MANAGING GOLD AS A RESERVE ASSET

Alexandre Gautier
Director of Market Operations Department
alexandre.gautier@banque-france.fr

MANAGING GOLD AS A FX RESERVE ASSET

- CB asset allocation decisions submitted to a comprehensive process
- “The 4 R” : Return, Risk, Resources and Responsibility
- This process is amplified in the case of Gold
DEFINING ASSET ALLOCATION

RETURN

RISK

RESSOURCES

RESPONSIBILITY

WHICH ACTIVE RESERVE MANAGEMENT?

- Custody
- Buy and Sell
- Deposits
- Gold Swaps
WHICH ACTIVE RESERVE MANAGEMENT?

- **Custody:**
  - German approach: gold “back home”
  - New approach: gold not only at a home
  - Cost of shipping not a crucial issue
  - Auditability becoming a crucial issue

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WHICH ACTIVE RESERVE MANAGEMENT?

- **Buy and Sell: time to buy or time to sell?**

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[Graph showing XAU/USD since 2000]
WHICH ACTIVE RESERVE MANAGEMENT?

- Buy and Sell: time to buy or time to sell?

- Buy and Sell:
  - Buy: 995 or 9999?
  - Sell: meeting LGD standards
  - Buy or Sell: which benchmark?
WHICH ACTIVE RESERVE MANAGEMENT?

- Deposits: rates back in positive territory

![](image)

WHICH ACTIVE RESERVE MANAGEMENT?

- Deposits:
  - Easy implementation: FO + BO + RM + ACC
  - Limited credit risk if traded in allocated basis (compared to currency deposits)
  - Gold to be moved to a trading market place?
WHICH ACTIVE RESERVE MANAGEMENT?

- Gold Swaps:
  - Liquidity tool in USD
  - Avoid portfolio liquidation/Allow longer duration investments
GOLD SWAP

Paying back USD

Receiving back gold

Maturity Date

FX Reserve

GOLD SWAP

 lynx.com
GOLD SWAP

<table>
<thead>
<tr>
<th>Tenor</th>
<th>GOFO</th>
<th>LIBOR</th>
<th>Lease Rt</th>
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<td>1 Year</td>
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• When holding Gold, you can ‘Sell’ gold at Spot and ‘Buy it back’ at Spot + GOFO => cost of funding is GOFO

WHICH ACTIVE RESERVE MANAGEMENT?

Gold Swaps:

• Gold to be in a trading market place (or loco swap possible)

• Implementation comparable to Gold deposits
Thank you for your attention!

Questions?