

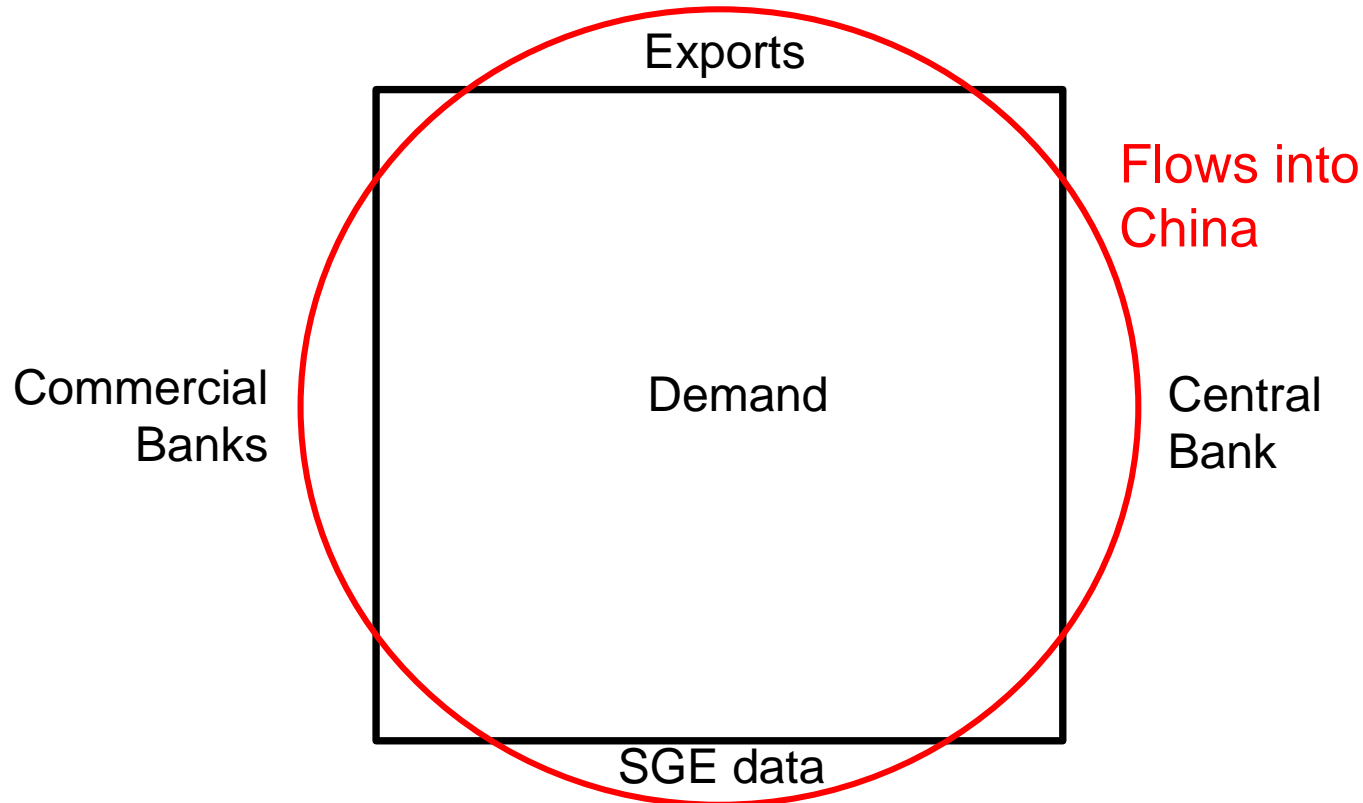
Reconciliation and discrepancies of gold flows into China

