



Twilight ahead or still a new Dawn?
The Physical Side of the Precious Metals Investment Boom

Wolfgang Wrzesniok-Rossbach
Head of Sales and Marketing
Heraeus Metallhandelsgesellschaft mbH

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The Physical Side of the Precious Metals Investment Boom

I am going to speak about...

...and what is driving him



A bit of History



Products



Innovation



Distribution



The typical Investor...

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A small History of Physical Investment Products

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How it all started...

- **Up to 1914 there was a global gold standard and no need for additional investment products.**
- **Modern type investment bars were first made in the period before the Second World War.**
- **The first minted bars came onto the market in 1952. They were produced by what is today Argor-Heraeus.**
- **Bullion coins became popular in the early 1970s with the Krugerrand being the first “new” type bullion coin. It was followed by the Maple Leaf and the Eagle.**



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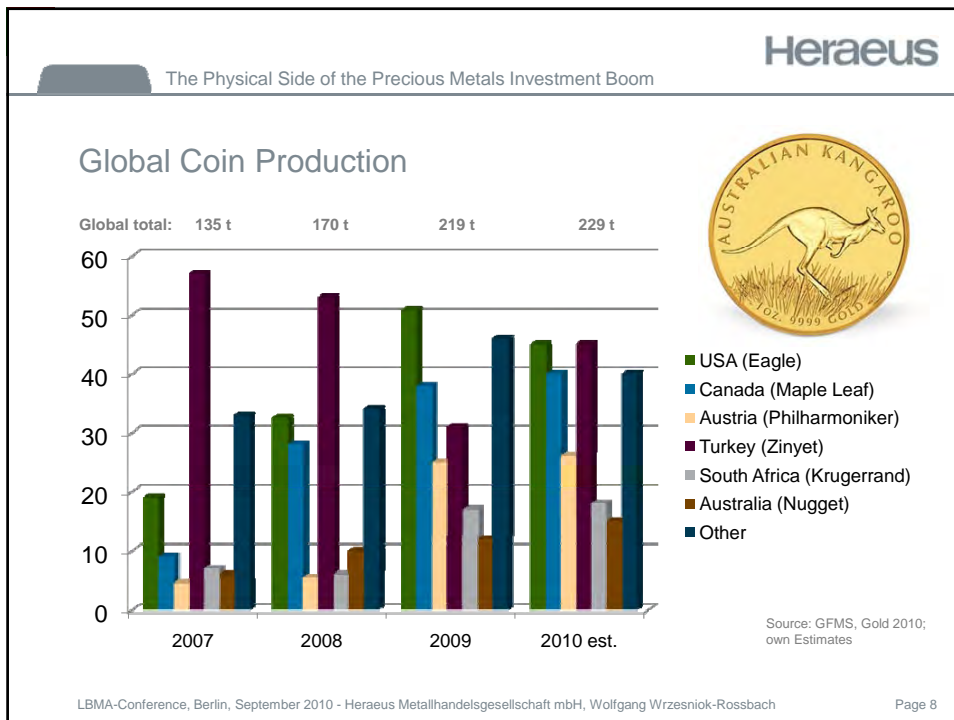
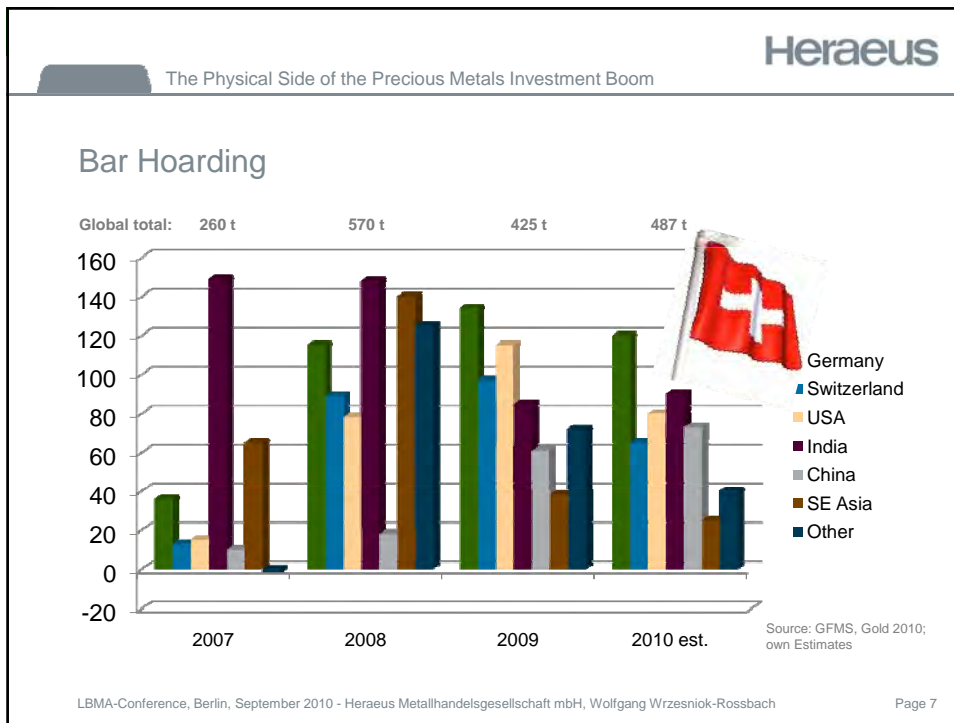
Historic Stocks

