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GFMS GOLD SURVEY 2016

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TABLE OF CONTENTS

1. Summary and Price Outlook	7
• Supply 8 • Demand 9 • Price and Market Outlook 12	
2. Investment	13
• Overview 13 • Exchange Traded Funds 15 • Activity on Commodity Exchanges 16	
• Physical Bar Investment 17 • Official Coins 18 • Medals and Imitation Coins 18	
3. Mine Supply	20
• Mine Production 20 • Production Costs 28 • Producer Hedging 31	
4. Supply from Above-Ground Stocks	32
• Scrap Supply 32	
5. Official Sector	36
• Overview 36 • A Divergence Between Emerging Markets 37	
6. Fabrication Demand	38
• Carat Jewellery 40 • Electronics 46 • Dentistry 48	
• Other Industrial and Decorative Uses 48 • Outlook 48	
7. Country Sections	50
• China 50 • India 58 • North America 66 • Turkey 69 • Japan 71	
• Italy 73 • Switzerland 75 • Russia 77 • Germany 78	
• United Kingdom 79 • Rest of Europe 80 • South America 81	
• South Korea 82 • Indonesia 83 • Malaysia 84 • The Middle East 85	
• Thailand 86 • Vietnam 87 • Rest of Asia 88 • Rest of the World 89	
8. Appendices	90

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FORTHCOMING RELEASES

- | | |
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| • GFMS COPPER SURVEY 2016 | 5 th April 2016 |
| • GFMS GOLD SURVEY 2016: Q1 UPDATE AND OUTLOOK | 26 th April 2016 |
| • WORLD SILVER SURVEY 2016 | 5 th (New York) May 2016 |
| | 6 th (Mexico City) May 2016 |
| • GFMS PLATINUM GROUP METALS SURVEY 2016 | 12 th May 2016 |
| • GFMS GOLD SURVEY 2016: Q2 UPDATE AND OUTLOOK | 26 th July 2016 |
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| • GFMS GOLD SURVEY 2016: Q3 UPDATE AND OUTLOOK | October 2016 |
| • GFMS GOLD SURVEY 2016: Q4 UPDATE AND OUTLOOK | January 2017 |

ACKNOWLEDGEMENTS

The estimates shown in the *GFMS Gold Survey* 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.

NOTES

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, U.S. dollar prices and their equivalents are for the LBMA Gold Price PM.
- 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.

TERMINOLOGY

“.”	Not available or not applicable.
“0.0”	Zero or less than 0.05.
“dollar”, “\$”	U.S. dollar unless otherwise stated.
“Identifiable Investment”	The sum of physical bar investment and all coin fabrication, plus the net change in Exchange Traded Fund (ETF) holdings.
“Jewellery Consumption”	Fine gold content of all <i>new</i> jewellery (i.e. does not include exchanged or second-hand pieces) sold at the retail level. It is calculated as being equal to jewellery fabrication, plus imports less exports (i.e. the net inflow of jewellery). An adjustment is also made for retail stock movements.
“Physical Surplus/ Deficit”	The difference between the supply of new and secondary gold to the market in a calendar year and measurable demand for physical gold. This excludes opaque Over the Counter (OTC) investment in gold and commercial bank transactions.
“Net Balance”	The physical surplus or deficit of gold with the addition of highly visible ETF and exchange stock inventory changes.
“Retail Investment”	Identifiable net investment in physical gold in bar and coin form. The bars may or may not conform to ‘London Good Delivery’ status but will be in a form that is commonly traded in the country of origin. Coins include all official and unofficial coins and medallions, with and without a face value.

1. SUMMARY AND PRICE OUTLOOK

After a promising start to 2015, the gold price in dollar terms continued trending lower for most of the year. