LBMA took the opportunity to improve the LBMA RGG, following a recent benchmarking exercise by the OECD, and launched an amended version of this standard.

The 7th version of the guidance came into force this January for all LBMA Good Delivery accredited refiners. Some of the changes included the KYC Forms and on-site visit templates for mined or recycled materials (which constitute the LBMA Toolkit) to become mandatory. Previously, these were only provided as supporting documents and the new guidance specifies the following: “Refiners may be asked to justify any substantive deviations from the Toolkit (comply or explain)”.

To highlight the main distinction between the KYC forms and the on-site visit templates, the differentiation lies on the accountable party who attests to provide true and accurate information. The KYC form is completed by the precious metal supplier, whereas the on-site visit template is filled out and signed by the refiner’s representative. On-site visits have always been required by the guidance for high-risk customers within 6 months of the account opening. Now, in addition to them having mandatorily conform to the template(s), they must also be conducted by competent employees or independent third-party consultants.

The overall aim of this amendment is to extend the visit’s purpose from being solely commercially driven to also cover the compliance requirements; such as regulatory, environmental, conflict and security, health and safety and social issues.

In addition to the above-mentioned requirements, supplementary sections in the on-site visit template cover potential risks depending on the type of material to be refined. The questions relating to mined material will emphasize extraction and processing methods, presence of artisanal miners next to the mine, potential disputes with local communities and transportation challenges. For recycled materials, details of the business activity and information on the precious metal supplier’s own due diligence (KYC) and supply chain policy are now mandatory.
The MKS PAMP GROUP believes in leading by example and is committed to sharing best practice measures and expertise to help build legitimate, responsible, secure, transparent and verifiable precious metal supply chains throughout the industry. In the case of the LBMA RGG, this engagement was in the form of consultation on the guidance, drafting the KYC forms dedicated to both mined and recycled gold as well as the on-site visit templates; all of which were already part of the MKS PAMP GROUP compliance procedures for many years.

While the LBMA initiatives to date have set the highest standards of responsible sourcing we believe that future enhancements should also include due diligence requirements for the sale of refined metal downstream. Furthermore, we have been actively promoting the inclusion of the guidance for all precious metals and are happy to see the implementation of the LBMA Responsible Silver Guidance as of 1st January 2018 and very much look forward to the adoption of a Responsible Platinum & Palladium Guidance in the near future. As for the future, we believe that new compliance requirements covering environmental issues, traceability and increasing support to allow compliant purchase of materials from artisanal and small-scale miners will further enhance the effectiveness of the LBMA standards for the industry at large.

THE OVERALL AIM IS TO EXTEND THE SITE VISIT’S PURPOSE FROM BEING SOLELY COMMERCIALLY DRIVEN TO ALSO COVER THE COMPLIANCE REQUIREMENTS; SUCH AS REGULATORY, ENVIRONMENTAL, CONFLICT AND SECURITY, HEALTH AND SAFETY AND SOCIAL ISSUES.

EIGHTH LBMA ASSAYING AND REFINING CONFERENCE

Save the date
17-20 March 2019

The Royal Garden Hotel, Kensington, London

A Networking Reception will take place on Sunday 17 March, followed by formal Conference proceedings on Monday 18 and Tuesday 19 March. The Gala Dinner will take place on Monday 18 March and an optional workshop will be held on Wednesday 20 March.

Visit www.lbma.org.uk for more information or email events@lbma.org.uk

Xavier Miserez, has worked for two years for a Geneva based law firm prior to taking the bar exam. He has then joined Ernst & Young in a legal and regulatory department dedicated to banks and other financial services for another two years prior to joining the MKS PAMP GROUP in 2013 where he oversees all legal matters and leads the onboarding department, and as such conducts regular compliance on-site visits.
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THREE YEARS ON - THE LBMA GOLD AND SILVER PRICE AUCTIONS TODAY

BY MATTHEW GLENVILLE, CHIEF OPERATING OFFICER OF IBA

In 2014 ICE Benchmark Administration (IBA), an independent subsidiary of Intercontinental Exchange, was set up with the aim of bringing transparency and reliability to global benchmarks which are essential to the functioning of markets and the business communities they support.