- **In 1950 a total of 10,900 tonnes of gold were owned by private investors, 65% in Europe, 25% in the US and the rest in other countries. At that time a relatively large part of the holdings were coins.**
- **Fifty years later, in the year 2000, private investor stocks had risen to 22,000 tonnes, now 75% of those in form of bars, and only a quarter in coins.**
- **At the turn of the century French people, who were buying large quantities of gold in 1950s and 1960s were still the biggest holders of gold, owning around 3,600 tonnes.**
- **They were followed by US, Japanese, Swiss and German holders. India and Taiwan came only in 6th and 7th spot.**

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A Look at the Numbers



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Investors and their Motives

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Physical Gold Investment as a global Ideal

2,150 t

2007 - 2010

\$ 70 bln.

Source: GFMS, Gold 2010; own Estimates

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Germany and Switzerland

- **In Banks Germans don't trust: Lehman Bothers.**
- **We know, why we still calculate in Deutsche Mark: H€S Greekapanic.**
- **Haven't we seen it in 1923: Inflation is around the corner!**
- **The buying in Switzerland has to a large extent foreign roots.**






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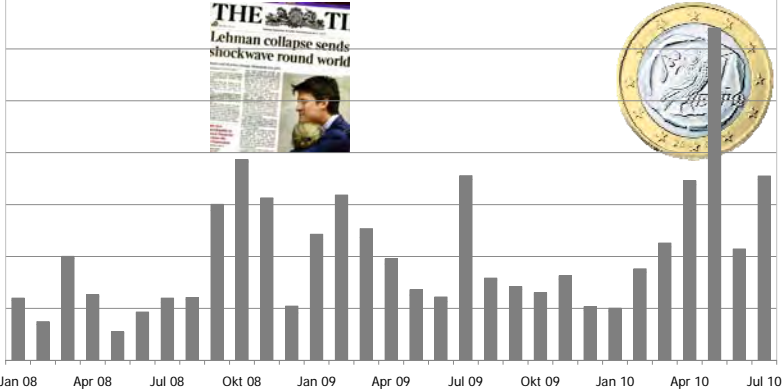
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Heraeus Investment Bar Sales in Germany

Basis in kg







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China, India and South East Asia




