

GFMS GOLD SURVEY 2015
Q3 UPDATE & OUTLOOK

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The cover of GFMS Gold Survey 2015 features the wide range of Tanaka and Valcambi minted and cast bars. Different pictures on a celluloid symbolise reasons why gold should be looked at as an investment.

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TABLE OF CONTENTS

- Global Review and Outlook 4-5
- China 6-7
- Jewellery Consumption Table 8
- Gold Jewellery Markups 9
- India 11-12
- United States 13
- Retail Investment Table (bars and coins) 14
- Mine Supply 15-21
- Producer Hedging 21
- Bullion Coin Review 23
- Technical Analysis & Outlook 24
- Russia 25
- China's "Black Monday" 26
- Taiwanese Gold Market 27
- Central Bank Activity and Outlook 28
- Indonesia 29

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GLOBAL REVIEW AND OUTLOOK

- ***Physical gold demand was up by 7% year-on-year in the third quarter, thanks to an increase in net official sector buying and a stellar level of retail purchases of bars and coins.***

- ***Jewellery fabrication was marginally lower year-on-year, as higher demand in India was offset by a slow recovery in Chinese offtake, although at least it was not as bleak as in the first half.***

- ***Total gold supply was slightly higher in the third quarter, largely thanks to a 3% increase in global scrap supply, while mine production remained broadly flat, compared to a year ago.***

Jewellery fabrication, the largest component of physical gold demand, posted a 1% decline in the third quarter. At 550 tonnes, offtake was 28% below the Q2 2013 peak, although the highest quarterly outcome so far this year. China's jewellery consumption began to recover, following poor demand in the first half of the year, after the gold price fell through the $1,100/oz mark in mid-July. Momentum was further maintained by the official depreciation of the yuan announced by the People's Bank of China in August, which, together with the slowing economy and the recent equity market crash, helped to boost gold's attractiveness. This helped to lift jewellery fabrication offtake in the third quarter, although it remained slightly lower compared to the same period last year. Meanwhile, demand for gold jewellery in India was up 4% year-on-year, thanks to renewed weakness in the local gold price in mid-July, to the lowest since August 2011, which spurred some fresh purchases of gold jewellery.

After a relatively quiet second quarter, the pace of central bank purchases accelerated in the third quarter, to an estimated 132 tonnes, up by 13% year-on-year and more than double the previous quarter. This was thanks to continued buying from China, which after announcing a 604 tonne increase in gold holdings in June, reported the acquisition of a further 19 and 16 tonnes in July and August respectively. While net purchases for the first nine months

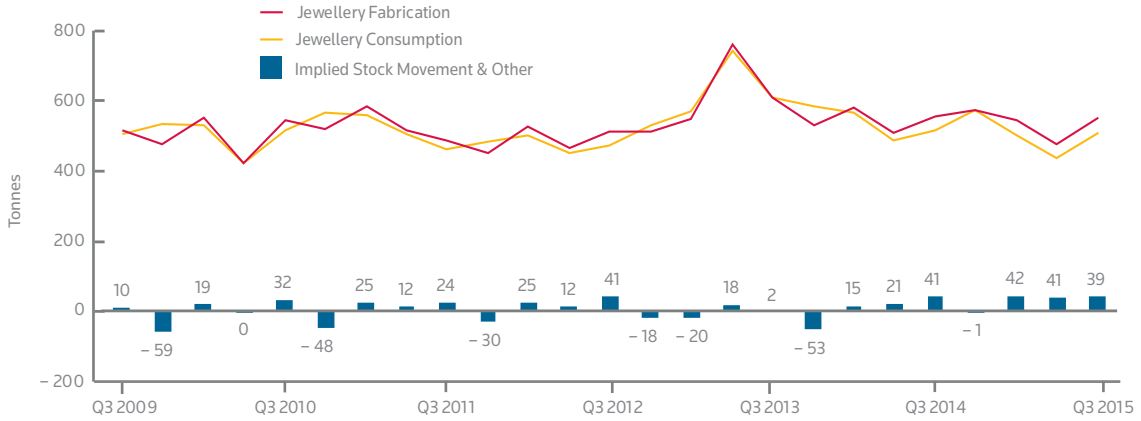
WORLD GOLD SUPPLY AND DEMAND

(tonnes)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	YoY %
Supply										
Mine production	805	824	713	763	845	801	731	777	851	0.7%
Scrap	343	302	309	267	273	277	292	272	281	3.2%
Net Hedging Supply	-5	-5	8	57	-7	46	-2	-17	-7	7.4%
Total Supply	**1,143**	**1,122**	**1,030**	**1,088**	**1,111**	**1,124**	**1,020**	**1,032**	**1,125**	**1.2%**
Demand										
Jewellery Consumption	607	582	566	488	514	574	502	435	510	-0.8%
Jewellery Fabrication*	609	529	581	509	555	572	544	476	550	-1.0%
Industrial Fabrication	105	101	102	101	100	98	98	96	96	-4.1%
...of which Electronics	73	70	71	71	70	68	69	68	67	-3.8%
...of which Dental & Medical	9	9	9	9	8	8	8	8	8	-4.4%
...of which Other Industrial	23	22	22	22	22	21	21	20	21	-5.1%
Net Official Sector	101	85	124	118	117	107	135	64	132	13.1%
Retail Investment	311	369	284	272	235	286	240	234	296	26.0%
...of which Bars	255	280	226	207	180	214	188	178	217	20.6%
...of which Coins	57	88	58	65	55	72	52	56	79	43.7%
Physical Demand	**1,127**	**1,083**	**1,091**	**1,000**	**1,007**	**1,063**	**1,017**	**869**	**1,074**	**6.6%**
Physical Surplus/Deficit	**16**	**39**	**-61**	**88**	**104**	**61**	**4**	**163**	**51**	**-50.7%**
ETF Inventory Build	-120	-181	-3	-39	-33	-85	37	-32	-61	84.3%
Exchange Inventory Build	-19	33	-5	19	26	-39	4	1	-38	-250.1%
Net Balance	**156**	**187**	**-53**	**108**	**111**	**185**	**-37**	**194**	**150**	**35.1%**
Gold Price (London PM, US$/oz)	**1,326**	**1,276**	**1,293**	**1,288**	**1,282**	**1,201**	**1,218**	**1,192**	**1,124**	**-12.3%**

Source: GFMS, Thomson Reuters *Jewellery Fabrication is used in the collation of the Physical Surplus / Deficit and Net Balance

Totals may not add due to independent rounding. Net producer hedging is the change in the physical market impact of mining companies' gold loans, forwards and options positions.

QUARTERLY JEWELLERY FABRICATION AND CONSUMPTION



Source: GFMS, Thomson Reuters

stand at 8% lower year-on-year, the official sector has remained a substantial source of demand this year and is on track to record the sixth consecutive year of net purchases.

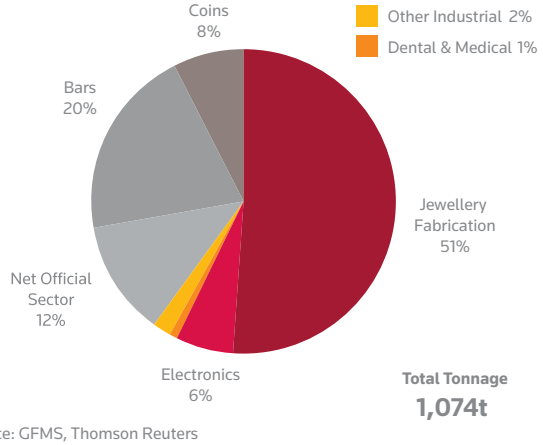
Demand for gold bars and coins registered a 26% year-on-year increase in the third quarter, rising to an estimated 296 tonnes. A sharp price correction in July, which saw the gold price plunge to a near six-year low at the start of the quarter, was the major driver behind Q3 growth. Among other factors contributing to strong demand was increased volatility in the financial and equity markets, following the crash of the Chinese stock market and mounting fears over the impact on major advanced economies of the economic slowdown in emerging markets. This dispelled market expectations of an imminent Fed rate increase and boosted gold's safe haven appeal.

On the supply side, according to our initial estimates global mine production remained broadly flat in Q3, up by less than 1% year-on-year, with production provisionally estimated at 851 tonnes. De-hedging outweighed any new hedging activity, resulting in a modest net de-hedging for the quarter. Supply from scrap continued to recover for the second quarter in a row, rising by 3% in Q3, mainly thanks to strong gains in India and Turkey, of 48% and 154% respectively. Excluding these countries, total scrap in the rest of the world declined by 5% year-on-year.

PRICE OUTLOOK

The gold price averaged $1,124/oz in the third quarter, down by 12% year-on-year and only slightly below our Q3 2015 forecast of $1,135/oz, outlined in our Q2 report. The negative sentiment was once again driven by the uncertainty revolving around the timing of the first US rate increase. However, concerns that slowing activity in emerging markets can dampen recovery in the industrialised countries, along with the persistent lack of inflation, pushed back rate expectations, providing a temporary boost to the gold price.

MARKET SHARE Q3 2015



Source: GFMS, Thomson Reuters

We expect gold to average $1,100/oz in Q4 2015, down by $75/oz from our previous forecast, which brings an annual average of $1,159/oz in 2015. Gold is set to remain under pressure until there is more clarity on the timing and the scale of US rates normalisation. Among other bearish factors are low inflation expectations and generally weak investor sentiment towards precious metals. That said, gold may draw some support from a seasonal uptick in physical demand towards year-end, and the prospects look brighter for 2016. Our 2016 and 10-year forecasts under three economic scenarios are available exclusively on Thomson Reuters Eikon.

CHINA

- ***After a sluggish second quarter, China's gold demand rebounded in the third, particularly in August and September.***

- ***At 196 tonnes China's total gold demand increased by 3% year-on-year, as the market lost faith in the domestic equities market, making gold more attractive as an alternative investment.***

- ***Jewellery consumption, often 24-carat investment material, was on a par year-on-year reaching 137 tonnes. Eighteen-carat material continued to grow at a fast pace, as fabricators shift to the higher margin products and supported by growing demand from the younger generation.***

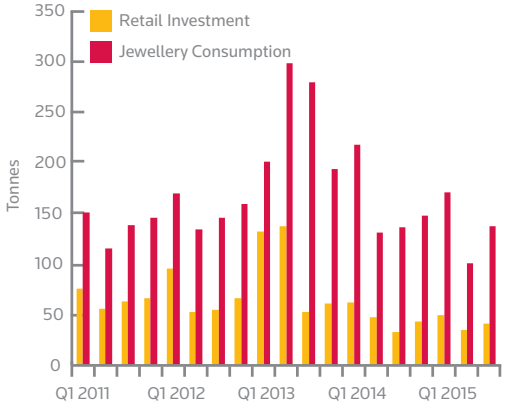
After a lacklustre second quarter this year, which was the lowest second quarter recorded since 2011, China's gold demand rebounded in the third quarter. Based on our latest estimates, China's total gold demand amounted to 196 tonnes for the period, a modest 3% year-on-year improvement.

After a poor showing in May and further falls in June, China's jewellery demand started to pick up in mid-July, as the international gold price fell below the $1,100 barrier. This upswing in momentum was then carried through August, and demand accelerated in September. Feedback from fabricators suggested that orders in August and September were on average 30% higher than those of May and June. Based on our latest estimates, China's gold jewellery fabrication for the third quarter this year was broadly in-line with the same period last year, reaching an estimated 137 tonnes. While pure gold pieces (24-carat) remained the dominant market segment, 18-carat items continued to grow at an impressive pace, mostly supported by the younger generation who prefer the more fashion-driven designs, and who look to buy gold primarily for its adornment qualities rather than as a simple investment option.

The improvement in gold demand during the third quarter was driven by several factors:

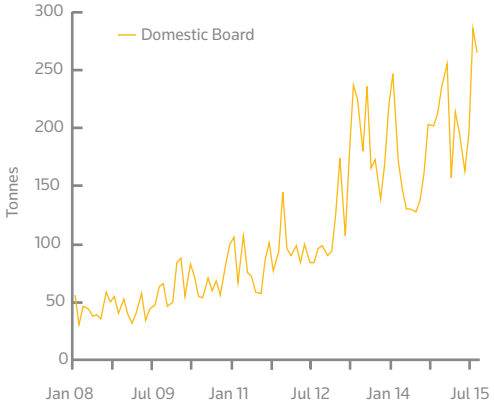
One of the main reasons for the poor demand from China during the first half of the year was the extraordinary performance of the domestic stock market. The Shanghai SE Composite Index rose 43% in the first five months of the year, only to fall 34% in the next three months. The strong performance of the equity market during the first quarter drew massive capital flows away from other markets, including gold. Consumers delayed jewellery purchases, instead investing available capital into the stock market, hoping for a quick return. For many that strategy did not end well, with many latecomers to the market caught out as the local bourse went into free fall. The equity market rout, coupled with a weakening economy, continued to negatively affect consumer sentiment in June. However, now that the stock market euphoria has been stamped out and reality has finally (and painfully) set in, the public and many casual retail investors have now lost faith in the stock market, and this has certainly boosted gold's attractiveness as an investment vehicle.