As we approach the third anniversary of IBA’s administration of the LBMA Gold Price, Matthew provides an update on the changes to the auctions so far.

Since IBA took over as administrator, participation in the LBMA Gold Price auction has increased from 4 to 12 participants and for silver, which IBA only began administering in October 2017, from 7 to 10. Such strong and growing involvement demonstrates the market’s confidence in the processes which IBA has developed.

The Direct Participants in the daily auctions comprise a mix of banks, as well as other financial and non-financial entities, and represent the diverse interests of the market. CNT Inc, based in Massachusetts, has just become a Direct Participant in the silver benchmark. The inclusion of this US based precious metal wholesaler clearly demonstrates the breadth of interest from companies across the globe.

In 2015 IBA established the Precious Metals Oversight Committee which oversees the rules and methodologies surrounding the determination of both benchmarks, considers conflicts of interest and how they should be managed, and contributes to their ongoing evolution. The committee has an independent Chair with its members representing different segments of the industry and thus brings important product and market expertise to the governance process.

The Direct Participants in the daily auctions comprise a mix of banks, as well as other financial and non-financial entities, and represent the diverse interests of the market. CNT Inc, based in Massachusetts, has just become a Direct Participant in the silver benchmark. The inclusion of this US based precious metal wholesaler clearly demonstrates the breadth of interest from companies across the globe.

The increased confidence and participation in the benchmark setting process is the result of a number of factors, including IBA’s extensive investment in its electronic auction platform and its independent governance structure.

Last year, IBA established the Precious Metals Oversight Committee which oversees the rules and methodologies surrounding the determination of both benchmarks, considers conflicts of interest and how they should be managed, and contributes to their ongoing evolution. The committee has an independent Chair with its members representing different segments of the industry and thus brings important product and market expertise to the governance process.

Both benchmarks are electronically traded using ICE’s platform which allows participants to place, change or withdraw orders at any time during the auction. The platform has been designed to help mitigate perceived conflicts of interest by allowing client and house orders to be segregated by inputting orders via separate screens and log-ins. It provides a complete electronic audit trail of trading and auction activity for compliance teams.

The electronic auction process is now more transparent with clear information around how the price is determined and also how the process works. All of the information such as price and volumes that participants can see is available to the rest of the market in real time throughout the auction. This information is also available immediately after the price setting through professional redistributors and becomes freely available after a delay (please see LBMA News on page 29 for forthcoming changes to this policy). This ensures that all can see the auction volumes, the process involved and how the final price is established.
IBA’s dedicated surveillance team is supported by bespoke technology that performs thousands of calculations a day to actively monitor trading activity throughout the auction.

Central clearing is now a feature of both auctions. The take up of this offering has been substantial with approximately 70% of the traded volume in the gold auction and about 80% of the traded volume in the silver auction being centrally cleared.

This has removed the potential for credit lines to be a barrier to entry for qualifying direct participants and so enabled a broader breadth of participation than simply banks.

While central clearing has contributed to a significant increase in participation and liquidity in the auctions, it is of utmost importance that the integrity of the benchmarks is preserved.

IBA has defined criteria and procedures which are used to vet new participants. Direct Participants are required to be LBMA Members or Associates, and the LBMA conducts its own KYC and due diligence checks. IBA conducts its own stringent KYC checks and onboarding procedure, during which potential participants must demonstrate that they have the appropriate financial standing, experience and compliance infrastructure.

These developments have improved the benchmark setting process which is demonstrated by the increases in trading activity and the way in which participants react to price movements during the auction.