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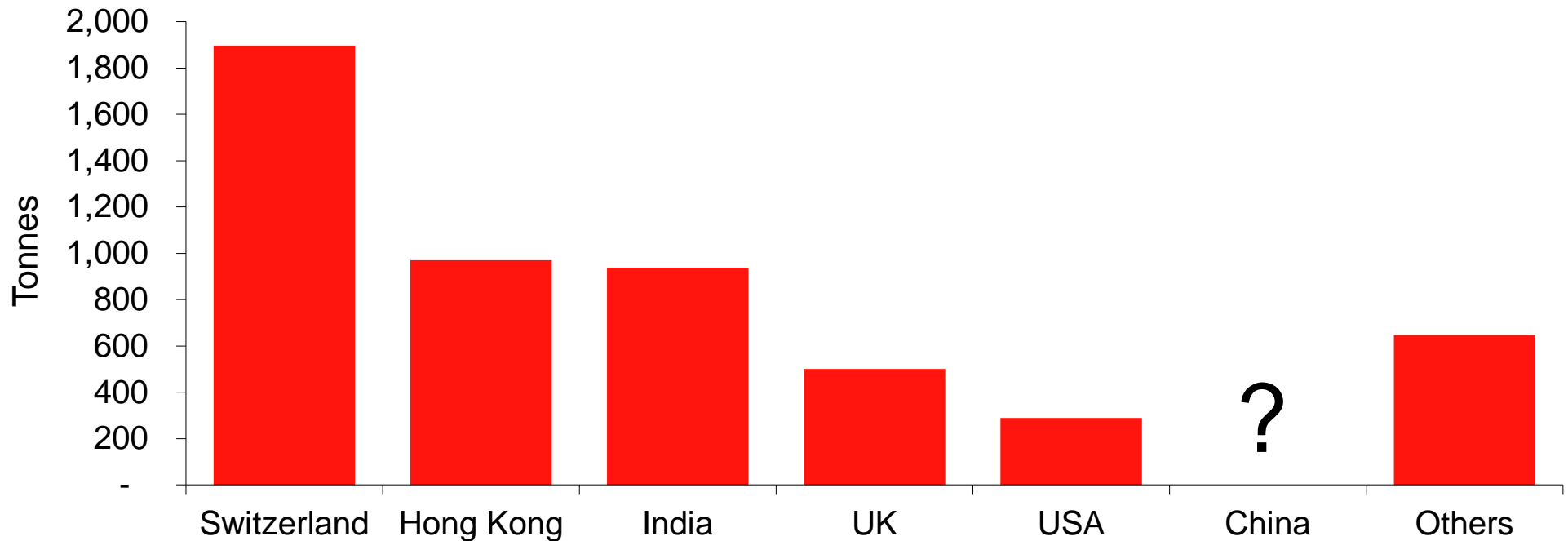
October 2016

Squaring the Circle of Chinese gold flows



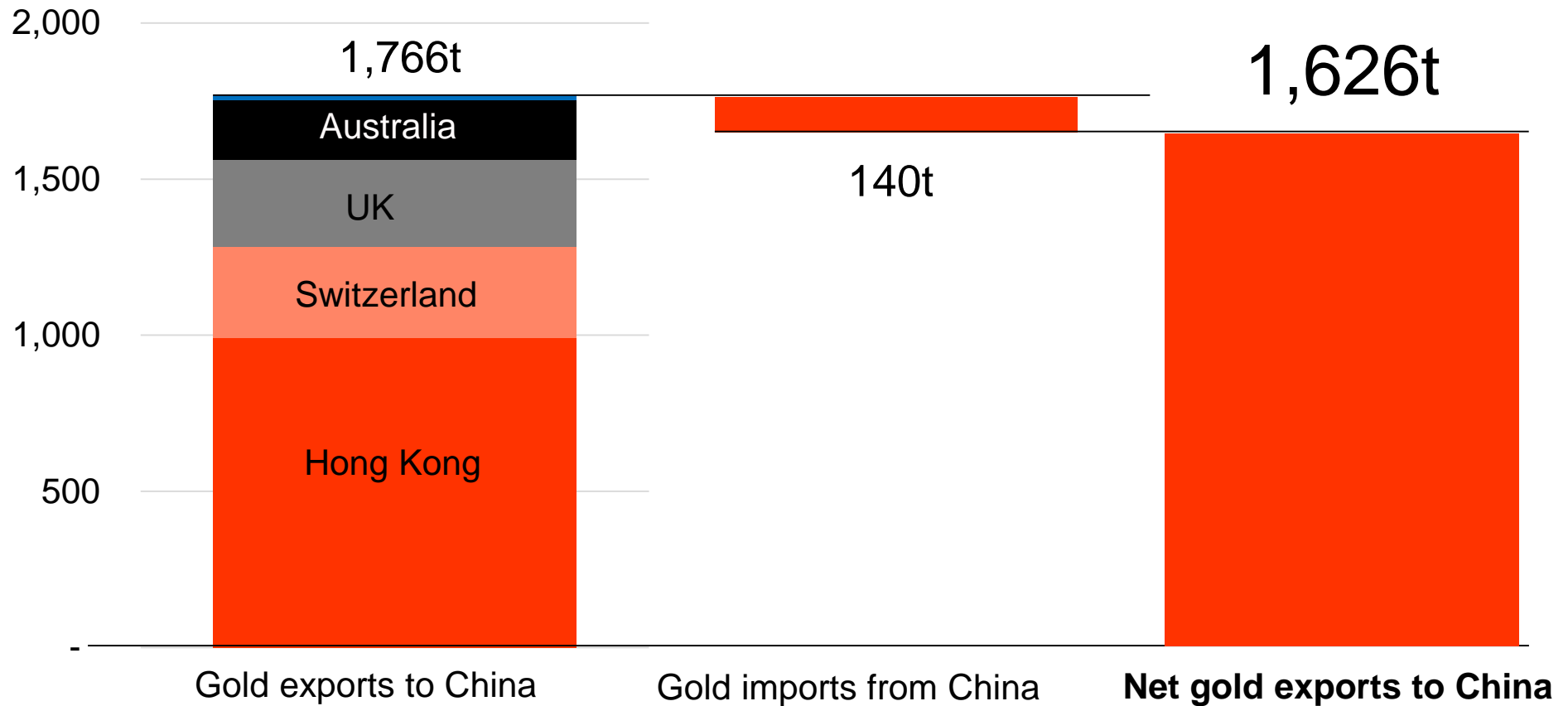
How much gold does China import? *Nothing?*