CHINA RETAIL & JEWELLERY INVESTMENT



Source: GFMS, Thomson Reuters

SGE DELIVERIES



Source: GFMS, Thomson Reuters

When the gold price breached $1,100 in mid-July, demand for gold picked up immediately, both in the form of jewellery and investment bars. Queues of people began to resurface at retail shop fronts (having been largely absent since the demand surge of 2013), mostly to buy jewellery pieces for wedding purposes and small gold bars for investment. Seasonal demand has also helped, as the Chinese Valentine's Day in August, and the Autumn festival in September have both received positive reviews.

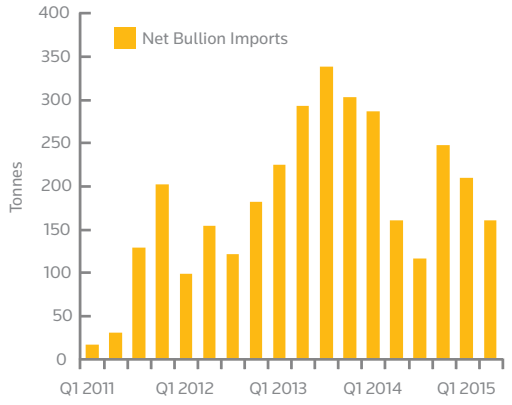
Another game changer has been the official depreciation of the yuan, which was announced on 11th August. The average premium of the gold price quoted on the Shanghai Gold Exchange (SGE), compared to the London benchmark, rose to $5.72 per ounce after the announcement. In contrast, the average premium was only $4.08 per ounce this year before the official depreciation. Those who expect the yuan to continue to depreciate may look to gold as an alternative asset to preserve wealth. However, it is important to note that many Chinese, particularly those living in the first tier cities, have viewed the dollar as the ultimate safe haven asset, instead of gold. People were lining up at banks to buy the dollar. Regulations permit the general public to buy up to $50,000 per year, but US dollar buying activities have been so popular that new rules were implemented in August whereby banks must notify government authorities whenever a Chinese citizen purchases more than $10,000 cumulatively within a year.

Gold's increased local premium has also attracted banks to import more gold into the country, and hence the pickup in China's gold imports during the third quarter. After importing just 37 tonnes of gold bullion from Hong Kong in June, net imports through this hub have risen to 55 tonnes and 59 tonnes in July and August respectively. While import data to Shanghai and Beijing are not publicly available, importers have told us that the SGE has been encouraging importers to ship gold directly to Shanghai, by offering various benefits and discounts that helps to lower importers' costs. While shipping costs are in general lower through the Hong Kong route largely due to the logistics advantages, the costs saved may not mean much if the local premium is high enough to compensate for it. Thus there is no doubt that the proportion of gold shipped directly to Shanghai has been increasing.

CHINA MARKET OUTLOOK

With the possibility that the Chinese yuan could continue to depreciate (the market is speculating that the Chinese government is targeting a cumulative 7.8-8% depreciation in several stages), and a lack of viable investment options, we expect China's gold demand in the second half of the year to be better than the first half. The higher domestic premium will also encourage Chinese banks to import more gold into the country to take advantage of the arbitrage opportunities. Having said that, we still expect China's total gold demand to record a second consecutive annual decline in 2015. However if expectation of further yuan depreciation continues, eventually becoming a public consensus within the mass population, we would not be surprised if China's gold demand reverses its current downtrend and reverts back to positive, albeit modest, annual growth in 2016.

NET GOLD BULLION IMPORTS FROM HONG KONG



Source: GFMS, Thomson Reuters

QUARTERLY JEWELLERY CONSUMPTION

(tonnes)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	YoY %
Europe										change
Turkey	23.4	7.0	14.5	20.5	19.2	14.0	11.2	12.5	16.3	-15.0%
Russian Federation	18.4	21.2	17.0	17.2	18.0	18.5	13.5	10.5	10.0	-44.4%
United Kingdom	3.9	13.9	3.5	3.6	4.6	15.9	3.7	3.7	4.2	-9.0%
Italy	2.9	10.2	2.8	3.9	2.6	9.6	2.6	3.7	2.5	-3.1%
Spain	1.7	2.3	1.7	2.0	1.7	2.4	1.6	2.0	1.7	3.0%
France	1.7	6.1	2.4	2.2	1.7	5.8	2.3	2.1	1.5	-8.0%
Germany	1.4	5.8	1.6	1.8	1.3	5.9	1.6	1.9	1.3	3.0%
Other Europe	1.4	1.6	2.0	1.9	1.2	1.4	2.1	2.0	1.2	0.0%
Europe Total	**54.7**	**68.0**	**45.3**	**53.1**	**50.2**	**73.5**	**38.5**	**38.1**	**38.8**	**-22.7%**
North America										
United States	32.9	47.9	18.5	23.6	35.0	54.5	17.8	25.9	36.3	3.7%
Canada	4.2	5.8	3.5	4.1	4.3	6.3	3.6	4.5	4.4	2.6%
Mexico	1.3	1.6	1.4	1.4	1.1	2.1	2.4	2.3	1.6	53.9%
North America Total	**38.5**	**55.3**	**23.4**	**29.1**	**40.3**	**62.9**	**23.8**	**32.7**	**42.3**	**4.9%**
Asia										
India	114.5	150.7	145.6	154.5	182.9	179.1	148.5	158.2	192.5	5.2%
China	279.0	193.4	218.0	131.4	136.5	147.4	170.9	101.0	137.2	0.5%
Saudi Arabia	14.0	11.2	13.6	15.8	11.8	11.6	14.5	16.0	14.0	18.6%
UAE	13.4	12.2	22.8	15.6	10.8	10.7	20.7	13.4	12.0	10.6%
Indonesia	12.6	10.4	14.5	9.1	10.7	9.5	10.0	5.8	7.7	-27.7%
Hong Kong	13.0	10.6	10.3	9.9	8.6	10.2	7.6	6.8	7.1	-17.4%
Iran	10.2	8.7	7.5	7.3	6.7	6.3	7.0	6.3	6.3	-6.3%
Kuwait	4.5	3.9	5.5	5.3	5.2	5.0	4.7	4.6	5.5	6.8%
Pakistan	5.6	4.7	4.9	4.3	4.9	5.1	3.9	4.7	5.1	4.1%
Japan	4.6	4.2	5.1	3.7	3.9	3.4	4.4	4.0	4.0	3.9%
S Korea	3.1	3.0	4.1	3.2	3.1	3.4	3.5	2.7	3.4	11.5%
Vietnam	2.2	2.2	4.5	3.6	2.3	2.3	4.4	4.0	2.6	14.8%
Bahrain	1.8	1.5	2.1	2.1	2.0	2.0	2.1	1.8	2.3	16.0%
Singapore	2.3	3.2	2.6	3.4	2.1	3.0	2.5	3.0	1.8	-12.2%
Malaysia	2.3	2.3	2.3	1.7	2.4	2.8	2.2	1.3	1.6	-32.5%
Thailand	1.1	0.6	2.8	1.6	1.2	0.7	2.8	1.6	1.3	6.8%
Qatar	1.2	1.1	1.3	1.2	1.1	1.1	1.2	1.1	1.3	15.7%
Oman	1.0	1.0	1.0	1.0	0.9	1.0	1.0	0.9	1.0	16.3%
Taiwan	1.0	1.9	2.1	2.2	1.0	1.8	1.8	2.0	0.9	-5.3%
Other Asia	9.0	8.5	6.4	6.4	7.2	7.5	7.4	7.3	8.3	14.5%
Asia Total	**496.3**	**435.1**	**476.8**	**383.1**	**404.9**	**413.8**	**420.9**	**346.2**	**415.7**	**2.7%**
Africa Total	**9.9**	**9.9**	**12.8**	**11.7**	**11.2**	**11.3**	**11.1**	**9.2**	**8.6**	**-23.3%**
Brazil	5.2	11.0	4.4	8.2	4.8	8.6	4.4	5.4	1.9	-59.5%
Other South America	2.3	2.3	2.8	2.8	3.0	3.4	3.1	3.2	3.1	6.4%
South America Total	**7.6**	**13.3**	**7.2**	**11.0**	**7.7**	**12.0**	**7.6**	**8.5**	**5.1**	**-34.3%**
World Total	**606.9**	**581.6**	**565.5**	**488.0**	**514.3**	**573.5**	**501.9**	**434.7**	**510.4**	**-0.8%**

Source: GFMS, Thomson Reuters

GOLD JEWELLERY MARKUPS ARE ON TRACK TO FALL 5% IN 2015

Following extensive global field research and our latest Q4 price forecast, we estimate total gold jewellery sales for 2015 as a whole at an average markup of 54% over the value of its gold content, up from 52% last year. This markup translates to $19.68 per gramme of gold content, down 5% from the previous year. The decrease in the dollar markup per jewellery piece sold is largely owing to two factors: a stronger US dollar and higher inventory turnover in countries whose gold jewellery demand is increasing, namely the United States and some European countries.

This year through September, the US dollar averaged 18.5% higher year-on-year against a basket of currencies. Meanwhile, the euro, the Chinese yuan, the Indian rupee, and the Turkish lira fell 17.8%, 1.3%, 4.6%, and 23.1% respectively against the US dollar. A weaker domestic currency against the dollar is positive for export-driven jewellery demand. For instance, US gold jewellery imports from India and China, the United States' largest jewellery trade partners, were up 11% and 10% respectively year-to-date.

Stronger gold jewellery retail sales in European and North American countries thus far in 2015 have boosted inventory turnover. An increase in inventory turnover has encouraged retailers to reduce sticker prices, accounting for lower gold prices, in order to attract consumers and boost sales volumes. Higher sales volumes in the United States have driven the average retail markup down to 146% compared to 194% the previous year.

The average fabrication charge is estimated at $1.79 per gramme of gold, down 4% from the previous year. Significant declines occurred in China, which saw a 36% drop in fabrication charges amid a competitive market environment and manufacturer consolidation, and in Italy, which saw a 17% drop. This drop in Italy was mostly due to a weaker euro, as over 75% of jewellery fabricated in the country is exported.

Fashion and market trends also influenced markups, although to a lesser extent. In China, demand for 18-carat gold jewellery has been strong, despite declines of between 20% and 30% this year across all segments. Typically 18-carat is used for high-end and wedding jewellery. The growing affluence of consumers in urban markets has resulted in growth in 18-carat demand, bucking the overall trend. This year the retail markup for gold jewellery in China averaged 41%, up from 30% the previous, in part due to the growth in the 18-carat market, which is subject to a higher markup than the traditional 22- and 24-carat segments.

In India, there has been increased demand for high-end jewellery this year, specifically for fashion purposes, although this is an ongoing trend. Specifically, older women, whose wealth profiles have changed drastically over the past decade, have generated significant gains in consumption levels which has flowed through to elevated demand for high-end jewellery. Other trends in India have been the shift in purchases from rural to urban markets and from unorganised to organised retailers. This latter has reduced cases of under-carating, which has promoted greater acceptance of these market players in recent years.

In advanced markets, the lower price of gold has encouraged a move toward yellow coloured jewellery and away from rose gold and white gold. This has been an ongoing trend in the United States and is gaining traction in the United Kingdom, particularly in the south of England. This move has been positive for gold demand, boosting consumption volumes.

Markups will continue to be influenced by gold prices, the level of the US dollar, demand growth, and trends in fashion among other factors. This year, lower gold prices did not translate to higher markups, in percentage terms, as would typically be the case. The factors mentioned above offset the impact of lower gold prices.