**INCREASED TRADING FLEXIBILITY AND VOLUMES**

IBA defines trading flexibility as the percentage of auctions with a higher number of participants placing orders in the last round than in the first round (see charts).

In the gold auction, before the introduction of central clearing, only 10-30% of auctions had more participants placing orders in the final round. However, this has now increased significantly with this band now in the region of 70-95%. The silver auction has seen an even more dramatic increase in the number of participants placing orders in the final round from around 0-20% to 60-90%.

Trading flexibility results in healthy auction activity and means that the benchmarks perform well. The process is seeing consistently high participation and the number of auctions with large volumes has been increasing. IBA defines large volumes as where the total volume exceeds 200,000 ounces for gold and 3.3 million ounces for silver. A positive outcome of this has been the increased confidence exhibited by certain silver producers who have returned to the auction process.
LOOKING AHEAD

Today, the LBMA Gold and LBMA Silver Prices are reformed, electronic, transparent benchmarks, representing a diverse set of industry participants. In 2018, we will be focused on increasing participation even further.

Key to this is IBA’s Indirect Participant category. While many firms can contribute to the auction not all firms, for example miners and refiners, can absorb the imbalance (the difference between the final buying and selling volume). For such firms, IBA offers indirect participation, which provides them with the ability to input their own orders but does not impact the ultimate volume that they need to transact. They can also manage their own orders on the ICE trading platform during the auction while still being able to trade with their own direct participant at the end of the process.

Indirect Participants are required to sign the same legal documentation as Direct Participants, although the latter cannot view their activity thus helping to mitigate both operational and conduct risk.

If you would like to learn more about the Indirect Participant model, talk to us about becoming a Direct Participant or if you have other questions, please contact the IBA team at IBA@theice.com.

For more information visit: www.theice.com/iba/lbma-gold-silver-price

Matthew Glenville is the COO of ICE Benchmark Administration (IBA), a global administrator for regulated benchmarks.

IBA administers the LBMA Gold Price and LBMA Silver Price. The intellectual property rights are held by the LBMA.

IBA, a subsidiary of Intercontinental Exchange, Inc., also administers the following four systemically important benchmarks: ICE LIBOR, the LBMA Gold Price, the LBMA Silver Price and ICE Swap Rate and also operates the ISDA SIMM Crowdsourcing Facility.
A DATE FOR YOUR DIARY
28-30 OCTOBER 2018

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WWW.MINT.CA/MINTSHIELD
Knowing how time constrained many of our readers are we have redesigned LBMA News to encapsulate the hot topics. If you have more time on your hands you can read about them in further detail elsewhere in the Alchemist or on our website.

**HEADLINES**

**MANDATORY ADHERENCE TO THE CODE**

With effect from 1 June 2018 adherence to the Global Precious Metals Code becomes mandatory for all LBMA members involved in the global wholesale precious metals market, but proportionality is key.

**REQUEST FOR PROPOSAL**

LBMA will shortly be launching a Request for Proposal to enable the international market to further strengthen gold supply chain integrity.

This builds on LBMA’s Responsible Sourcing programme and focuses on how technology can ensure supply chain provenance (see page 33 for further details).

**Publications**

We recently published the Precious Metals Integrity Brochure which highlighted how LBMA continues to set the highest standards for Responsible Sourcing as well as setting out our plans for the future.

If you would like a copy please contact mail@lbma.org.uk

**4 NEW FILMS**

LBMA has produced four new short films which will be launched shortly – What We Do, Good Delivery, Responsible Sourcing and How the Market Works.

The website will be refreshed in line with the new re-branding exercise to co-incide with the launch of the films.

**INCREASING TRANSPARENCY**

To further increase our transparency, we will be publishing minutes of LBMA Board meetings on our website in the future.

**85% HAIRCUT**

LBMA continues its ongoing efforts against the 85% haircut that will apply to precious metals under the Net Stable Funding Ratio (NSFR).