- Global trade data statistics show 115 countries importing gold in 2015, totalling around 6,000t.
- China was not one of them.





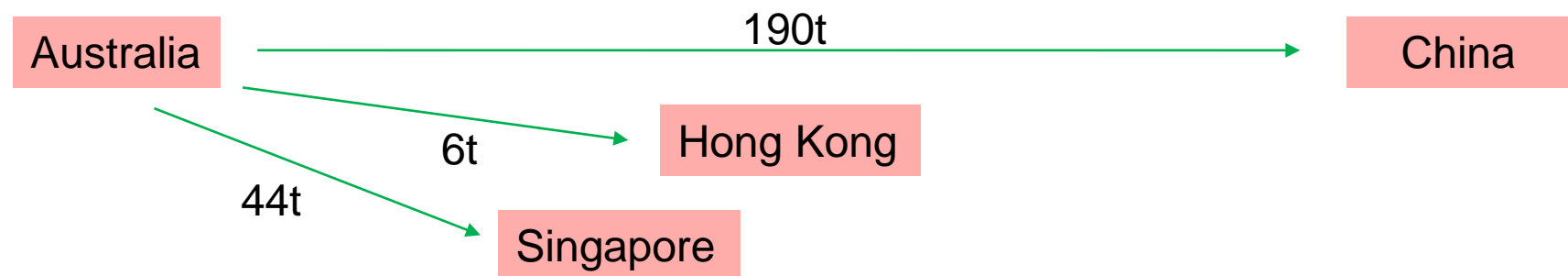
...so we look at other country exports to China



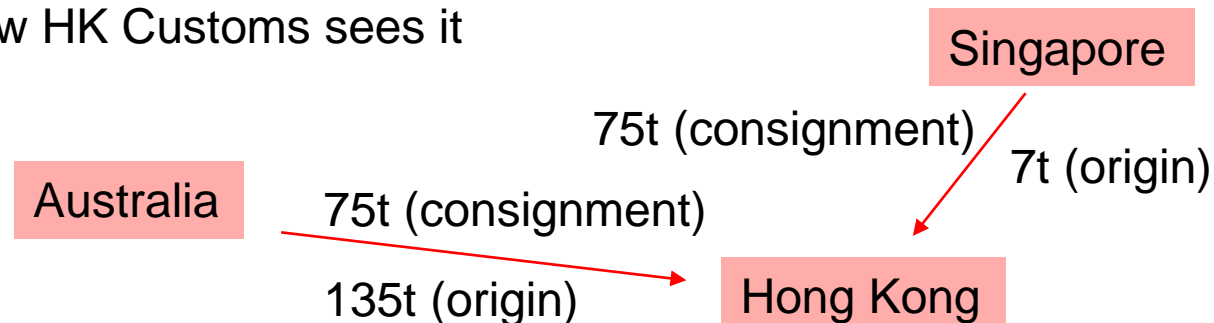
Problems with this method – consignment/origin