GOLD JEWELLERY MARKUPS



Source: GFMS, Thomson Reuters *Est

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INDIA

- ***Jewellery consumption in India increased 5% year-on-year to 193 tonnes in the third quarter of 2015, the highest since Q1 2011 and the highest third quarter demand since 2008. Meanwhile retail investment in India gained 30% year-on-year to 55 tonnes, the highest since Q4 2013. These gains are attributed to the fall in price to the lowest since August 2011.***

- ***Gross official imports into the country in Q3 2015 were 263 tonnes, up 23% year-on-year and also the highest quarterly volume year-to-date.***

- ***India regained its top position as the largest overall consumer of gold this year through the third quarter. Total consumption amounted to 642 tonnes year-to-date, with China trailing by 63 tonnes.***

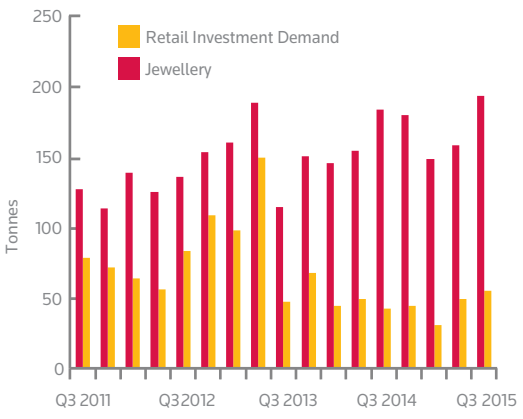
July is a low demand period on a seasonal basis, with just seven days considered auspicious in any given year according to the Hindu calendar. However, unlike last year when these days were in the first week of July, this year they fell between the 20th and 30th of the month. These auspicious dates coincided with the fall in local gold prices to a new low since the price reversal in 2013 and also the lowest level since July 2011. Thus it was natural for consumers waiting on the sidelines planning their wedding purchases later this year to hit the stores.

Price was a key factor driving Q3 demand, contributing to 40% of the total consumption during the first three quarters. Retailers concentrated in a defined region and family managed stores have told us that the sales during August were the best for three months, rising 40% to 60% year-on-year. Sales in July were not as impressive; this was attributed to increased demand at the fabrication level, as consumers were primarily on a vigil, taking note of the price trend. The bulk of the consumer demand in July is understood to have been an advance purchase for a forthcoming function later this year and buying ahead for festivals, for example Eid in September.

Another factor that supported higher volumes was a notable drop in the exchange of old jewellery for new. Exchanges accounted for approximately 35% of total sales, against 40% to 45% noted in the first two quarters. Inward remittances from expatriates also had an influence on demand as the Indian rupee depreciated towards 67 per US dollar from 63.35 at the beginning of the year.

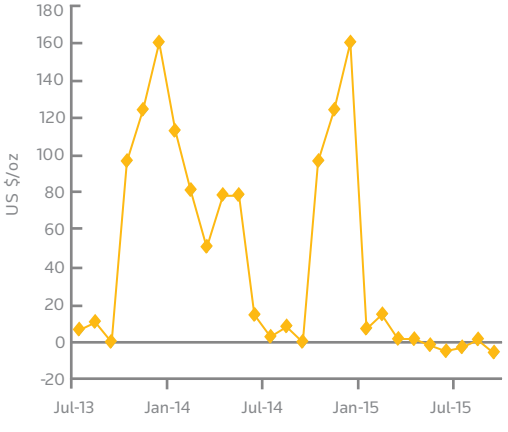
Charting these sales trends shows that family run retailers have turned out to be the first choice over the national chains, in a falling rupee price environment. This we understand is due to demand for plain gold jewellery (primarily chains and bangles), which largely occupies the shelf space in such stores, underpinning the belief among consumers that they will never be short of choice. Secondly, it is the flexibility in payment by consumers whenever there was a need to avoid bill based transactions. The one-to-one customer service that these retailers provide for their patrons is helpful, specifically at such times. Furthermore, stores in Southern India, which also run some of the largest

INDIAN RETAIL & JEWELLERY INVESTMENT



Source: GFMS, Thomson Reuters

INDIAN DIFFERENTIAL AGAINST THE LBMA GOLD PRICE



Source: NCDEX; Platts Metals; GFMS, Thomson Reuters

stores in the country, managed to win market share as they planned for their annual promotional sale from 15th July to 15th August, and this time coincided with the slide in gold prices.

July and August have traditionally been a period for planning the retail sales and promotions post the kharif harvest and festival season from Q4. Also, the India International Jewellery Show (IIJS), an exhibition and sale event where jewellery manufacturers all over India come to exhibit their designs and get their order books ready for the next six months, takes place. The event this year, between 6th and 10th August, was marked as one of the best in recent years as some of the manufacturers ran out of stock within the first two days of the exhibition. Many said their order books were filled through to the end of November. This ideally should have resulted in a sustained offtake through subsequent months. However, the price surge from 18th August dampened sentiment and many orders were deferred and in some cases cancelled, resulting in lower gold demand than expected. This was also apparent from the trends in gold imports and local price premia, suggesting that the frenzied buying following the IIJS lasted just ten days.

Bullion imports have recently been a key indicator for domestic demand due to the pricing disparity with gold refined from doré in India. In the pre-doré refining era imports were not always a meaningful proxy for demand as the pricing platform was the same for everyone to trade. However, the 2% differential between doré refined gold and imported bullion bars has changed the dynamic. As is visible from the table below, gold doré imports have been on a rising trend while the bullion imports for domestic market have been volatile. To explain, nearly 61.0 tonnes of the 65.1 tonnes imported in July took place between 20th July and 31st July, while premia averaged $2. Similarly in August, 55.0 tonnes of the 68.5 tonnes were imported by 20th August, while premia averaged $1.7, the price premia drifted toward ninety cents by the end of the month. In September, the local market drifted to a price discount, averaging $5.5/oz, and bullion imports fell to the lowest since January this year. Further, inputs from contacts suggested that large volumes imported on consignment after 20th August were not priced, leading to a supply overhang. Unofficial imports in Q3 are estimated at 28.7 tonnes, the highest in three quarters, which our sources have related to increased movements through land and coastal borders.

Supplies through scrap sales surged by 48% year-on-year. Many attributed this increase to distress selling from small sized retailers winding up the business following the price crash in late July. Also, selling was noted to have emerged from collateralised jewellery, largely with pawn shops and from financial institutions.

INDIAN MARKET OUTLOOK

Demand during the third quarter was impressive despite being clouded by fears of a poor monsoon and its impact on crops. This was in essence an indication of lower dependence on agricultural income to fuel spending on gold. A similar trend was observed last year as well, thus we think it is going to be the crop losses followed by increased inflation levels that will have the most influence on demand. Viewing it in the context of our price outlook, there is a possibility that 45% of the value sold by retailers can emerge from exchange of old jewellery for new thereby reducing demand for new gold. On the other hand there is a growing consensus that prices could have bottomed in rupee terms, which can potentially drive fresh volumes towards the Hindu festival month of October and November.

INDIAN GOLD IMPORT ESTIMATES BY SOURCE PRODUCT

Imports (tonnes)	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Bullion (for domestic market)	44.0	22.9	13.0	65.1	68.5	12.6
Doré (fine purity)	14.7	15.0	18.1	16.9	22.4	21.5
Bullion (duty free for export market)	17.8	22.6	15.9	14.5	22.6	18.5
Total Official	75.5	60.4	47.0	96.5	113.6	52.5
Unofficial	13.4	4.8	3.4	8.6	12.7	7.3
Net Imports for domestic supply	**72.1**	**42.7**	**34.5**	**90.7**	**103.7**	**41.3**

Source: GFMS, Thomson Reuters; InfodriveIndia; DGCIS

Note: This is "visible supply" and therefore for the purposes of this table, the withdrawal of metal via ETF growth or via de-hedging has been treated as zero.

UNITED STATES

- ***Physical gold coin and bar demand surged 161% in the third quarter from year ago levels, largely due to bargain buying among retail investors. The U.S. Mint halted sales of American Eagle bullion coins for three weeks in July due to depleted inventories after surprisingly strong demand when gold prices fell to multi-year lows that month.***

- ***Gold scrap supply fell 5% in the third quarter, the smallest annual drop since the fourth quarter of 2012. Scrap recyclers have begun to see more stable flows at current levels, an improvement relative to the past three years, which suggests scrap flows may normalise going forward.***

Total physical gold demand in the United States increased to 61 tonnes in Q3, up 31% year-on-year. This was the strongest annual increase since the first quarter of 2009 and the highest level of demand since the third quarter of 2011. The most notable driver of higher physical gold offtake was official coin demand, which more than tripled from four tonnes a year previously to 15 tonnes in Q3.

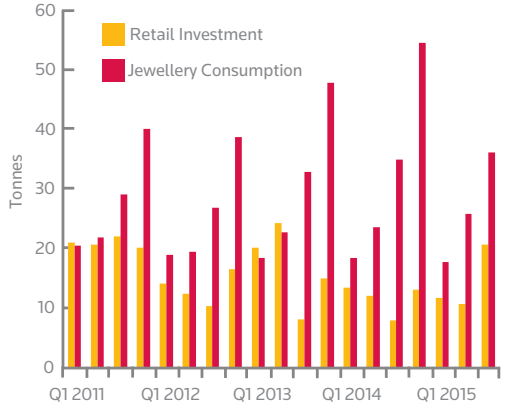
Investor appetite for bullion coins was initially triggered by gold's decline toward near six-year lows in July, which was viewed as a bargain hunting. Demand remained elevated in August and September despite prices regaining the psychological $1,100/oz level. Due to this unexpected persistence in demand, a bottleneck in the supply chain emerged. Manufacturers were not able to produce enough coin blanks for the U.S. Mint to satisfy demand. Consequently, the Mint halted sales for three weeks in July to replenish inventory. Authorised distributors extended delivery from immediate to upwards of four weeks and raised coin premia. Lead times have remained extended into October. U.S. investors also purchased increased volumes of privately minted coins and small bars, in lieu of American Eagle, American Buffalo and other sovereign minted coins. Small bar demand rose 71% to six tonnes in Q3.

Gold jewellery fabrication rose by 7% to 23 tonnes in this past quarter. Domestic manufacturers exported 9% of their output in the period, down from 13% a year ago. Exports fell by an estimated 19%, likely owed to market share losses to more price-competitive countries with weaker currencies. Jewellery consumption rose a more modest 4% in the quarter, amounting to 36 tonnes. Jewellery retail sales increased by 5% and 2% in June and July respectively, the first annual increases in monthly sales since September 2014, according to U.S. Census Bureau data. This improvement, coupled with relatively lower gold prices, boosted gold offtake from the industry.

UNITED STATES MARKET OUTLOOK

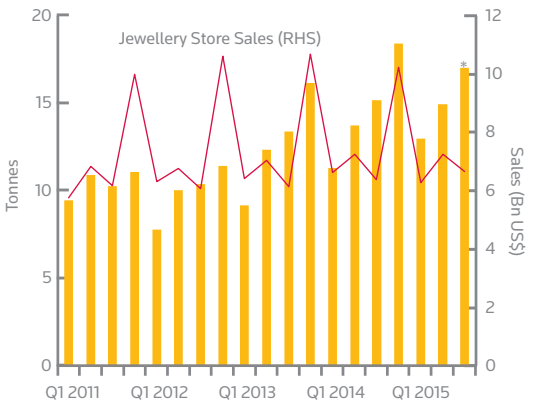
Investment demand is expected to remain elevated in the fourth quarter, but growth will moderate from Q3 levels. Jewellery consumption during the holiday season is expected to be strong. Consumers are expected to spend 5% more this holiday season than last year, according to a survey conducted by NPD Group, which will benefit discretionary purchases such as jewellery. Scrap supply is expected to fall year-on-year in Q4, albeit at a lower rate than in Q3.