**Trade Reporting**

Trading Members of LBMA are required to report as part of their membership obligations.
GLOBAL PRECIOUS METALS CODE

The Code is intended to define a robust, fair, effective and transparent market where all participants are able to transact following best practice guidelines.

WEBINARS AND TRAINING

To assist Members with implementation of the Code, LBMA will be hosting a series of webinars over the coming months, as well as providing an online training module that can help Members with implementation, which will be available from March.

For application, proportionality is key and discretion is given to market participants to determine which provisions of the Code are most appropriate for their business.

Any questions regarding the Code and its implementation should be directed to Sakhila Mirza, LBMA General Counsel, at: sakhila.mirza@lbma.org.uk

NSFR

LBMA continues to be engaged with legislators and policy makers to advocate a full exemption for unallocated balances for clearing and settlement and precious metals loans shorter than 180 days from the required stable funding (RSF).

LBMA and LPMCL are concerned that if adopted, NSFR would either increase the costs or effectively eliminate the provision by banks of transaction financing, clearing, and settlement services to precious metals market participants.

Norton Rose has been supporting LBMA and LPMCL with all the lobbying efforts. If anyone would like to get involved or have any questions, please contact sakhila.mirza@lbma.org.uk.

LBMA-i Trade Reporting

Many members have already begun to report their trades to the LBMA-i platform and many members are being on-boarded.

The reporting process continues with a view to establishing a robust data set which will be published in the second half of 2018.

Members requiring further information, including assistance about connecting to LBMA-i, should contact: mail@lbma.org.uk

Delay to Publication of the LBMA Gold and Silver Prices

From 1 April 2018, the LBMA Gold and Silver Prices will not be available on the LBMA website until midnight London time on the date that the prices are set. The revised arrangements for delayed redistribution of the LBMA Gold Price and LBMA Silver Price were recently announced by ICE Benchmark Administration (IBA) and is consistent with the timing of the publication of the LBMA Platinum and Palladium prices. Customers that wish to access the LBMA Gold and Silver Prices in real-time should contact a market data redistributor. For further information please contact IBA at iba-licensing@theice.com.
After more than 26 years as Chairman of the Physical Committee Peter Smith has decided to stand down as Chair of the Committee. LBMA would like to extend its gratitude and thanks to Peter for his outstanding contribution to the work of the market and the Association in his capacity as Chair and member of the Physical Committee throughout his long tenure. To mark this occasion an interview with Peter looking back at his Chairmanship of the Committee will feature in the next edition of the Alchemist. An election to identify Peter’s replacement will take place shortly.

ACCREDITED REFINERS

TCA S.P.A was added to the Silver Good Delivery List on 3 October, 2017.

The number of refiners on the LBMA Gold and Silver Good Delivery Lists stands at 98, with 52 accredited for both gold and silver, 17 gold only and 29 silver only.

CURRENT APPLICATIONS

There are two active applications for the Gold Good Delivery List, one of which is in the initial review stage and the other will be progressing into Stage 2. There are also seven active applications for the Silver Good Delivery List – one is in the initial review stage, another at Stage 1 and five have progressed to Stage 2.

LBMA Members

On 29 November 2017, Sberbank was admitted as an Affiliate member and China Minsheng as a Full Member.

There are currently 150 member companies located in more than 30 countries. The membership is broken down as follows: 13 Market Makers, 62 Full Members, 12 Affiliates, 3 Exchange Affiliates and 60 Associates.

Any companies including refiners, miners and central banks that may be interested in applying for membership are invited to contact LBMA Executive at: mail@lbma.org.uk.

2018 PROFICIENCY TESTING SCHEME

The 2018 Proficiency Testing Scheme has recently been completed and the report will be published in March. The scheme is voluntary for all LBMA accredited refiners and is designed to assist them with improving their assaying techniques against their peers.
LBMA Outreach and Industry Events in 2018

2-4 FEBRUARY:
World Money Fair, Berlin.
Ruth presented at the Media Day and to the Mint Directors Meeting about the work that LBMA is doing to deliver quality and integrity to the global precious metals market.

5-8 FEBRUARY:
Investing in African Mining Conference Indaba, Cape Town, South Africa.
Ruth and Neil Harby attended the event to reach out to miners and investors to explain the work that LBMA is doing in terms of Responsible Sourcing, including plans to address environmental related issues.

8 MARCH:
LBMA Annual Party
Aqua Nueva, London.

14-15 MARCH:
5th India International Bullion Summit, Mumbai.
Neil will be speaking at the Technical Forum on 14 March and Ruth will be delivering the keynote address on 15 March.

17-20 APRIL:
OECD Forum on Responsible Mineral Supply Chains.
LBMA continues to act as Vice Chair for this event and encourages all stakeholders to engage and take part.

17-19 APRIL:
European Gold Forum, Zurich.
Sakhila Mirza will be speaking on 19 April about the regulatory impact on the precious metals market of recent legislation, including MiFID II.

3-5 JUNE:
Asia Pacific Precious Metals Conference (APPMC) Park Royal, Beach Road, Singapore.
Paul Fisher will deliver the keynote address on 4 June about the current challenges faced by regulators in Asia in modernising their gold markets in the context of both the regional and global market.

12 JULY:
LBMA AGM
Glaziers Hall, London.

24-26 JULY:
China Gold Congress and Expo 2018, Beijing.

13 SEPTEMBER:
LPPM/LBMA Members’ Cocktail Reception

28-30 OCTOBER:
LBMA/LPPM Precious Metals Conference
Boston Park Plaza Hotel, Boston.

5 DECEMBER:
LBMA Biennial Dinner
Guildhall, London.
REGULATION UPDATE

REACH

**What is REACH?**
The final registration deadline for the Registration, Evaluation, Authorisation and Restrictions of Chemicals (REACH) Regulation draws closer: 31 May 2018. REACH aims to protect human health and environmental standards across the EU by providing a framework for the collection and evaluation of vast data on chemical substances. By allowing ECHA (the authoritative EU agency for REACH) to “map the chemical universe”, potential risks and hazards caused by chemicals may be minimised. To this end, ECHA expects up to 60,000 registrations to be made for around 25,000 substances by the upcoming deadline.

**Registration**
31 May 2018 is the final phase-in deadline. Companies that import or manufacture between 1 to 100 tonnes of substances each year will now be required to register with ECHA. The 2018 deadline concludes the registration submission process meaning that ECHA will have collected dossiers from companies importing or manufacturing substances from 1 to over 1,000 tonnes in volume. Registration deadlines for higher tonnage bands in 2010 and 2013 catalysed action between LBMA, LPMF and EMPF to successfully lobby that Good Delivery gold bars should be considered as articles and therefore should be out of scope of the legislative requirements of REACH. LBMA is currently working closely with the UK Health & Safety Executive (HSE) to clarify the position of other gold products as well as platinum and palladium Good Delivery ingots and other products.

**Evaluation**
From the deadline, ECHA and the member states’ competent authorities will scrutinise the dossiers for sufficient information.

**Authorisation**
Following evaluation, ECHA may phase out substances identified as dangerous after analysing the benefits of phasing out the substance against its socio-economic value.

All precious metals are registered as substances on the ECHA chemicals database in varying forms, such as grains and powders. To access the existing registrations, a Letter of Access can be purchased. A co-registration dossier can then be submitted via a REACH-IT account.

13,000

**EU wide registrations for over 5,800 substances**

1,700

**UK-based companies registered for over 1,000 substances**

£5.8m

**the budget the UK Government is putting towards its REACH-IT system**

60,000

**number of registrations expected by ECHA for up to 25,000 substances**

*Latest available data = UK Chemicals Stakeholder Forum, 30 January 2018 minutes (data from 28 November 2017)

ECHA has issued guidance on REACH responsibilities within a chemicals supply chain. For example, distributors and storage providers of substances will have no registration requirements, but are responsible for providing REACH-related information upstream when necessary.