- It's slow...It's complicated...It is hard to be sure if gold is being double-counted

How Australian Customs sees it

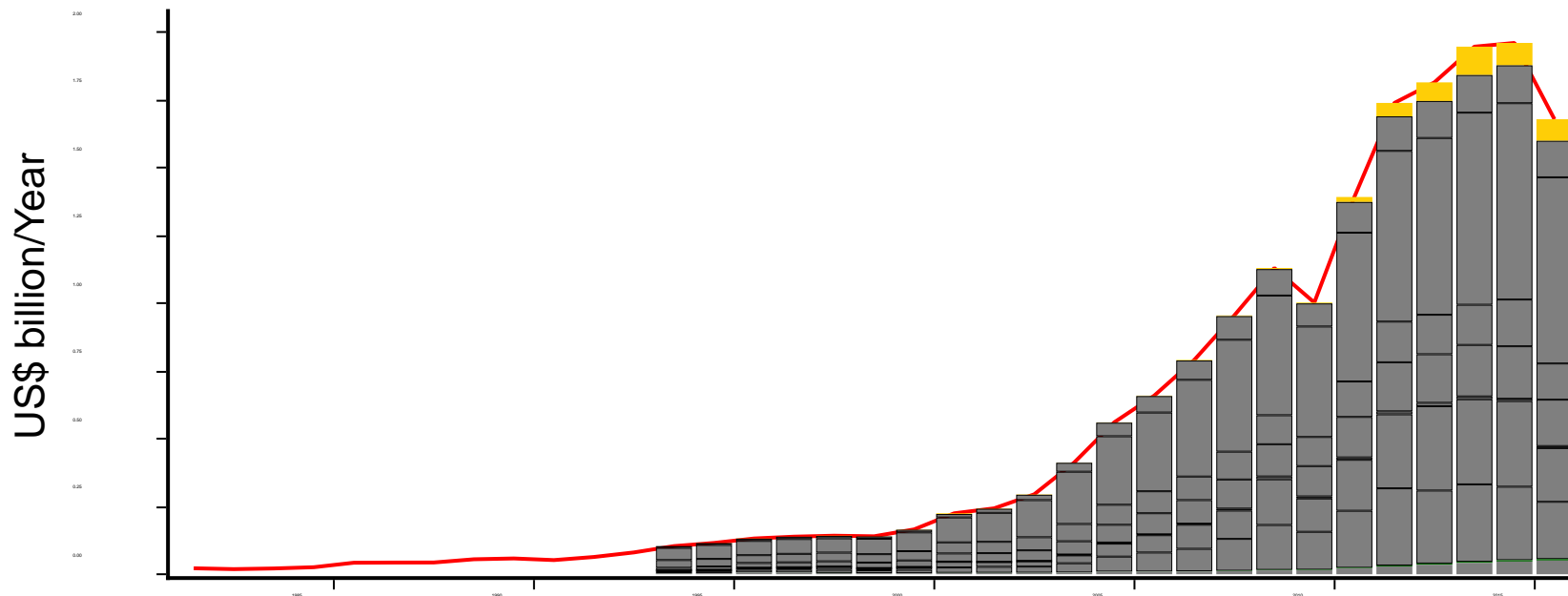


How HK Customs sees it



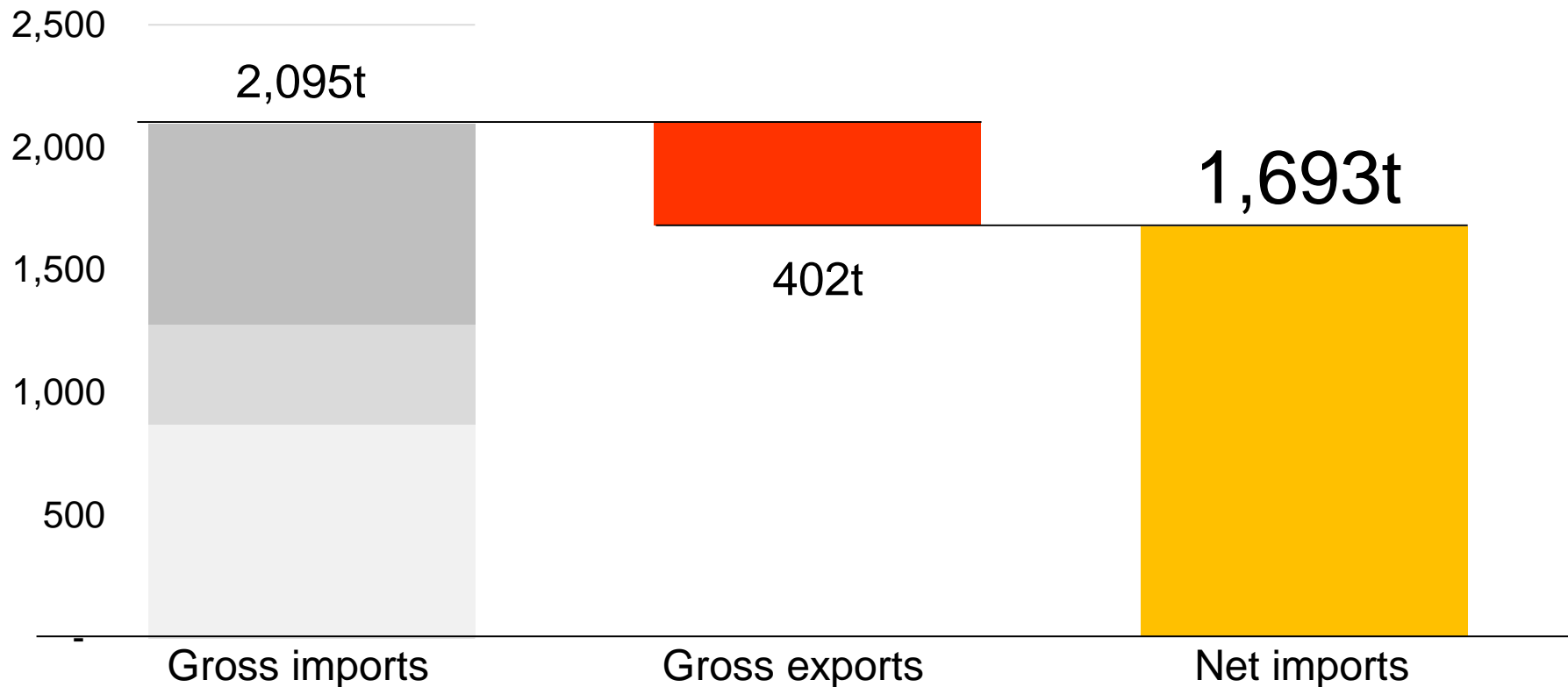
If only China published trade data... *it does*

- China's total imports of all goods and services are published
- China publishes detailed data on its imports of all other goods and services
- Therefore what is left must be... **GOLD!**