U.S. RETAIL INVESTMENT & JEWELLERY CONSUMPTION



Source: GFMS, Thomson Reuters

U.S. JEWELLERY STORE SALES & IMPORTS



Source: GFMS, Thomson Reuters; GTIS; US Census Bureau *Est

QUARTERLY RETAIL INVESTMENT

(tonnes)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	YoY %
Europe										change
Germany	30.7	27.8	22.0	21.2	25.6	32.6	28.3	25.2	30.5	19.1%
Switzerland	16.7	13.8	10.3	11.2	12.0	11.2	11.8	12.1	11.7	-2.6%
Belgium	6.3	5.6	3.0	6.2	6.5	6.2	3.1	6.6	6.3	-2.0%
Turkey	6.4	26.6	12.7	14.8	6.4	16.6	6.1	-1.7	3.5	-46.3%
Russian Federation	1.9	2.0	1.7	1.7	1.6	1.7	1.6	1.6	1.5	-9.6%
France	0.3	0.9	0.5	0.4	0.4	0.9	0.5	0.4	0.3	-4.6%
Other Europe	13.6	17.2	11.5	13.0	14.1	17.0	14.1	16.1	20.4	45.0%
Europe Total	**76.0**	**93.8**	**61.6**	**68.6**	**66.6**	**86.1**	**65.4**	**60.2**	**74.2**	**11.5%**
North America										
United States	8.1	15.0	13.5	12.1	7.9	13.2	11.8	10.8	20.7	161.4%
Canada	7.5	9.8	6.1	5.3	4.5	8.7	6.0	5.2	11.0	141.7%
Mexico	0.4	0.4	0.4	0.2	0.3	0.4	0.3	0.2	0.4	71.5%
North America Total	**16.0**	**25.2**	**20.0**	**17.6**	**12.7**	**22.3**	**18.1**	**16.2**	**32.1**	**152.5%**
Asia										
India	47.1	68.0	44.7	49.6	42.2	44.1	31.0	49.5	54.8	29.7%
China	52.7	61.4	62.4	47.4	33.4	43.2	50.6	35.1	41.9	25.5%
Thailand	27.8	32.3	24.0	18.3	17.6	24.5	18.6	18.2	24.1	36.9%
Vietnam	23.8	15.7	14.6	14.5	14.0	13.3	13.9	13.8	13.0	-7.1%
Japan	-1.4	4.9	5.4	0.4	-1.3	-6.0	-4.0	-0.8	8.3	n/a
Iran	15.2	16.1	10.7	17.1	11.5	10.6	7.4	6.8	6.6	-42.4%
Pakistan	4.6	4.3	2.3	3.5	3.1	4.5	3.9	3.7	4.2	35.5%
Saudi Arabia	4.2	4.1	4.0	3.9	3.5	3.3	3.3	3.2	3.1	-10.1%
S Korea	1.5	1.5	1.8	1.9	2.1	2.1	1.8	2.1	2.7	28.6%
UAE	2.7	3.1	3.1	3.0	2.7	2.7	2.5	2.5	2.7	0.4%
Indonesia	11.2	6.5	4.5	3.3	3.8	6.5	4.3	2.2	2.0	-47.4%
Kuwait	1.2	1.3	1.5	2.0	1.5	1.5	1.3	1.2	1.2	-17.2%
Singapore	1.5	1.2	1.4	1.5	1.4	1.4	1.4	1.3	1.2	-16.0%
Malaysia	2.3	2.3	1.7	1.4	1.4	1.3	1.4	0.9	0.9	-33.3%
Taiwan	1.0	1.3	1.3	1.4	0.8	1.2	1.2	1.2	0.9	12.5%
Hong Kong	0.8	0.6	0.6	0.5	0.6	0.7	0.6	0.6	0.6	0.0%
Other Asia	3.3	4.2	3.0	3.3	3.1	3.2	3.1	2.8	3.2	5.3%
Asia Total	**199.5**	**228.8**	**187.0**	**172.9**	**141.3**	**158.1**	**142.2**	**144.4**	**171.5**	**21.4%**
Oceania	**8.4**	**8.8**	**7.3**	**6.0**	**7.4**	**7.2**	**5.2**	**5.3**	**6.7**	**-8.5%**
Egypt	4.3	3.6	2.6	3.1	2.5	2.7	2.4	2.2	2.4	-5.2%
Other Africa	6.4	7.3	5.1	2.8	4.0	9.5	6.5	4.9	8.6	116.5%
Africa	**10.7**	**10.9**	**7.7**	**5.9**	**6.5**	**12.3**	**8.8**	**7.1**	**11.0**	**69.8%**
South America	**0.8**	**1.0**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**-4.1%**
World Total	**311.4**	**368.5**	**284.1**	**271.6**	**235.0**	**286.5**	**240.4**	**233.9**	**296.1**	**26.0%**

Source: GFMS, Thomson Reuters

MINE SUPPLY

Mine production grew by 2% year-on-year in the first half of 2015. Much of the impetus behind this rise came from Asia, which gained 11%; the top three country-level increases came from Indonesia, China and Kazakhstan. These were predominantly attributable to substantial rises at several large-scale copper-gold mines, as well as from growth in smaller mining operations selling to domestic, state-influenced processing facilities in China and Kazakhstan. Oceania also posted a fractional rise, from Australia and New Zealand. Elsewhere, results were flat or lower year-on-year regionally, with the stand-out loss coming from Africa.

The mining analysis that follows represents abridged extracts of recent GFMS insights from Thomson Reuters Eikon.

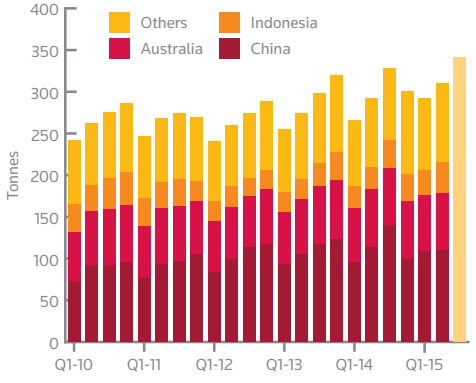
Chinese mine production rose by 5%, or by 10 tonnes in the first half of 2015, to 219 tonnes. The increase was largely attributable to a 10 tonne gain in smelter production, as output from the country's integrated mining and refining industry remained steady year-on-year. Of the toll-smelted production, gold smelters increased output by 13 tonnes, while non-ferrous base metals smelters saw a slight drop in gold output. The market share of Chinese production from integrated miner/refiners has continued to slide, accounting for approximately 34% of Chinese gold production, compared to almost 50% in 2011 and 2012. Among the Chinese provinces, Shandong remains the largest gold producer by some margin, although output continued to fall in the first half-year. Yunnan gained 3 tonnes, or 45%, as did Jilin and Gansu provinces, with gains of 33% and 41% respectively, adding a combined 3.4 tonnes to Chinese output. Meanwhile, Hunan province saw a 3.4 tonne, or 45% decline in output.

The past two years' depressed pricing environment has left Chinese gold miners facing a suite of challenges as the companies seek to control costs. Perhaps most notable is that, given that many Chinese gold miners are state-owned, labour restructuring would be highly controversial. The mandate for these state-owned miners is not to maximise shareholder profit, but to find a balance between profit, production, and social security. Despite a lower gold price and a weakening domestic economy, salaries in China remain on an upward trend.

Zijin Mining increased its gold output by 109% year-on-year to 125 tonnes for the first half- year, with a 143% increase in its smelter production (to 107 tonnes). While gold production from Zijin's flagship project, Zijinshan gold and copper mine decreased 6% year-on-year to 4.8 tonnes, this fall in output was more than compensated for the production from Longnan Zijin mine in Gansu province. Zhaojin Mining increased its gold output by 11% year-on-year to 16.6 tonnes, of which, 10.4 tonnes was mine-to-market production.

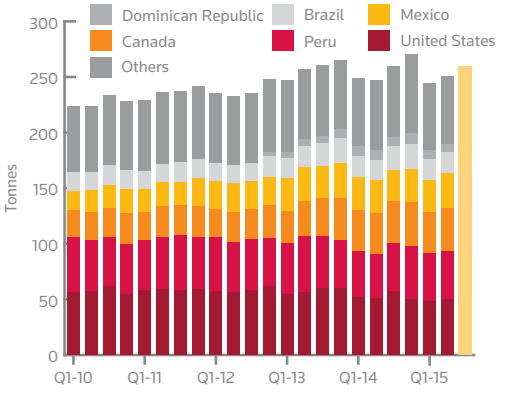
Indonesian gold production rose by more than a quarter in the first half of 2015, up by almost 15 tonnes year-on-year and representing the strongest country-level gain globally, and largely due to meaningful increases at the country's two large copper-gold mines Grasberg and Batu Hijau. Both mines delivered material year-on-year improvements, on the back of higher mined grades arising from pit sequencing, while part of the rise at Batu Hijau (from which output

MAJOR ASIA-PACIFIC MINE PRODUCTION



Source: GFMS, Thomson Reuters

MAJOR AMERICAS MINE PRODUCTION



Source: GFMS, Thomson Reuters

rose tenfold) was due to lower production last year coinciding with Indonesia's export ban on concentrates.

Mongolian output rose by almost 50% in the first half thanks to gold produced as a by-product of copper at Oyu Tolgoi, which commenced production in mid-2013. Output from **Kyrgyzstan** rose by a similar proportion, thanks to improvements at Kumtor. Neighbouring **Kazakhstan** continued to lift production with its 7-tonne rise the third largest gain globally. We ascribe initiatives surrounding the national mining company, Tau-Ken Samruk, to have been behind much of the rise, following the start of a new doré refinery, and development of new feedstock sources that ramped-up production last year.

Australian gold output edged higher to 136 tonnes in the first half of 2015. A near one tonne drop in production from Newmont and Barrick's Kalgoorlie Super Pit joint venture, a mill outage at Olympic Dam and lower mill throughput at Northern Star Resources' Jundee mine were more than offset by the gains from Boddington, Cadia, Tanami and Carosue Dam, all of which were attributable to both greater throughput and higher grades. Outside Australia, a fall in output from Ok Tedi was matched by higher output from Lihir and Simberi to hold total output from **Papua New Guinea** stable. **New Zealand** production was up by 9% to just over six tonnes due to higher grades and throughput at Reefton, while output from the **Solomon Islands** was sharply lower following the suspension of Gold Ridge.

TOP 20 GOLD MINING COUNTRIES

	Production (t)				Change
	2013	2014	14.H1	15.H1	y-o-y
China	438.2	447.8	209.1	218.9	5%
Australia	268.1	274.0	135.0	135.6	0%
Russia	248.8	262.2	104.1	102.7	-1%
United States	229.5	209.0	102.0	98.2	-4%
Peru	187.7	172.6	81.3	86.7	7%
Canada	133.0	151.2	74.4	75.1	1%
South Africa	177.0	163.7	81.7	70.0	-14%
Indonesia	110.7	116.4	52.0	66.5	28%
Mexico	119.8	117.8	59.1	60.4	2%
Ghana	107.4	107.4	53.7	48.6	-9%
Uzbekistan	77.4	81.4	40.2	39.7	-1%
Brazil	80.1	81.2	38.0	38.2	0%
Argentina	50.1	59.7	26.5	30.5	15%
Kazakhstan	42.6	49.2	22.6	30.0	33%
Papua New Guinea	62.4	56.3	29.3	29.5	1%
Mali	48.2	47.4	24.5	25.1	2%
Congo (DRC)	25.3	40.0	17.8	23.2	31%
Philippines	40.3	42.8	20.4	23.0	13%
Tanzania	46.6	45.8	21.8	22.6	3%
Colombia	41.2	43.1	21.4	21.6	1%
Rest of World	529.7	553.1	261.1	260.8	0%
World	**3,064.0**	**3,122.0**	**1,475.9**	**1,507.0**	**2%**

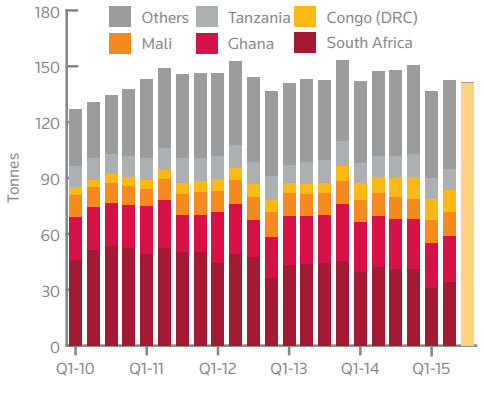
Source: GFMS, Thomson Reuters

South American output is estimated to have risen by 0.3%, to total 262 tonnes in the first half of the year. The increase was led by the region's largest producer, **Peru**, where output rose by 5 tonnes, or 7%. At Yanacocha, production rose by 2 tonnes reflecting higher grades from La Quinua and throughput above design capacity at Gold Mill. Further gains at Lagunas Norte and Cerro Corona also contributed to the overall growth, adding a combined 5 tonnes. Though the province of Cajamarca saw a considerable increase in production from these three operations, the number of layoffs has dampened the mood and there is an abundance of skilled labour with very few jobs to fill. In addition, attempts by the government to formalise small scale mining and stamp out illegal mining activities appear to have been unsuccessful as output from the jungle region of Madre de Dios has begun to climb once again.

A current research trip in Latin America, suggests that **Colombian** gold production rose, as the number of registered artisanal miners, or barrequeros, reached 100,000. Production from Colombia's free trade zone is on the rise and we expect gold output from Colombia to remain strong for the rest of the year. We expect **Venezuelan** gold production to reach 23 tonnes in 2015, with the vast majority coming from illegal mining in the state of Bolivar. The continued depreciation of the bolivar (currency) provides further incentive for unregulated mining to increase, limiting visibility over total production.