**REACH and Brexit’s implications**
As negotiations progress on the framework of future UK and EU interactions, any potential implications of Brexit on the precious metals industry may become clearer. For REACH, complexities arise when considering mutual recognition of registrations between the UK and the EU. From ‘exit day’ in March 2019, the Department for Environment, Food and Rural Affairs (DEFRA) intends to “lift and shift” REACH into UK legislation using the EU (Withdrawal) Bill toolkit. With a recently approved budget of £5.8m for developing a chemicals registration IT system, DEFRA has yet to confirm whether UK registrations would be recognised in the EU after March 2019.

The UK has announced its intention to break away from the jurisdiction of the European Court of Justice (ECJ). As the ECJ governs ECHA, how could mutual recognition work in practice where the UK does not take ECJ decisions into account? As ECHA’s remit on post-Brexit measures may be limited, the UK government has indicated that it will develop a new chemicals agency responsible for REACH (or its post-Brexit equivalent).

Such ‘political red lines’ do however give the UK government the opportunity to design a bespoke chemicals regulation for the UK industry. Whilst looking at alternative REACH equivalent regimes, the government will also actively engage with industry stakeholders for views on possible divergence. The government has made it clear that a future regulatory framework would cause no reduction in environmental standards.

DEFRA, the Department for Exiting the European Union (DExEU) and the Health and Safety Executive (HSE) are collaborating on a joint programme for EU exit and have signposted the March 2018 European Council meeting as important for providing a sense of post-Brexit direction.
MARKET MOVES

ROB SMITH JOINS ALEX STEWART INTERNATIONAL

Rob Smith joined Alex Stewart International as Business Development Executive in November 2017. He will focus on maintaining client relationships and developing new business for the company’s inspection and analysis services, especially within the precious metals sector. He has over 10 years’ experience in the metals markets, having previously worked at Wood Mackenzie, SNL Metals & Mining, Thomson Reuters GFMS and FastMarkets.

SAIDA LITOSH RETURNS TO GFMS

The GFMS team at Thomson Reuters has a new Manager of Precious Metals Demand analysis (ex-Asia). With Ross Strachan leaving the company, Saida Litosh has returned to GFMS from another Thomson Reuters division, bringing strong experience and safe hands to her new role; we are already enjoying having her back.

CHARLES COOPER, HEAD OF MINE ECONOMICS AT METALS FOCUS

Charles co-founded a consultancy business, Skarn Associates in 2016, having previously developed and led the Mine Economics business at S&P Global Market Intelligence (previously SNL). He has over 20 years of mining sector experience starting his career as a geologist, before joining Brook Hunt where he worked as a senior mining analyst for nearly 10 years.

He then became Managing Director of The Gold Mining Company Ltd, an investment vehicle focused on acquiring operating gold mines in West Africa before working as an Extel-rated sell-side mining analyst for a number of investment banks including Evolution Securities and Oriel Securities. He has also served as CEO of several private exploration companies targeting oil shale, gold and potash assets in East Africa and antimony-gold projects in Georgia.

MARK FELLOWS JOINS METALS FOCUS, AS HEAD OF MINE SUPPLY

Mark founded a consultancy business, Skarn Associates in 2016, having previously led the metals and mining consulting business at SNL Financial. His career started with four years as an exploration geologist on various projects in Africa, followed by thirteen years at Brook Hunt (now Wood Mackenzie). From 2009 to 2011 Mark was Managing Director of GFMS Mine Economics. He has thirty years of mining sector experience, with expertise in the economics of precious metal mining.

MARKET MOVES

RESPONSIBLE SOURCING

LBMA announced recently that it will be launching a Request for Proposal (RfP) to enable the international market to further strengthen gold supply chain integrity. This initiative builds on the LBMA’s Responsible Sourcing programme and focuses on how technology can ensure supply chain provenance.