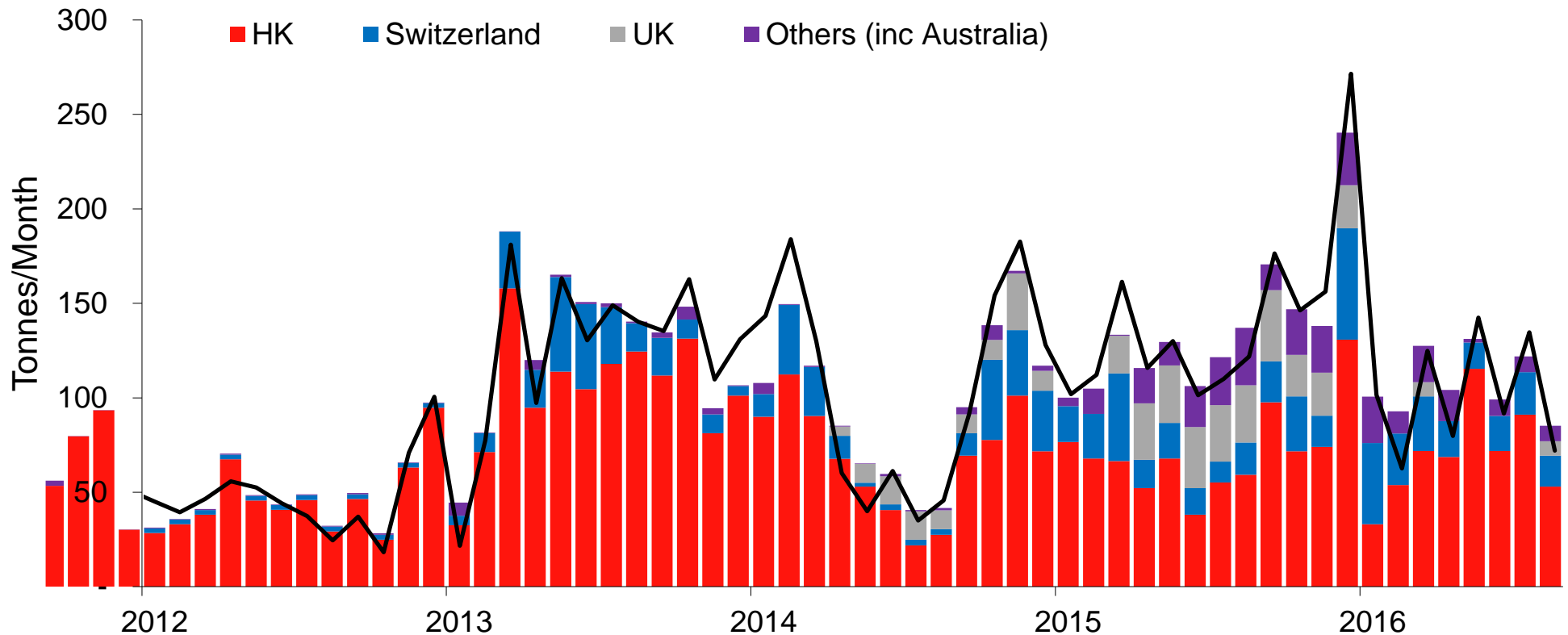
China's gold *imports* in 2015

- Converted into gold tonnes that's 2,095t.
- Take off exports of 402t = net imports of 1,693t.