Mine production in North America fell by 2 tonnes or 1% over the first half of 2015 to total 234 tonnes. The outcome was

MAJOR AFRICAN MINE PRODUCTION



Source: GFMS, Thomson Reuters

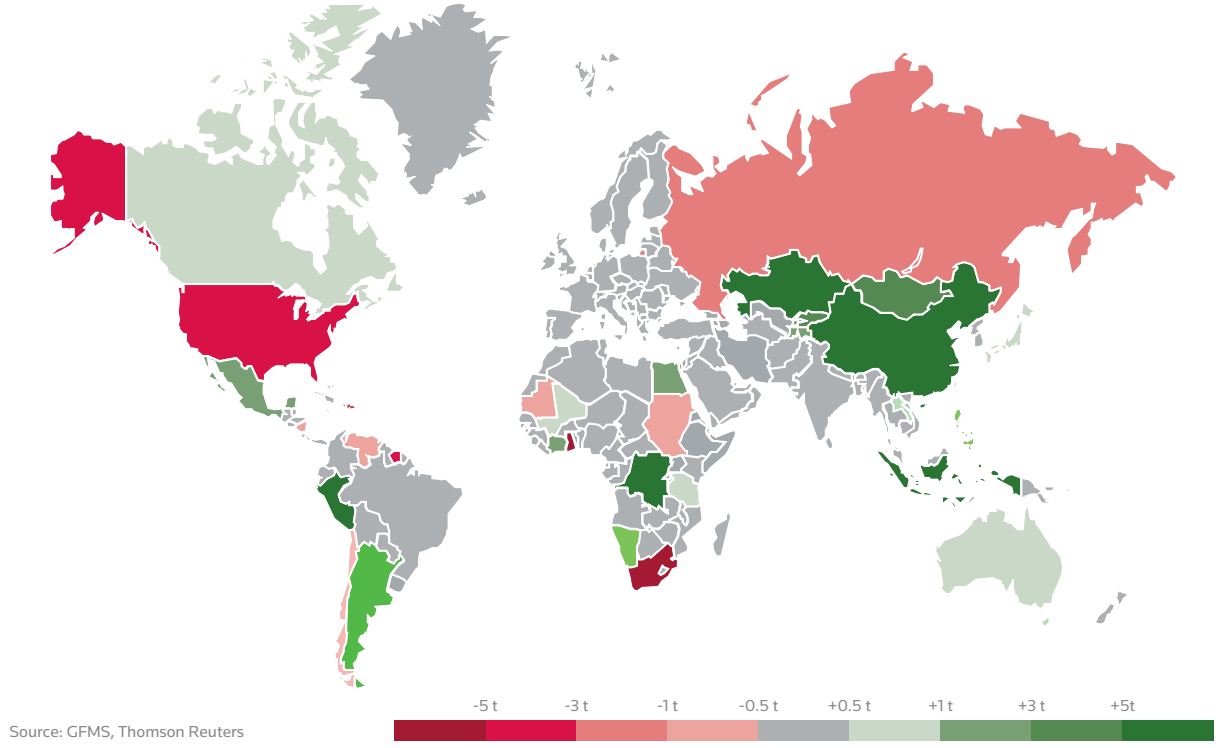
driven by lower output from the **United States** where we estimate output stood at 98 tonnes, a 4% drop compared with the same period in 2014. The most pronounced fall was registered at the country's second largest operation, Cortez, where processed grades and throughput dropped. The suspension of Hollister resulted in a three tonne loss.

Production in **Mexico** rose by 2%, or one tonne, to total 60 tonnes. At Peñasquito, an increase in gold grades, sulphide ore recovery and throughput all contributed to a gain of nearly five tonnes. Nevertheless, losses were registered at El Sauzal, which was placed on care and maintenance, and this, coupled with losses at San Francisco, generated a combined drop of 2 tonnes. Mine supply in **Canada** grew for a seventh consecutive year to reach 75 tonnes. Meaningful gains came from two operations commissioned in 2013 (Mount Milligan, and a re-start at Goldex) plus two large properties, Detour Lake and Canadian Malartic, which achieved full production in 2013 and 2011 respectively. In aggregate these mines produced an additional 2 tonnes relative to the same period in 2014. Additionally, new supply came from Éléonore, which poured first gold in October 2014, and is expected to produce seven tonnes in 2015.

The drop in African gold production in the first half of the year was the greatest of the major mining regions, sliding by 2% to a total of 284 tonnes. The greatest declines in Africa and indeed globally came from South Africa and Ghana. **South African** output fell by an estimated 14% to 70 tonnes. Production was affected by safety stoppages across many South African operations, notably at Mponeng. Other prominent losses included the cessation of mining at the mature Great Noligwa operation and South Deep's ongoing ground support remediation programme, implemented in May 2014. Labour relations in the South African gold industry remain a concern. At the time of writing AMCU had balloted its members and announced plans to strike at Sibanye, Anglogold Ashanti and Harmony, despite an implied agreement with NUM, UASA and Solidarity unions. In **Ghana**, the cessation of underground mining at Obuasi hit output, down 9% or five tonnes. Another challenge in Ghana came from power shortages in parts of the country, which at Ahafo led to a 24% production fall. Other African countries recorded strong growth. Kibali in the **Democratic Republic of Congo (DRC)** reached full production, adding four tonnes on the comparable 2014 period; Otjikoto in **Namibia** achieved its first commercial production; Sukari in **Egypt** benefited from an expanded plant and the soft oxide ore at Agbaou in **Côte d'Ivoire** allowed for operations to exceed plan for both throughput and recovery rates.

European output is estimated to have fallen by 1% or 1.5 tonnes in the first half of 2015. This was the largest fall in production after Africa and left output at 130 tonnes. This drop can primarily be attributed to **Russia**, where production

MINE PRODUCTION WINNERS AND LOSERS H1-2015 VERSUS H1-2014



Source: GFMS, Thomson Reuters

fell by 1%, to 103 tonnes. Decreases in output from Petropavlosk's Pioneer and Albyn contributed to lower Russian production, while Highland Gold's production remained steady, while the ramping up in supply from Belaya Gora was offset by a fall in output from Mnogovershinnoye. However, Polyus Gold posted a 5% increase in its production, driven by a 77% increase in production at Titimukhta and a 14% increase at Verninskoye, due to improvements in recovery at both operations, along with higher ore grades at the former. Production in the rest of Europe remained comparatively steady: a 4% increase in **Finland** partly offset decreases in **Greek, Spanish** and **Bulgarian** output.

MINE PRODUCTION OUTLOOK

We expect mine production to continue to grow in the third and fourth quarters, but will slow relative to the first half of the year. Sharp growth rates in several Asian countries in the first and second quarters are not forecast to be repeated to the same extent in the three months to end-September.

Following notable reductions in producers' costs, albeit partly from local currency weakness relative to the dollar, we believe much of the 'fat' has been cut, both from operations and shared services. Further meaningful cost reduction will need to be accompanied by either further dollar strength or by high cost asset closures.

PRODUCTION COSTS

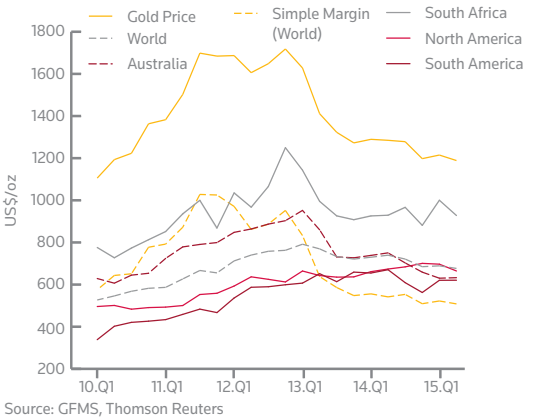
Global Total Cash Costs in the first half of 2015 averaged $686/oz, a 7% decrease on the first half of 2014. Regionally, this trend was driven by decreases in Total Cash Costs in Australia and South America, which more than compensated for year-on-year increases in North America and South Africa. On a quarterly basis, the overall trends for the most of the major mining regions have steadied to a gentle decrease, compared to the relatively steep falls achieved during 2013, when many gold producers first embarked upon wide-ranging cost containment programmes.

The strengthening US dollar retains a dominant influence on producer cash costs. In the United States, Total Cash Costs finally started to fall during the first two quarters of 2015, but on a half-year basis the average Total Cash Cost for H1 2015 is, at $684/oz, 4% higher year-on-year. Overall, lower H1 2015 costs at large operations such as Carlin only partially countered increased costs elsewhere, notably at Cortez, where unit cash costs increased by 59% on the back of a drop in processed grade and its knock-on to production volumes. By contrast, in Canada half-yearly Total Cash Costs have declined since the first half of 2013, on a combination of Canadian dollar weakness and contributions from a number of large new operations with relatively low unit costs.

A number of major gold-producing South American countries have benefited from currency depreciation against the US dollar although this has been partially countered by falls in by-product revenues. Overall, the South American region saw a 6% year-on-year decrease in Total Cash Costs during H1 2015, taking the average to $624/oz. Australian miners have also benefited from local currency weakening. Average Total Cash Costs for Australian producers in H1 2015 fell by 15% year-on-year, to $635/oz. In the case of Newcrest, Australia's largest gold producer, lower costs reflect a combination of the weakening Australian dollar, lower waste stripping, the contribution of low-cost ounces from the Cadia operations, and a company-wide cost reduction programme.

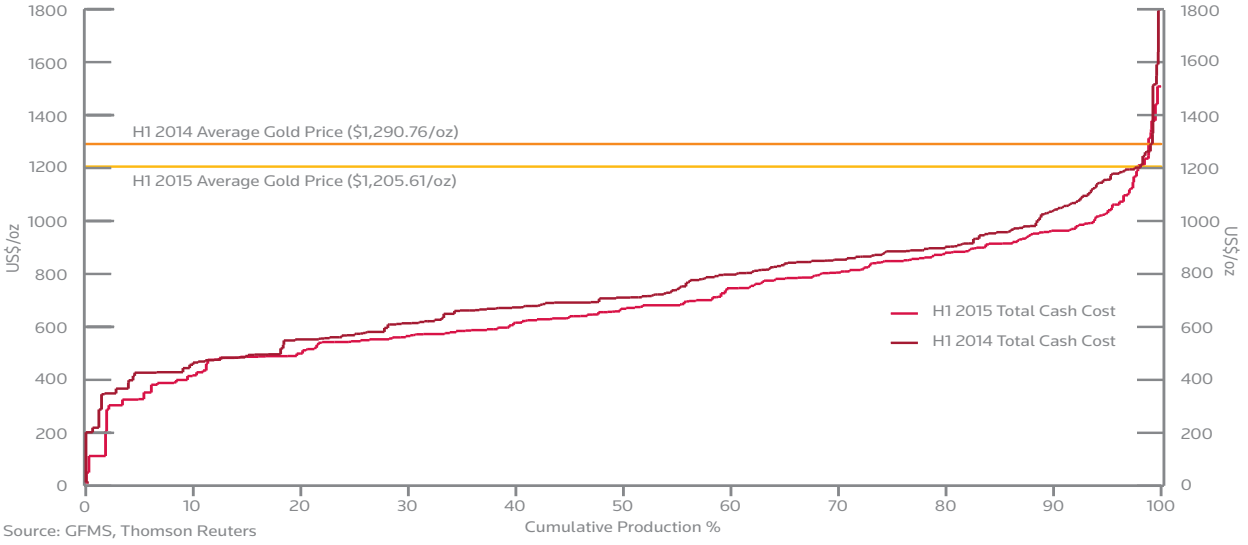
The difficulties faced by South African gold miners are well documented, and the trends in producer-reported costs reflect the headwinds facing the domestic industry. Total Cash Costs remain significantly higher than those for the other major gold producing regions discussed here. After considerable success in reducing costs over 2013, the quarterly trend has since drifted higher, despite continued rand depreciation. During H1 2015, South African Total Cash Costs increased by 4% year-on-year, to $966/oz.

COMPANY REPORTED QUARTERLY TOTAL CASH COSTS



Source: GFMS, Thomson Reuters

WORLD TOTAL CASH COST CURVES



Source: GFMS, Thomson Reuters

Few producers had reported third quarter results at the time of writing. However, cost reduction programmes remain key for many gold miners, and currency depreciation also continues to benefit operations in a number of regions. That said, recent trends indicate that most of the achievable cost savings have already been realised, reducing the scope for further cost reductions without widespread asset closure. We therefore expect global Total Cash Costs for the full year to be moderately lower year-on-year.

