## Growing Asian Demand in Physical Gold and Its Impact on Gold Prices

**Minerals Council of Australia Gold Forum**

**2 June 2015**

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### ANZ Precious Metals at a Glance

#### Awards

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>Market Maker of the year</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Market Maker of the year</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Market Maker of the year</td>
<td></td>
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<tr>
<td>2014</td>
<td>Precious Metals house of the year</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>No. 1. ranking in precious metals</td>
<td></td>
</tr>
<tr>
<td>2012</td>
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<td></td>
</tr>
</tbody>
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#### At a Glance

- **Trading Desks**
  - Sydney, Singapore, London and New York
- **Lending**
  - Largest lender to the Natural Resources Industry in Australia
- **Derivatives**
  - Active in Precious Metals derivatives
- **Physical Gold**
  - Active in trading over 10% of global supply
- **Asia**
  - Significant supplier to Asia: 20% of China’s imports
- **Shanghai Gold Exchange**
  - Largest foreign trader on the Shanghai Gold Exchange
- **Import License in China**
  - First foreign bank to be awarded the license
ANZ Finances the Total Supply Chain in Precious Metals

Full Service for Investment Clients

Custody
- Clients will be able to access secure vaults in which to store their Gold
- ANZ has vaults in Perth and Singapore.

Transportation
- ANZ has agreements in place with secure transport companies
- Armoured vehicles and armed guards are available for transport to and from vaults

Trading
- Clients can buy and sell Gold through ANZ
- 24 Hour Coverage
- Spot, Swaps and Options

Appraisal
- ANZ can pick up and ‘assay’ any metal the client wants to sell and or have held in ANZ vaults
The key East Asia and the Middle East markets account for 53% of global gold demand

Global Supply & Demand Heat Map

Source: GFMS, WGC, ANZ Commodity Strategy

Discussion Outline

1. Is NOW a good time to invest in gold?

2. Asia’s impact on future gold demand

3. Difference between past and future
Discussion Outline

1. Is NOW a good time to invest in gold?

Precious metals the outperformer of the commodity complex

Precious metals don’t look so bad, do they?

- The ANZ-China Commodity Index is down 30% over the past 18 months
- Precious metals are the shining beacon in the commodity world

Gold looks even better in local currency terms

- In some currencies, gold is still in a bull market
- In Euro terms, gold is up nearly 25% in the past 18 months
- Australian, Canadian and Japanese consumers/producers have seen prices rise by 10-15%

Source: Bloomberg, ANZ Research
What does the big dollar mean for gold?

USD bull markets = gold bear markets…
but the reverse is also true

1980 to 1988
1995 to 2006
2011 to ----

Market Trend #1 - China

Eyes too big for stomach…

• Onshore stocks have increased by over 500 tonnes over the past 12 months
• This is likely to create problems with oversupply of physical metal
• Gold jewellery demand down 10% y/y in the first quarter of 2015

... imports are still too high

• Our Physical Demand barometer showed a sharp pickup in Q2 imports
• This will continue to exacerbate the physical oversupply issues onshore
• Physical premiums and spreads will remain soft this year
Market Trend #2 - India

- Since the Reserve Bank of India removed import restrictions, supply has been ample
- Physical market premiums have done little more than trade around par

Market Trend #3 - Investors

- Overall positioning looks much more balanced
- Exchange-traded funds not liquidating en-masse, in fact holdings have declined only marginally in the past 18 months

- But we're not there yet
- Speculative positioning is bordering on neutral, reflecting the lack of a "consensus" view on gold
Discussion Outline

1. Is NOW a good time to invest in gold?
   - Gold will rise once the USD has had its run
   - China/India physical demand is soft, "rush to buy" is not there
   - Investors are sidelined by low conviction

2. Asia’s impact on future gold demand

The ‘Asian Century’ – an economic perspective of the A10

- Asia’s ascension will be led by 10 economies – China, India, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam
- These 10 economies could account for 50% of global GDP by 2050