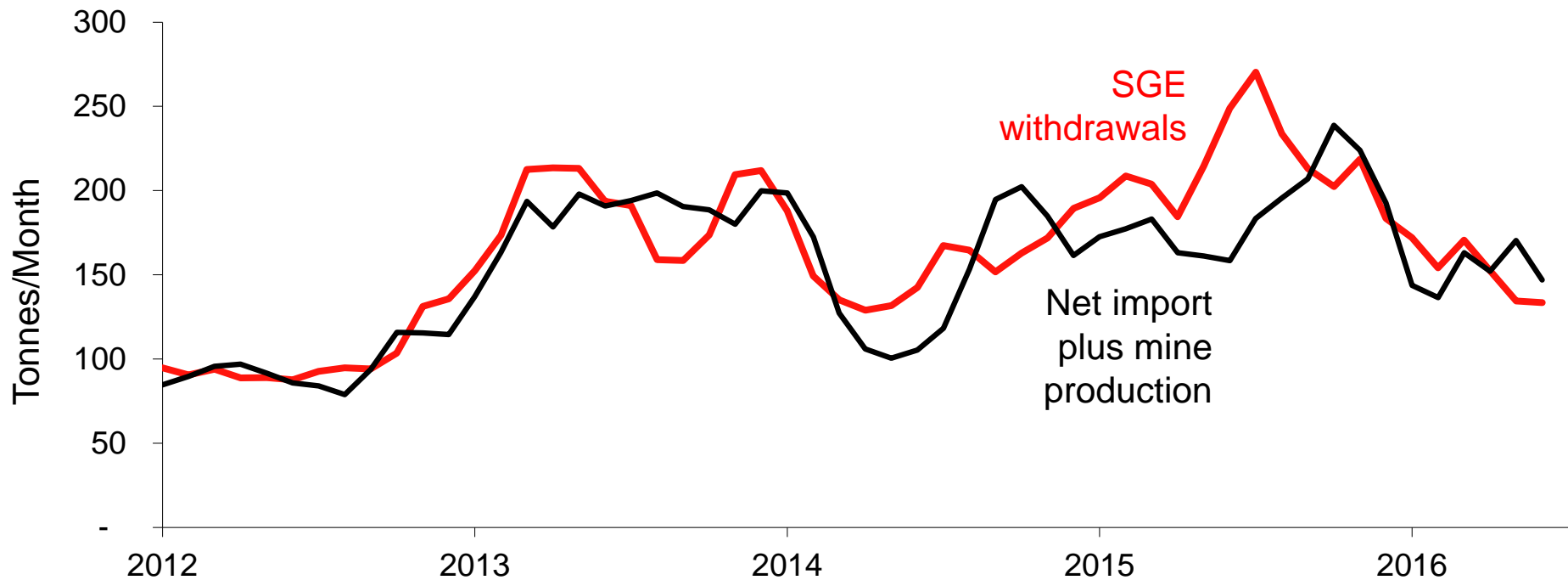
Both methods show similar flows

- Both series show a similar story – the surge in 2013, payback in 2014, *consistently high since*.



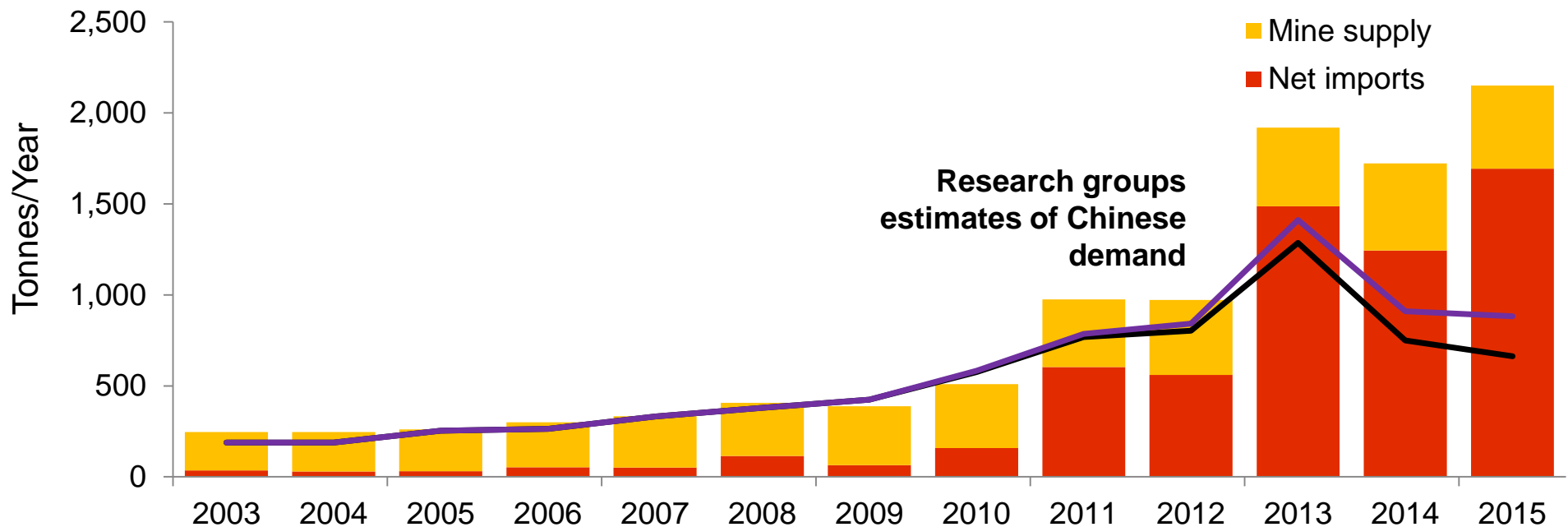
The (in)famous SGE withdrawals

- A lot of effort has been spent trying to understand SGE withdrawals.
- But not a great deal of difference between this estimate of Chinese gold availability & imports plus mine production.