In addition, it will also look at minimising the risks associated with fraud and breaches of security. This is particularly relevant to ensure that bars are exactly what their markings purport them to be and have thus been produced to the high standard associated with LBMA accredited refiners. It is envisaged that any solution will take account of blockchain for the supply chain, and other technologies for the additional security and tagging features.

While many service providers have already been identified, LBMA welcomes approaches from companies that can provide technology for either the supply chain or security. For further information, please contact Neil Harby at neil.harby@lbma.org.uk.

BEYOND CONFLICT

LBMA will also be extending its Responsible Sourcing programme beyond conflict minerals legislation, anti-money laundering and human rights abuses to address environmental issues throughout the supply chain. Responsible Sourcing is an important responsibility for all market participants whether they are a miner, refiner, vault or a trader.

SILVER RESPONSIBLE SOURCING

LBMA recently expanded the scope of its Responsible Sourcing framework to include silver, which became a mandatory requirement for all Silver GDL Refiners from 1 January 2018.

ARTISANAL MINING

LBMA is actively involved in developing other aspects of its Responsible Sourcing programme by continuing to work closely with the Artisanal and Small Scale Mining (ASM) sector (see side bar above) to assist the miners it represents with market entry. Version 7 of the Responsible Gold Guidance, which was launched in late 2017, strengthened the procedures around sourcing responsibly from an ASM.

LBMA is also represented on important industry bodies, including the RAGs forum, which comprises companies involved in the entire supply chain, as well as the CRAFT Code Advisory Group and the CRAFT Code Committee.

LBMA’S GUIDANCE ON

Responsible Sourcing

Artisanal and Small Scale Mining (ASM) is an important socio-economic sector for the rural poor in many developing nations. An artisanal miner or small-scale miner is, in effect, a subsistence miner. These miners are not officially employed by a mining company, but rather work independently, mining or panning for gold using their own resources. Small-scale mining includes enterprises or individuals that employ workers for mining, but generally working with hand tools.

LBMA’S GUIDANCE ON

Responsible Sourcing

ALCHEMIST ISSUE 88

33
In late December, 2017 Sibanye took some investors by surprise after announcing plans to take over Lonmin in an all-share deal valued at $382m (£285m).

Although it had been less than seven months since the completion of the Stillwater acquisition, the tangible synergies in the Lonmin deal aligned strongly with management’s decision to first enter the PGM industry in March 2016. In this article, we take a closer look at costs and the strategy behind such a deal.

The most recent wave of M&A activity in the PGM sector brought a new PGM player following its acquisition of Aquarius Platinum in March 2016, Amplats’ Rustenburg operations in November 2016 and Stillwater Mining in May 2017. In the span of 15 months, Sibanye became the world’s third-largest platinum producer, with 1.1 million 4E PGM ounces produced in the first nine months of 2017.

Management’s decision to venture into the platinum industry revolved around four key points:

1. the operational similarities with gold mining;
2. the positive long-term PGM fundamentals;
3. the ability to leverage the company’s operating model and South Africa’s labour-intensive mining competency; and
4. the opportunity to enhance its cash flows and achieve sustainable dividends.

In late December 2017, Sibanye took centre stage again to present its stakeholders with another acquisition. The company agreed to buy Lonmin in an all-share deal valued at $382m (£285m) – on the face of it a bargain considering the capital invested (~$362m) by Lonmin on Generation 1 & 2 shafts over the last two years. If approved, Sibanye will become a fully integrated PGM producer and better able to absorb the elevated fixed overhead costs that have forced Lonmin to continuously fill processing capacity. A similar cost-cutting strategy is underway following the groups’ acquisition and consolidation of Rustenburg and Kroondal.