Source: CEIC, ANZ Research projections
The income effect: rising wealth in Asia

Global gold demand intensity (2012)

Source: Thomson Reuters GFMS, CEPII, ANZ Research

Financial reform and the substitution effect

Economic development can have a negative impact on gold demand

Less precautionary gold holdings

More investment opportunities

Higher/free-market deposit rate

Greater participation in equity markets

Less shadow banking

Other emerging Asian nations will follow China’s example of liberalisation over the decades ahead

Session 5 - John Levin
Financial reform and Asia’s new fund managers
Institutional asset base of Asia 10 countries to continue growing

Projected size of institutional assets (% of GDP)

Source: World Bank, ANZ Research

Total retail and institutional gold demand to double by 2050
An increase to 5,000 annually, from 2,500 tonnes currently

Asia 10 projected annual gold investment demand

<table>
<thead>
<tr>
<th>RETAIL CONSUMPTION (gm/capita)</th>
<th>% of Institutional holdings by 2050</th>
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<tbody>
<tr>
<td>0.5</td>
<td>0.0%</td>
</tr>
<tr>
<td>0.6</td>
<td>1,841</td>
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<tr>
<td>0.7</td>
<td>2,577</td>
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<tr>
<td>0.8</td>
<td>2,945</td>
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<td>0.9</td>
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<td>1.1</td>
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<tr>
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<tr>
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<tr>
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<tr>
<td>1.9</td>
<td>6,995</td>
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<tr>
<td>2.0</td>
<td>7,363</td>
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</table>

Source: Thomson Reuters GFMS, World Bank, ANZ Research
Discussion Outline

1. Is NOW a good time to invest in gold?
   - Gold will rise once the USD has had its run
   - China/India physical demand is soft, "rush to buy" is not there
   - Investors are sidelined by low conviction
   - Accumulate!

2. Asia’s impact on future gold demand
   - Annual gold demand in Asia to double to 5,000 tonnes by 2050
   - Higher incomes boosting consumption - "Income" effect
   - "Substitution" effect initially negative, ultimately positive for demand

3. Difference between past and future

The pattern of gold production has changed in recent decades
China is both the world’s largest producer and consumer

Source: Thomson Reuters GFMS, ANZ Research
Ultimately, the producer cost-curve should underpin prices
20% of world production is not profitable on a cash-cost basis

But the years ahead could look different...
- China may only have 5 years of domestic supply left
- Australia and South Africa are some of the highest-cost producers
- Historically, the 75th percentile has provided a good guide to long-term price levels

Gold mining is not cheap...

Long-term, the cost-curve will underpin prices

Producer hedging was common practice during the 1990’s
But the impact of this is now much smaller

Producer hedging activity in the gold market
Central banks no longer net sellers of gold
After liquidating holdings for most of the past 25 years

- Central banks became net accumulators of gold since the global financial crisis
- Most of the buying has been from emerging market central banks, particularly Russia, Turkey and Kazakhstan

Some should be holding more gold

- "High-income" countries hold an average 20% of FX reserves in gold, though this is heavily skewed by western European countries and the U.S.
- Countries in the other income brackets hold gold comprising less than 10% of reserves, on average

Source: World Gold Council, World Bank, Bloomberg, ANZ Research

CONCLUSIONS

1. Is NOW a good time to invest in gold?
- Gold will rise once the USD has had its run
- China/India physical demand is soft, "rush to buy" is not there
- Investors are sidelined by low conviction

2. Asia’s impact on future gold demand
- Annual gold demand in Asia to double to 5,000 tonnes by 2050
- Higher incomes boosting consumption - "Income" effect
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3. Difference between past and future
- Cost-curve is supportive of prices
- Producer hedging is minimal and central banks net buyers
- Gold prices forecast to reach USD2,400/oz by 2030

Accumulate!