CORPORATE ACTIVITY

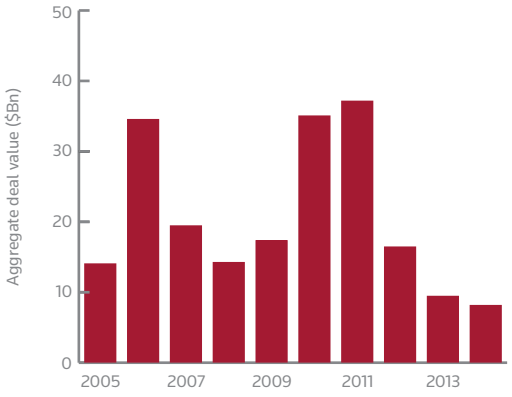
The aggregate value of gold M&A activity peaked over 2010 and 2011, at approximately $35 billion per year, and has since fallen steeply, mirroring the trend in the gold price. However, there has recently been some speculation that 2015 is seeing a resurgence in gold M&A activity, as larger companies continue to divest aging or non-core operations, and others take advantage of opportunities to acquire assets at lower valuations. In aggregate, the value of deals completed during the first nine months of 2015 was US$7.3 billion, according to ThomsonOne Investment Banking. The total for the whole of 2014 was also US$7.3 billion, indicating that 2015 will see at least a modest year-on-year increase in the value of gold M&A activity.

During H1 2015, major gold-related deals included the US$1.1 billion acquisition of Rio Alto Mining by Tahoe Resources, bringing Rio Alto's Peruvian gold assets into a single portfolio with Tahoe's Escobal silver mine in Guatemala. Elsewhere, PanAust Limited, with assets including the Frieda River copper-gold project in Papua New Guinea, was acquired by a subsidiary of Guangdong Rising Assets Management Co. for A$1.85 (US$1.47) per share, valuing PanAust at approximately US$950 million. Continuing the recent trend of major gold miners divesting non-core assets, Goldcorp sold its Wharf mine to Coeur Mining in February, for US$105 million in cash. Two months later, Coeur completed the US$146 million, all-stock, acquisition of Paramount Gold and Silver, for its high-grade Don Ese deposit, located adjacent to Coeur's producing Palmarejo mine.

Activity during the third quarter included Newmont's cash purchase of AngloGold Ashanti's Cripple Creek & Victor operation for US$820 million. Barrick Gold announced the formation of a strategic joint venture at Porgera, which saw Zijin Mining acquire a 50% interest in Barrick (Niugini) Ltd, for $298 million in cash. Cowal, formerly Barrick mine, became Evolution Mining's sixth operating gold mine with a $550 million transaction closed in July 2015. A month later, Evolution acquired La Mancha's Mungari operations. The other notable mid-tier transaction was the merger between Alamos Gold and AuRico Gold.

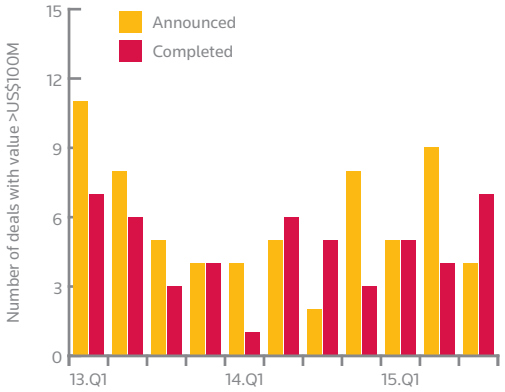
The largest pending transaction in terms of value, at approximately US$5.4 billion, is the potential purchase by Polyus Gold's major shareholder of the company's remaining share capital, thus taking Polyus private. Sibanye Gold's

GOLD M&A PLUS INITIAL PUBLIC OFFERINGS



Source: GFMS, Thomson Reuters

NUMBER OF DEALS WITH VALUES > $100M



Source: GFMS, Thomson Reuters

diversification into platinum production with the acquisition of the Rustenburg mining and concentrating operations from Anglo American Platinum (announced in early September) has also been a talking point. On 6th October, Sibanye announced a $294 million cash offer for the entire share capital of Aquarius Platinum. Among the mid-tier miners, OceanaGold, following its acquisition of Romarco Minerals, is planning the acquisition of Newmont's Waihi mine, in a US$101 million cash transaction. In Australia, Saracen Mineral Holdings recently announced that it intends to acquire King of the Hills and Kallis from St. Barbara.

Finally, one of the more intriguing announcements of the third quarter came from Randgold Resources and AngloGold Ashanti, who announced their intention to form a joint venture to redevelop the Obuasi mine in Ghana. The deal has yet to be approved and finalised, but developments will be followed with great interest as the partnership may have the potential to restore this recently-troublesome gold mine to something resembling its former greatness.

PROJECT PIPELINE

Over the last couple of years, many gold miners have responded to the sustained gold price decline by embarking on cost cutting programmes, often targeting exploration and non-essential capital spending. However, notwithstanding this generally unfavourable investment environment, a number of projects are currently commissioning, or under construction with first production expected during the next two years.

One of the larger projects in development is Torex Gold's $800 M El Limon-Guajes project in Mexico, with first production due in Q4 2015. Average annual gold production between 2017 and 2025 is expected to be 369 koz. Commercial production is also expected in Q4 2015 at Guyana Goldfields' Aurora project, which is projected to produce a total of 3.29 Moz over a 17 year mine life. Also in Guyana, Troy Resources' near-term Karouni gold project is expected to produce an annual average of 100 koz of gold over an initial 3 year mine life. Goldcorp, having brought the Éléonor and Cerro Negro projects into commercial production earlier this year, is developing Cochenour, which will expand output from Red Lake by 225-250 koz annually. Initial mill feed from test stopes is expected late this year. Rubicon Minerals' Phoenix Gold Project, also located in the Red Lake district, is currently trial mining. Commercial production is expected in early 2016 and annual gold output will be approximately 165 koz, over a 13 year mine life.

A number of projects are due to begin producing in early 2016, including Saracen Mineral Holdings' Thunderbox, a past-producing mine in Western Australia. The redevelopment is due to begin commissioning in the first quarter of 2016 and expected to produce approximately 125 koz of gold annually, over a 10 year mine life. In West Africa, Asanko Gold's open pit Obotan project in Ghana is scheduled to commence production in Q1 2016, and expected to produce an annual average of 190 koz of gold over 12 years. True Gold Mining's Karma project in Burkina Faso is also on schedule for its first gold pour during Q1 2016, and is expected to produce 110-120 koz of gold annually over its first five years. Staying in Burkina Faso, Roxgold's $111 M Yaramoko project is on schedule for first production in Q2 2016, and expected to produce an annual average of 100 koz over a seven-year mine life. In Mali, Hummingbird Resources' Yanfolia project is due to commence production in 2016, with annual production of 79 koz, over a six year mine life.

Looking out to late 2016, new gold supply is expected from the Haile project in South Carolina, now owned by OceanaGold. Haile is expected to produce an annual average of 148 koz of gold over an initial 10 year mine life. Newmont's major growth project, Merian in Suriname, is also scheduled to commence production in late 2016. Annual average gold production is expected to be 300-400 koz, over an 11 year mine life. Newmont is also developing Long Canyon Phase 1 in Nevada, and expected to produce 100-150 koz of gold per year from 2017. Permitting issues have delayed construction activities at Eldorado Gold's Skouries project in Greece, but once in operation, the mine is expected to produce an average of 140 koz of gold per year over the first seven years, from open pit mining. After year seven, output will decrease to an annual average of 90 koz of gold as mining transitions to underground production for another 20 years.

PRODUCER HEDGING

We estimate that the global producer hedge book stood at a delta-adjusted total of 5.56 Moz (173 t), which represents a 2% decrease on the prior quarter, or net de-hedging of 0.13 Moz (4 t). Following modest de-hedging in the June quarter, the run-down of existing hedge positions significantly outweighed new hedging activity during the three months to September. As in Q2, de-hedging by Polyus Gold and Fresnillo, holders of the two largest hedge books, will emerge as the largest contributors to the de-hedging activity, on a combination of scheduled deliveries into forward sales contracts, and maturing options.

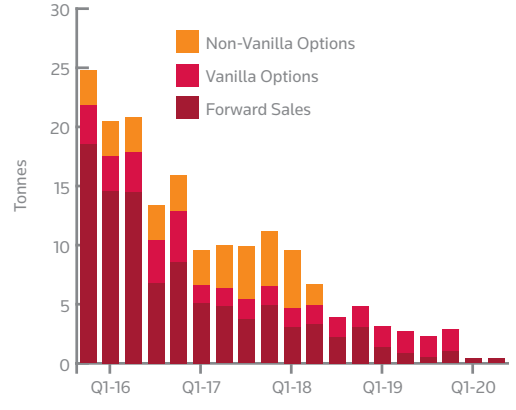
There have, however, been a couple of mid-sized hedge transactions since end-June. The larger was undertaken by Evolution Mining, which increased its outstanding forward sales position by 0.51 Moz (16 t) to 0.82 Moz (26 t) by the end of August. This increase included 0.30 Moz (9 t) of forward sale contracts at an average price of A$1,638/oz, taking advantage of the recent increase in the Australian dollar gold price. The majority of this recent new hedge is scheduled for delivery between January 2018 and December 2019, with 0.10 Moz (3 t) for delivery over the year ending June 2016, to further stablilise the company's FY16 cash flows. In addition, Metals X Limited entered into a forward sales agreement to hedge 0.25 Moz (8 t) ounces of gold, or 21% of its planned production out to 2018, at an average price of A$1,631.23 per ounce.

The delivery schedule around expected hedge positions at end-September 2015 indicates that a further 0.80 Moz (25 t) of de-hedging is due over the fourth quarter of 2015. The largest proportion of this comprises scheduled deliveries into forward sales contracts, followed by the maturing of the remainder of Polyus' 2015 barrier options, and with a small minority attributable to vanilla options.

PRODUCER HEDGING OUTLOOK

We consider it likely that gold miners' third quarter results will detail a handful of further small hedges and expansions of existing hedge positions, particularly by Australian operators or those headquartered in other resource-rich or emerging market countries, in order to benefit from gains in domestic gold prices following emerging market currency weakness. One or two other modestly sized hedging agreements are also a strong possibility during the quarter, although a number of recent announcements have highlighted the growing significance of streaming agreements as a component of new finance arrangements. However, it seems increasingly unlikely that 2015 will see substantial net hedging overall, unless a major new hedge is undertaken. As the year draws to a close the opportunity for a big hedge to come through is decreasing. With this in mind we now think the balance of probability sits with net de-hedging for 2015.

HEDGE BOOK DELIVERY PROFILE



Source: GFMS, Thomson Reuters









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BULLION COIN UPDATE

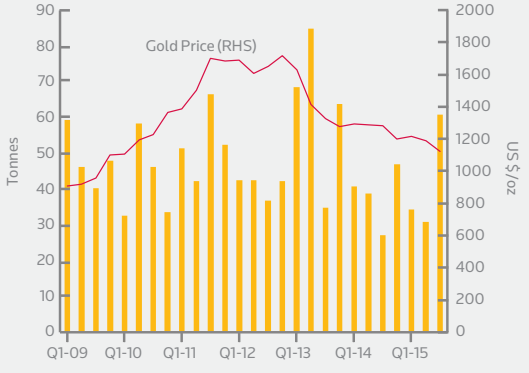
The third quarter saw a surge in interest for both gold and silver bullion coins after a lull in the previous quarter, fuelled by very strong demand from North America (primarily the United States) and Japan. Gold coin demand globally grew by an eye-popping 110% on a quarter-on-quarter basis and 139% on a year-on-year basis. Silver bullion coins also saw robust sales this quarter, growing by 74% on a quarter-on-quarter basis and 95% on a year-on-year basis. Considering that silver bullion sales have remained robust in the past five years, strong growth in this quarter propelled total silver bullion coin sales to an all-time-high, according to our records. According to the GFMS quarterly bullion coin survey, gold coin sales picked up very strongly in the third quarter of 2015, growing by 110% on a quarter-on-quarter basis and 139% on a year-on-year basis to reach total sales of 48 tonnes, the highest quarterly sales since Q2 2010. On a year-to-date basis, sales reached 96 tonnes in the first three quarters of this year, the highest level since 2013. This is even more remarkable considering the fact that physical sales in 2013 were mostly triggered by bargain hunting when the gold price fell from approximately $1,600/oz to $1,200/oz. The lack of a similar peak to trough movement in prices makes the most recent quarter's sales level even more interesting.