- **In China and India savings are no longer only for Benz' and Buildings – Gold is a means for long-term portfolio diversification.**
- **In India gold imitation coins are also used to save for later jewellery purchases.**
- **In Vietnam gold is seen as a hedge against inflation and a weakening currency. Big items such as property are often priced and paid in gold.**
- **More than just Golden Buddhas: Thailand - in Q2 2010 regains title of the 5th largest market in the world. But not all gold stays in the country...**

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Turkey



- **Gold is the traditional gift for weddings and other celebrations.**
- **No tradition of buying gold bars, prior to 1989 individuals were not allowed to hold them.**
- **From 2000 until 2008, Turkey was biggest market in the world for gold coins.**
- **The two most popular coins (the more ornate Zinyet and the plainer Mesküik) are produced by the Turkish Mint.**



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United States of America

- **Main reason for investments in gold is portfolio diversification, but ...**
- **Private gold possession was largely forbidden for more than 40 years from 1933 until 1974. Only some coins were exempt.**
- **Today the US is still a “coin market”, with the Eagle being the most popular product.**
- **There is in many cases no sales tax, however there are taxes on capital gains.**
- **Market is largely in the hands of coin shops and internet dealers.**




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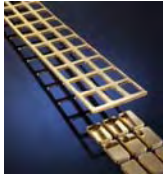


The Products

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Minted Gold Bars

- In some markets also called ingots or wafers.
- Produced by cutting cast bars that have been rolled to a uniform thickness.
- Markings are applied with a minting press.
- Usually rectangular, but there is also a variety of other shapes.
- Available from 1/100th ounce to 1 kg, most usual sizes 5 g, 10 g, 50 g and 100 g.

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Cast Gold Bars

- Usual sizes available in Western countries range from 100 g – 1 kg , but there are also bars between 10 g and 50 g.
- Tael bars (5 tael bar = 1.2 oz) have been popular in Greater China, but they are now being replaced more and more by the 1 kg bar. They are however still popular in Vietnam.
- Tola bars were once dominant in India. They have lost their popularity after an import tax was introduced that was higher than on gram-denominated bars.




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Bullion Coins

- Gold bullion coins are available from 1/20th ounce to 1 kg. There are also bullion coins made of silver, platinum and palladium in many different sizes.
- Nearly 230 tonnes of gold and 2,450 tonnes of silver coins were minted in 2009.
- For gold this was the highest level since 1980 (with the exception of 1986, when in addition to the common bullion coins 182 tonnes of Japanese gold coins were minted).
- In the last two years sales were repeatedly restricted by limited production capacities.





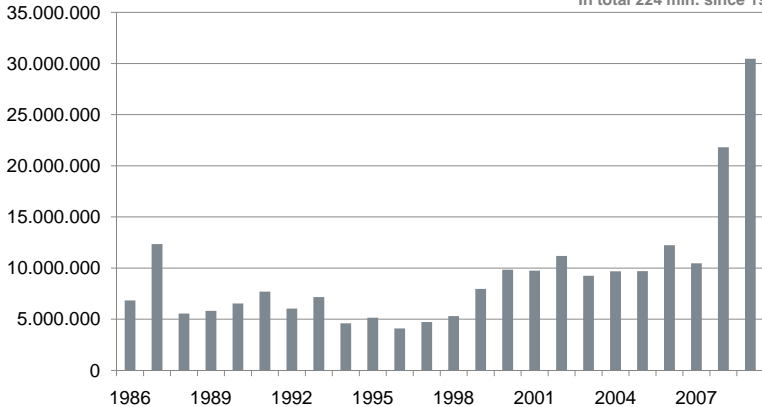
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Silver Eagle Sales