Given the similarities in cost structures between Marikana and Rustenburg, Sibanye aims to achieve higher overhead cost reductions than estimated under the Kroondal tie-up (see chart ‘Sibanye’s Latest Acquisitions: A Barbell Exercise’). This is a possibility given the contiguous nature of the Siphumelele No.2 (Sibanye) and K3 shafts (Lonmin), which allow management to utilise Siphumelele’s existing infrastructure to mine higher grade ore from K3 while saving on capex and closing productivity gap levels (i.e. tonnes milled per employee and 4E ounces per employee). Although the opportunity to mine across the shafts’ boundaries is also present, output would be capped as lower reserve grades offset higher throughput within these areas.

Ultimately, relieving such costs pressures would allow for a more prudent capital investment in Generation 2 shafts and ensure the sustainability of throughput at K3.

Production from Generation 1 shafts (Hossy, Newman, W1, E1, E2, E3 and Pandora (100%)) at 431,000 tonnes was 18.1% lower in Q2 2017 than the prior year period. Over the next three years, these shafts will reach their end of life, removing just under 50koz of platinum production from the market.

A revised mine plan following the announcement has placed 12,600 jobs at risk, a number which will not be received.
lightly by the communities in the platinum belt region. The last time community protests disrupted production at these shafts was in Q2 2017, costing the company around 59,000 tonnes of mined production or 10k platinum ounces. We view this as a risk that could potentially escalate as Sibanye looks at cutting some of Lonmin’s loss-making production faster.

Production from the larger and newer shafts (K3, Rowland, 4B, and Saffy) represents almost 80% of the groups’ production. Under the assumption that the merger does go through, the higher grades at Marikana, particularly at K3, combined with the higher recoveries at Rustenburg (higher merensky ore content), may well provide a cost advantage to both operations. To illustrate the impact these operations have had on Sibanye’s margins, we can look at three periods: Q1 2016 (Sibanye pre-Aquarius acquisition), Q1 2017 (Sibanye post-Rustenburg acquisition) and Q3 2017 (Sibanye post-Stillwater acquisition).

Total cash costs plus capex on a co-product basis rose by 32% year on year in Q1 2017 from $889/oz to $1,173/oz led by an almost uniform drop in yields at the Gold Division and higher operating costs at Rustenburg. Since then, costs have slightly improved as Rustenburg and Kroondal operations were consolidated.

If the takeover is approved, Sibanye will be in a position to start processing concentrate at Lonmin instead of at Amplats. The deal is expected to close in H2 2018 following a string of regulatory conditions: 50% approvals from Sibanye shareholders, 75% approval from Lonmin shareholders, South Africa Competition Act approval, and environmental clearance.

So far, it’s not clear whether the deal will be approved by Lonmin’s biggest shareholder, South Africa’s Public Investment Corporation (PIC), which given its 30% ownership of the company, will be critical to ‘get on side’ if the deal is to move forward.

By end-2018, Lonmin may lose its London listing if the merger goes through, forcing index-tracking funds to liquidate their positions. The alternative would have been a fourth cash call in nearly ten years to only temporarily alleviate an everlasting liquidity constraint. Luckily, Sibanye saw value in Lonmin.

SIBANYE TOOK CENTRE STAGE AGAIN TO PRESENT ITS STAKEHOLDERS WITH ANOTHER ACQUISITION.

Dante Aranda, Senior Mining Analyst, Thomson Reuters, GFMS. Dante began his career in the commodities market in 2010 when he joined Thomson Reuters in Toronto as a commodities specialist, working with a broad range of natural resources companies. Now based in London as a precious and base metals mining analyst, he is heavily involved in the team’s modelling of mine production and industry costs using Matlab and VBA and is also a leading contributor to the GFMS team’s technical analysis. Prior to Thomson Reuters, he worked at Banco de Credito del Peru as a Junior Trader on the FX structured products desk. He holds a BSc (Honours) in Financial Economics & Applied Statistics from the University of Toronto, and is a CFA Level III Candidate.
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