Looking at a region by region breakdown, demand from North America, Japan and other Asia (mainly from China) were the key forces behind this quarter's stellar figures, growing by 162%, 186% and 148% respectively on a quarter-on-quarter basis. The price level, we think, is the primary driver behind the surge in this quarter's sales. Although the gold price did not display any substantial correction in a similar manner to 2013, it fell below $1,100/oz at the beginning of the quarter – an important psychological level, and the lowest in almost six years. This very likely attracted investors who had been holding out to find the opportune moment to re-enter the market or to continue to build their position. Coupled with a volatile financial markets backdrop characterised by a sharp downward correction in commodities prices and equity markets (particularly in emerging countries) and epitomised by China's 'Black Monday' in August, this exacerbated the risk-off stance amongst risk averse investors. A potential interest rate increase by the Fed in September did not dissuade these physical investors either; many had in fact dismissed the likelihood of a Fed rate increase in view of the global markets' rout in July and August. Other factors which we think could catalyse additional bullion buying include the need to hedge against a depreciating currency amid continuing quantitative easing programmes in Europe and Japan. Despite the general decline in gold priced in dollar terms, gold priced in euro and yen has been generally trending upwards since 2014 as quantitative easing policies in these countries have resulted in much weaker local currencies.

BULLION COIN OUTLOOK

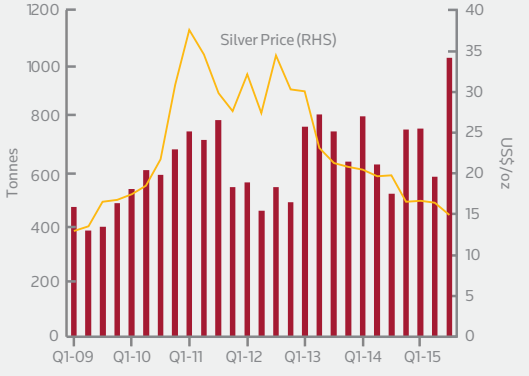
Strong sales over the third quarter have caused many bullion dealers to operate at low inventories with some claiming their stocks to be almost sold out. We expect these bullion dealers to restock near the beginning of the fourth quarter, which may help provide some support for bullion coin sales in October. As for end investor demand, we think sales will be relatively subdued compared to the astounding figures of the third quarter as investors digest their purchases. The correction in the gold:silver ratio to below 75 in early October will also rein in investors' appetite for additional silver investments.

QUARTERLY OFFICIAL GOLD BULLION COIN SALES



Source: GFMS Quarterly Bullion Coin Survey, Thomson Reuters

QUARTERLY OFFICIAL SILVER BULLION COIN SALES



Source: GFMS Quarterly Bullion Coin Survey, Thomson Reuters

TECHNICAL ANALYSIS AND OUTLOOK

Following its sub $1,100/oz dive at the end of July, gold has recovered some of its shine reaching $1,155/oz at the time of writing (12th October). From a fundamental standpoint, gold responded positively to the Fed's decision not to raise interest rates at the long awaited September FOMC meeting, closing three out of the following four weeks with a gain. This momentum brought gold to around the $1,155/oz level, which we consider significant in the short term. As indicated by point 1 on the chart below, the $1,155/oz level has functioned well as a support zone throughout the end of 2014 and the first half of 2015. Once it fell below this support level in Q2 of this year, the $1,155/oz zone was tested again in Q3, but failed to breach it to the upside, indicating that support had switched to resistance.

In general, we perceive this as a bearish sign. Gold's current position will therefore be an important one. Momentum has been building up, indicated by the higher lows, so it may be that the price will push the $1,155/oz lid off and continue its upward trajectory. The upside for gold, however, is capped by two main points; when the 75-week exponential moving average, which functioned nicely as support until Q1 2013 (the vertical line on the chart), switched to resistance for the first time since 2008, and the ceiling of the downward sloping channel at around $1,300/oz. If that was breached we would adjust our view towards becoming moderately bullish, depending on the weekly close.

This would coincide with a bearish breakout of the dollar, which is currently stuck in a consolidation triangle at point 2 (LHS). The scenario, however, to which we grant a stronger probability is that in which the price remains stuck in a fairly tight trading range for the majority of this year, ranging between $1,000-$1,210/oz area. In that scenario the dollar will continue to trend sideways as well. The indicators in sub-chart A and B support this case. Looking at A, the MACD is still firmly in negative territory only flirting with the neutral zone at zero once this year, while the volatility illustrated in the sub-chart B has also shown that any increases have been capped by the sustaining downtrend.

GOLD BREACHES US$1,100/OZ LEVEL



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RUSSIA

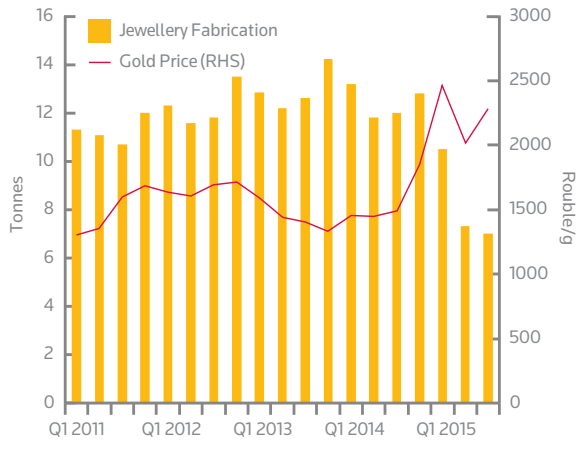
- ***Gold jewellery demand posted a double-digit decline in the third quarter of 2015; and the current macroeconomic environment suggests that the jewellery market will remain stagnant for at least the remainder of this year.***

After posting a year-on-year decline in 2014 for the first time since the 2008/09 economic crisis, gold jewellery demand in Russia has continued to take a hit this year, with both consumption and production levels contracting significantly. Gold jewellery fabrication shrank by 33% in the first nine months of 2015, to an estimated 24.8 tonnes, back to levels seen in 2009 after the industry was hit by the global financial crisis. This was primarily driven by a marked decline in local demand, as the larger share of domestically manufactured jewellery is locally consumed, with only a small portion exported to neighbouring countries.

Jewellery consumption fell by 35% in the January to September period, battered by the country's political crisis and worsening economic conditions. One of the major negative factors impacting gold jewellery demand over that period was a considerable decline in consumer confidence and purchasing power. Marked rouble depreciation saw gold prices in local terms surge to record levels, particularly at the start of the year and again in August. While prices came off a little bit in the following months, they remained close to historical highs. It is interesting to note that the price factor had not been previously considered as a defining force behind a drop in demand; this was due to a relative price stickiness, but, with time, higher gold prices in local terms have translated into a rising cost of production, and eventually have been reflected in the price of a final good. This was particularly evidenced in the second quarter, when the rate of decline in jewellery consumption was estimated at almost twice the rate of the first three months. Among other factors helping to somewhat mitigate the rate of decline in the first-quarter consumption were public holidays, namely the Russian Orthodox Christmas and the International Women's Day in March, which is equivalent to Mother's Day in western nations, that helped to temporarily boost retail sales. Anecdotal evidence also suggested that some consumers were bringing forward jewellery purchases, for instance wedding rings, before prices adjusted to reflect the higher cost of raw materials. However, this was clearly not enough to counter the wider declining trend in the market.

On a slightly positive tone, some key market players argue that under current market conditions, Russian jewellery manufacturers have acquired some advantage compared to foreign producers. When comparing the cost of production for domestic and foreign manufacturers, the labour cost and customs duties are the two variable components. The cost of labour is estimated at up to 20% of the price of a finished good, depending on the complexity of a piece. Before the crisis, it was very difficult to compete with South-East Asia in production of popular light-weight pieces, as the labour cost there was several times lower than that in Russia. Under current exchange rates, labour costs are more or less comparable, which if we add customs duty makes imported jewellery more expensive and less competitive.

RUSSIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

RUSSIA MARKET OUTLOOK

Gold jewellery demand is likely to remain subdued for the rest of the year, and we would not be surprised to see another double-digit decline. That said, we may witness a brief seasonal uptick in the final quarter, but this will be highly contingent on the wider economic environment. For 2015 as a whole, jewellery demand is on track to post the biggest annual decline since 2009. It is worth stressing, however, that the current weakness in the market is by no means a reflection of waning appetite; it is a result of the economic turmoil and once the economy returns to a normal growth path and the pressure on consumers' disposable incomes starts to ease, demand for gold jewellery as a symbol of wealth and social status will return.

CHINA'S "BLACK MONDAY"

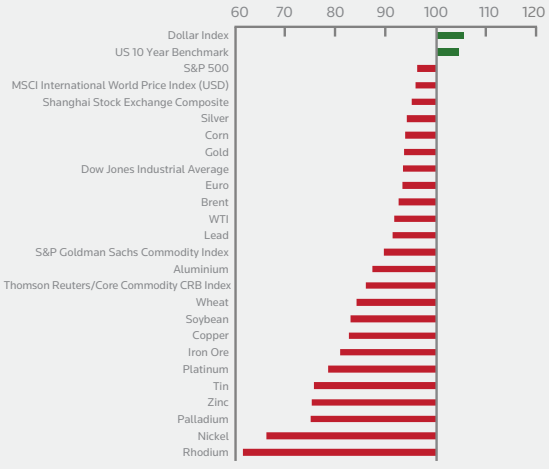
After a series of price crashes in July that saw the entire commodities complex plunge to intra-year lows, the severity of the price crash might have led one to think that this was the worst of the summer slump and the markets might experience an immediate rebound thereafter. The events of July, however, served as an ominous sign of worse things to come in August, when financial markets experienced a wipe-out triggered by China's 'Black Monday' on 24th August.

China's 'Black Monday' came on the heels of the renminbi devaluation two weeks previously. While the currency devaluation was touted by the authorities as a move towards internationalising the currency, some interpreted the move as a sign of weakness on the domestic front. Prior to that, the Chinese equities market had plummeted in early July despite a number of policy measures introduced by the government. China's equities market is characterised by heavy participation from retail investors and the tanking stock market has wiped off considerable wealth from a wide demographic of investors, creating a dent in the savings of the population that could suppress aggregate consumption. On China's 'Black Monday' Chinese stock markets plummeted by 8.5%, sending shock waves across the world.

An analysis of our commodity basket illustrates the extent of the meltdown in the commodities sector. Looking at year-to-date performance across different commodities, whatever gains that were registered earlier in the year were all eroded in July and August. Commodities that were already registering losses earlier this year saw even deeper losses following the global markets' rout, leaving no winners in the commodities space. Palladium and nickel, once the darlings of 2014, have now ended up at the bottom of the pile. Dollar index and US bonds remain the last ones standing. In fact, the dollar appreciation against the currencies of many commodity producing nations has been the bane of commodities' performance since last year.

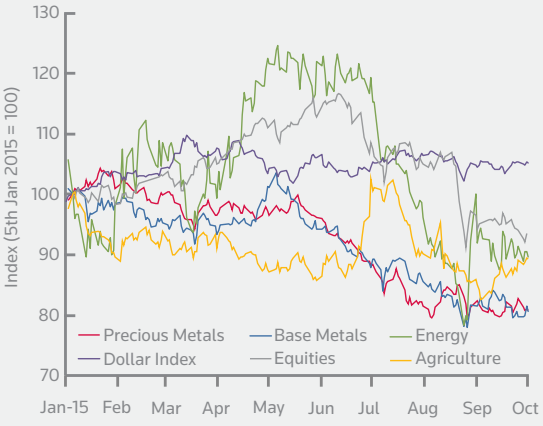
Looking across commodity classes, the price performance in the energy sector stood out. After the first few months of subdued performance in the beginning of the year, the energy complex started to post a strong rally in the middle of the year, only to crash dramatically in July – driven by weak global demand and the prospect of a return of Iranian oil to the global market – dragging the rest of the commodities sector with it. The base metals complex has been heavily influenced by developments in China, which explains its protracted downtrend since the beginning of the year. Precious metals did not fare much better; their price performance was largely trending in line with base metals, albeit at a slightly higher level, arguably due to their lower exposure to China compared to the base metals complex. The commodities market is at a vulnerable phase where it awaits the next trigger – and there are triggers aplenty which pose more downside than upside risks: the ability, or lack thereof, of the Chinese equities market to respond to government's attempts to resuscitate it and containing its effects from spilling over into the real economy; the pending US rate hike – which has partially resulted in capital outflows and currency depreciation in emerging markets. The commodities market should brace itself for a bumpy ride ahead as it enters autumn. Given the current economic outlook, it is almost a foregone conclusion that commodities will be the worst performing asset class in 2015.