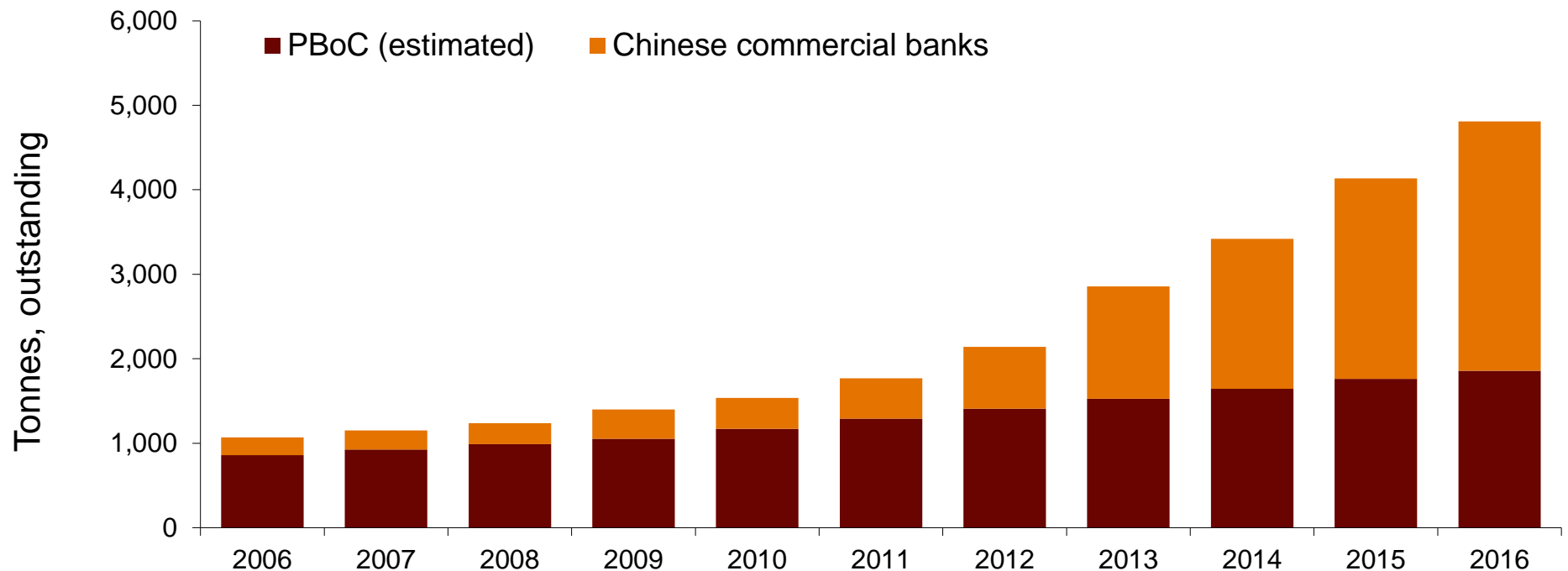
Where is all this gold going?!

- If we compare these estimates of supply availability much higher than the estimates of demand by research groups.
- This gap has arisen in the last three to four years.



Into bank vaults? – central and commercial

- Both the central bank and private banks have accumulated a lot of gold...we think



Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return > 3% in excess of benchmark return

Neutral – return within 3% of benchmark return

Underperform – return > 3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield.

Macquarie – Asia/Europe

Outperform – expected return >+10%

Neutral – expected return from -10% to +10%

Underperform – expected <-10%

Macquarie - South Africa

Outperform – return > 10% in excess of benchmark return

Neutral – return within 10% of benchmark return

Underperform – return > 10% below benchmark return

Macquarie - Canada

Outperform – return > 5% in excess of benchmark return

Neutral – return within 5% of benchmark return

Underperform – return > 5% below benchmark return

Macquarie - USA

Outperform – return > 5% in excess of benchmark return

Neutral – return within 5% of benchmark return

Underperform – return > 5% below benchmark return

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30-40% in a year.

Low–medium – stock should be expected to move up or down at least 25-30% in a year.

Low – stock should be expected to move up or down at least 15-25% in a year.

* Applicable to Australian/NZ stocks only

Recommendation – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit /efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit /average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for global coverage by Macquarie, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for global coverage by Macquarie, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for global coverage by Macquarie, 8.00% of stocks followed are investment banking clients)

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