Number in ounces
In total 224 mln. since 1986




Year	Sales (ounces)
1986	6,500,000
1987	12,500,000
1988	5,500,000
1989	5,500,000
1990	6,500,000
1991	7,500,000
1992	6,000,000
1993	7,000,000
1994	4,500,000
1995	5,000,000
1996	4,000,000
1997	4,500,000
1998	5,000,000
1999	8,000,000
2000	10,000,000
2001	9,500,000
2002	11,000,000
2003	9,000,000
2004	9,500,000
2005	9,500,000
2006	12,500,000
2007	10,500,000
2008	22,000,000
2009	30,500,000

Source: Wikipedia


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Other Investment Coins


- Classic gold coins used for investment, a left over from the gold-standard times**
 - Dukaten, Vreneli, Sovereigns, Napoleon, Goldmark
 - Maria Theresia Thaler
 - Silver "Coin bags"
- Many countries issue coins that are not seen as classic bullion coins, but bear most of their characteristics.**
 - Most importantly they have a face value. On the other hand they are produced only in limited quantities.
 - Examples are the annually released German €100 and €200 coins, but there is a wide range of commemorative coins from various countries.



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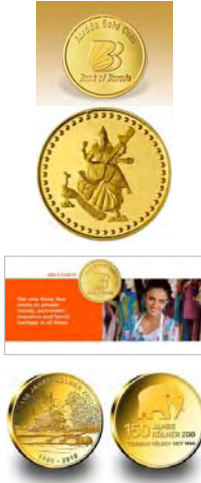
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Medals and Imitation Coins

- Imitation Coins are mainly a topic in India.**
- Here between 20 and 70 tonnes were sold in each of the last 10 years, in 2009 the number stood at 52 tonnes.**
- The total between 2000 and 2010 is more than 420 tonnes.**
- Other countries play a minimal role, with a total consumption of 5 tonnes in form of medals.**
- These medals are purely commemorative. They are not legal tender and are not used for investment purposes.**



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Product Innovation - An unusual Expression in an old Business

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New Ideas keep the Interest alive

- **The silver coin-bar – Less VAT (and more margin for all involved?)**
- **The conflict between value and cost: Going smaller to make gold more affordable: i.e. the Mini-Roo and the €20 gold coin**
- **Silver/Euro coin with a built-in call and put option (18 g Sterling Silver with a silver value of €9.00 and no VAT)**
- **Rhodium bars and coins**

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New Ideas keep the Interest alive...


- **In the future there will be more exchange traded products enabling easier access to physical metal if wanted.**
- **Going big: the 1 and 10 kg silver coins. Less manufacturing cost , quite nice and on top for example in Germany 60 % less VAT (7 instead of 19 per cent).**
- **A gold puzzle may not be the ultimate solution for attracting more customers, but, just in case, it's already there...**



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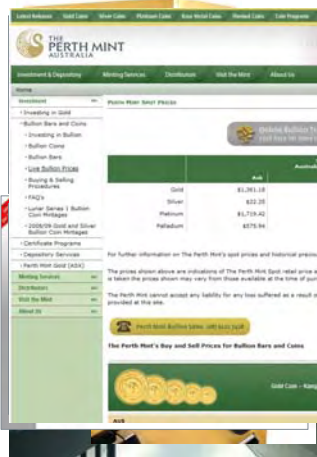
Distribution – The Question of getting the Power to the Ground



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A long Way from the Furnace to the Bank Vault

- **Direct sales by mints and refineries**
- **Banks**
 - The usual distribution channel in German speaking countries, China and India. Either through branches or the internet.
- **Precious Metal dealer shops**
 - Often single shops, in a few cases also chains, i.e. in Vietnam, Germany.
- **Internet based gold shops**
- **Outlets i.e. in department stores**
- **Gold vending machines**



	Ask	Premium
Gold	\$1,291.18	
Silver	432.28	
Platinum	\$1,719.42	
Palladium	4276.94	

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Summary and Conclusion

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Has Physical Precious Metals Investment a Future?