YEAR-TO-DATE INDEXED PERFORMANCE RANKINGS



Source: GFMS, Thomson Reuters

INDEXED PERFORMANCE OF VARIOUS COMMODITY GROUPS



Source: GFMS, Thomson Reuters

TAIWAN

- ***Gold demand in electronics was 4.2 tonnes in Q3 2015, an 8% decline compared to the same period in 2014. The retreat was mostly due to sluggish exports, which have remained weak throughout the first three quarters.***

- ***Gold jewellery fabrication demand tumbled by 9% year-on-year to 0.6 tonnes in the third quarter of 2015, due to the continued weakness of Taiwan's economic performance and substitution to lower carat gold jewellery.***

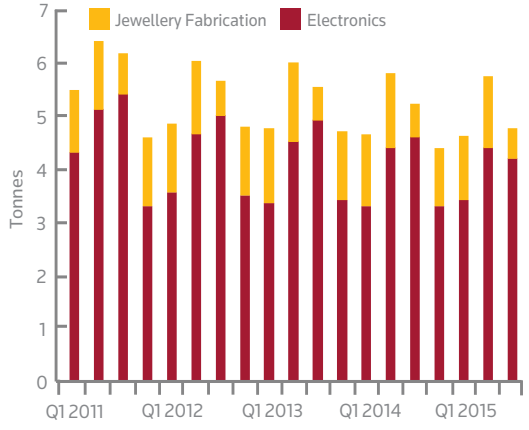
Industrial demand for gold in Taiwan has seen a continued decline as a consequence of weak exports this year. The Taiwanese electronics market is predominantly export focused and the exports destinations are relatively concentrated. In Q3 2015, shipments to China and Hong Kong, Taiwan's largest market and which accounts for 40% of the total, fell by 8% compared to the same period a year ago, as China suffered its slowdown in economic growth and began to replace its imports with domestically manufacturing materials. Exports of personal mobile devices and cell phone components, in particular, posted a substantial decrease of 40% year-on-year in the third quarter.

On the other hand, there has been an overall increase since June in the imports of machines and components used for semiconductor manufacturing, reversing the downward trend which had started last year. It indicates increasing gold demand reflecting the likely growth of semiconductor production in 2016; however, demand is unlikely to see an uptick within this year, while production capacity remains under-utilised. Moreover, as has been the case in several markets, the increased output of electronic products and semiconductors did not equate to higher gold demand as substitution to copper bonding wires (mainly palladium coated) largely offset these gains.

The gold jewellery sector has seen a gradual shift in buyers' preferences. From what was traditionally a pure gold or 24-carat plain gold market, consumers are increasingly migrating to 18-carat or platinum gemset designs, moving away from pure gold jewellery simply as an investment, and looking instead for adornment. This fundamental shift has also allowed retailers to raise their margins in order to mitigate the effect of lower fine gold content sales. Fabricators sought value after the July price falls, but local consumers were less price responsive than their counterparts in China and Hong Kong, in which large amounts of gold jewellery are purchased for investment purposes.

One important driver for gold jewellery consumption in Taiwan today is the gift giving culture of the traditional holidays and important occasions. There are two major segments, each of which has remained relatively strong and which have therefore attracted retailer focus in the face of a generally sluggish market. One is the gifts for new born babies (often bangles and pendants), and the another is the gifts given during Chinese New Year, both of which often feature Chinese zodiac designs as this thought to provide good luck and health to the recipient. However, the demand in this sector is likely to be dragged down by lowering birth rate in Taiwan.

TAIWAN JEWELLERY FABRICATION & ELECTRONICS



Source: GFMS, Thomson Reuters

TAIWAN MARKET OUTLOOK

Given the moribund exports and concerns over the regional economic outlook, we don't expect any meaningful recovery in physical demand in the near term, unless there is a significant revival of the electronic industry. However, there is a chance for a moderate increase to be achieved in 2016, should substitution not offset the gain in semiconductor production. Jewellery fabrication is expected to increase ahead of Chinese New Year, but some of the gain should be offset by seasonal weakness in industrial demand.

CENTRAL BANK ACTIVITY AND OUTLOOK

After a slowdown in central bank purchases in the first half of the year, a pickup in pace has caused net official sector purchases to more than double quarter-on-quarter. We now estimate that central banks have acquired 331 tonnes on a net basis in the first nine months of 2015. Despite net purchases being down 8% on a year-on-year basis, central banks have remained a significant source of demand in 2015, and we are squarely on-track to record the sixth consecutive year of purchases.

We estimate that gross purchases in the first nine months of the year reached 392 tonnes. This was boosted by 132 tonnes bought in the third quarter, more than double the level in the previous three months and up 13% year-on-year. Attention has been focused mainly on China, which, in June, made the first announcement since April 2009 of an increase in holdings; this was of 604 tonnes, and was followed by subsequent monthly announcements of purchases of 19 and 16 tonnes in July and August (at the time of writing September changes were not public).

It is Russia that is currently on course to be the largest announced buyer of gold for the fourth consecutive year, with an increase in gold holdings of 120 tonnes over the nine months to end-September. After a recorded pause in buying over the early months of the year, due we believe to a weakened rouble and higher gold prices, Russia resumed buying in March and has reported healthy monthly increases thereafter, underpinned by a falling gold price, on-going geopolitical events in Ukraine and accompanying sanctions. Russia's troubled economic outlook and need to diversify away from the US dollar further supports the cause. Indeed, Russia acquired 13 tonnes in July and 30 tonnes in August. Meanwhile, substantial buy-side interest has arisen over the year-to-date from other CIS countries, including Kazakhstan which purchased 21 tonnes. Elsewhere, Jordan recorded a 22 tonne increase by end-September, with purchases concentrated in third quarter.

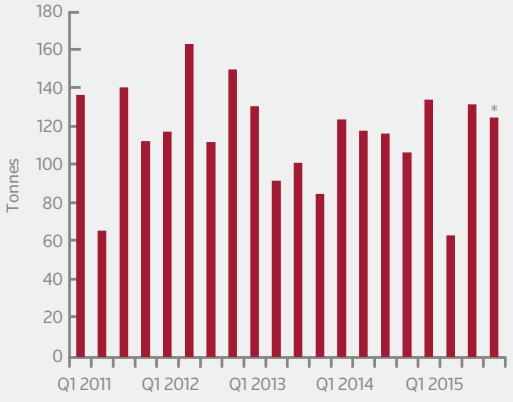
Gross sales in the first nine months of the year have more than doubled to 62 tonnes to their highest since 2010 but remain sporadic. The substantial increase in sales is attributed largely to sales by South American countries, the largest by Venezuela, whose holdings reduced by 44 tonnes. The transaction for gold was part of a swap agreement, in which an estimated $1Bn in cash was transferred. The trigger for the exercise came about as the country aimed to secure dollar funding in light of the sustained low oil price, encouraging a further shrinkage of the long suffering economy, in which 95% of export revenues are generated from oil.

In the third quarter, the largest reported sale was by Colombia of 6.6 tonnes or two-thirds of its total reserves in July. With the country suffering from a continuously weakening currency and an appreciating price of gold, this was the first transaction recorded for the country in two years.

Turning to the outlook, we are of the view that the announcements by the People's Bank of China in raising its gold holdings, also reflecting increased transparency, highlight China's desire to join the basket of currencies of the IMFs SDR. Our view is that this increased visibility will continue for the foreseeable future and while we do not believe this will materially change the pace of Chinese official sector gold purchasing, it will make it more easily tracked. Looking to Russia, we expect to continue to see regular purchases of gold, not least as there is little appetite for the country to be acquiring western currencies and bonds in the current geopolitical climate. However, given the economic situation we think this may well become increasingly difficult for the country to achieve. Especially if the oil prices does not rebound in the coming months.

Moving away from specific countries and onto future themes, we believe firstly, that strong buying by emerging markets (such as China and Russia) will continue, chiefly fuelled by the diversification rationale, (although the strength of the US dollar in the past year has lessened the need for this). Secondly, sales activity will be limited compared to the peaks of the decade either side of the millennium, particularly by CBGA signatories. Taking all this into account, therefore, we forecast that net official purchases should fall just shy of last years figure but at a still high level of 455 tonnes for 2015.

WORLD NET OFFICIAL SECTOR PURCHASES



Source: IMF; GFMS, Thomson Reuters *Forecast

INDONESIA

- ***A stronger rupiah gold price coupled with an economy that has struggled in the current global environment has seen domestic gold jewellery consumption in Indonesia retreat to 7.7 tonnes in the third quarter of 2015, a decline of 28% year-on-year.***

- ***Gold jewellery exports improved in Q3 2015, assisted in the main by the ASEAN-India Free Trade Agreement, as Indian traders attempted to take advantage of lower duties for FTA countries to boost margins.***

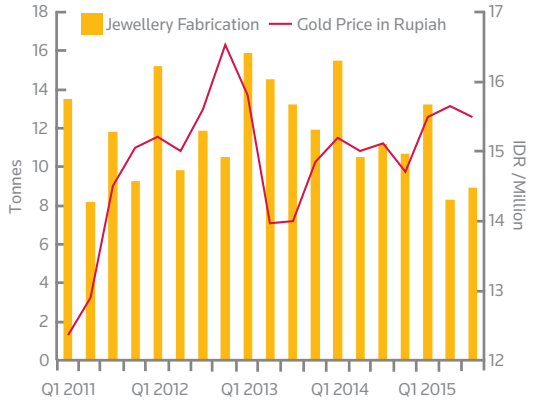
The Indonesian jewellery fabrication industry was looking for a solid rebound this year after retreating an estimated 14% in 2014. However, it would appear based on recent field research that the domestic market continues to face stiff headwinds in 2015 and looks set for a significant contraction for the full year.

The year started poorly for retailers with a sharp jump in the rupiah gold price in January (to a six-month high) weighing heavily on consumption volumes. The gold price retreated below 500,000 rupiah per gramme in February, but monsoon rains triggered floods in Jakarta paralysing the city of 14 million consumers, effectively shutting down the jewellery supply chain. Fabrication demand picked up in May and June although it remained weaker across all segments of the domestic industry than the previous year. Weaker commodity prices have impacted retail sales in the regional economies that are heavily reliant on exports such as Kalimantan and Sumatra, with a lack of liquidity dragging down consumer sentiment and, as a result, retail spending. The build up to Ramadan (held in June this year), which is typically the most robust trading period of the year, was very brief. The increase in inventory was strong in the week prior to the holiday period, and then again momentarily post Hari Raya as stock levels were replenished.

Thereafter, demand remained weak until mid-July when prices dropped below 470,000 rupiah per gramme in concert with the $60 drop in the dollar gold price. The sudden price drop did bring buyers back to the market although demand was underwhelming as consumers waited for a further leg down before purchasing. However, this was not to be, with rupiah gold gaining close to 9% in August, essentially stalling any chance of a brief demand rally.

One important fillip for the Indonesian fabrication market this year has been the sudden rise in jewellery exports under the ASEAN-India Free Trade Agreement. This trade, which attracts a duty of just 1.1% in India compared to 16.6% for jewellery for non FTA countries, has exploded this year as Indian traders have attempted to take advantage of this loophole. Meanwhile, Indonesia's economy is growing at the slowest pace in six years as President Joko Widodo works to deliver on plans to revitalise growth. The June quarter GDP data released recently suggested that growth had increased only 3.6% for the period, down from the 5% registered for the whole of 2014. In addition, the weakest currency rate in 17 years is limiting scope for the central bank to cut interest rates, while tumbling commodity prices and a deepening economic slowdown in China threaten to slash export revenue.

INDONESIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

INDONESIAN MARKET OUTLOOK

It is this economic weakness, combined with the potential for a rising gold price in the coming months that is likely to curb further jewellery fabrication growth for the remainder of this year. If prices were to retrace suddenly, this might stimulate some bargain hunting by consumers, otherwise it will be a tough market for many fabricators with many looking to the export markets in a bid to offset a weaker market at home.

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UNITS USED

troy ounce (oz) =	31.1035 grammes
tonne =	1 metric tonne, 32,151 troy ounces
carat =	gold purity in parts per 24

- Unless otherwise stated, US dollar prices and their equivalents are for the PM fix of the London Bullion Market.
- Unless otherwise stated, all statistics on gold supply and demand are expressed in terms of fine gold content.
- Throughout the tables, totals may not add due to independent rounding.

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The estimates shown in the *GFMS Gold Survey* and its quarterly updates for the main components of mine production, scrap, fabrication and investment demand are calculated on the basis of a detailed supply/demand analysis for each of the markets listed in the main tables. In the vast majority of cases, the information used in these analyses has been derived from visits to the countries concerned and discussions with local traders, producers, refiners, fabricators and central bankers. Although we also make use of public domain data where this is relevant, it is the information provided by our contacts which ultimately makes this *GFMS Gold Survey* unique. We are grateful to all of them.



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