- **Many of the reasons that have driven demand for gold bars and coins in recent years remain in place:**
 - Public deficits are spiralling up even in those countries that are not on the brink of bankruptcy.
 - Ultimately inflation might be the only exit.
 - Two years after Lehman the banking system is not still out of trouble.
 - Bars and coins kept in a private safe are seen as an ultimate independence declaration. And in this form is anonymous.
 - Gold in this form is accepted everywhere in the world and easy to cash in.
- **Global wealth stands at €82 trillion. If people would put only 5 per cent in gold this would be equal to 130,000 tonnes.**
- **Today they stand at roughly 30,000 tonnes. That leaves a lot of room on the upside with the accessibility already rising.**

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Has Physical Precious Metals Investment a Future?

- **Globally there are six booming and well-functioning markets and around 187 (!) markets that can be developed further : Here it is important to create first awareness and then an infrastructure for the distribution of physical investment metal.**
- **New ideas are necessary to keep the interest alive and not all will succeed: new products, new distribution ways, new designs.**
- **On the physical side both, coins and bars can profit from such a development.**
- **Plus the investor has to have the feeling that he is making a fair deal, when buying and when selling.**

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Has Physical Precious Metals Investment a Future?

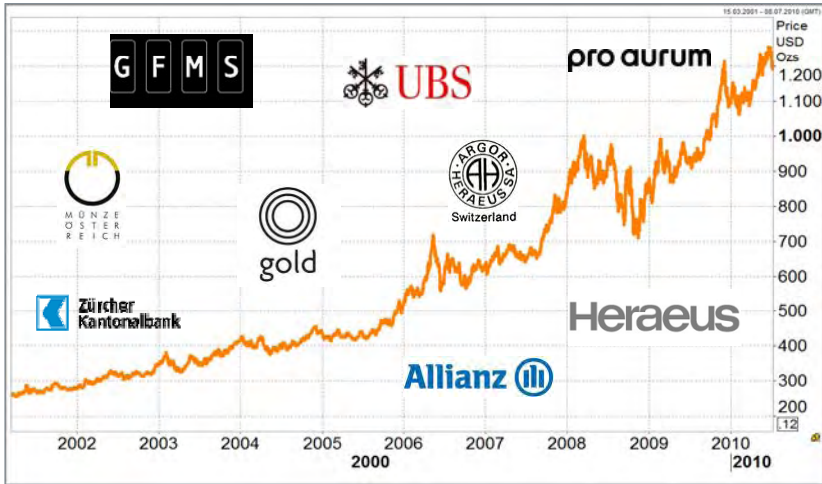


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Acknowledgements



Year	Price (USD/Oz)
2002	300
2003	350
2004	400
2005	450
2006	550
2007	700
2008	900
2009	1,000
2010	1,200

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Your Global Partner in
Precious Metals Trading



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Heraeus Metallhandelsgesellschaft mbH
Heraeusstr. 12 – 14
63450 Hanau, Germany
Telefon: + 49 (0) 61 81 / 35-2750
Telefax: + 49 (0) 61 81 / 35-94 44
E-Mail: tradinghu@heraeus.com
Reuters Dealing: HERA

Heraeus Precious Metals Management LLC
540 Madison Avenue
New York, NY 10022
Phone: + 1 (212) 752 2180
Fax: + 1 (212) 752 7141
E-Mail: tradingny@heraeus.com
Reuters Dealing: HPMM

Heraeus Materials Technology Shanghai Ltd.
1 Guang Zhong Road
Zhuangqiao Town Minhang District
201108 Shanghai
Tel.: + 86 21 3357 5675
Fax: + 86 21 3357 5699
E-Mail: tradingsh@heraeus.com

Heraeus Ltd.
Room 2112-2113, Peninsula Square
18 Sung On Street
Hung Hom, Kowloon (Hong Kong)
Phone + 852 2773 1733
Fax + 852 2773 1090
E-Mail: tradinghk@heraeus.com
Reuters Dealing: HLHK

On the Web:
www.heraeus-trading.com
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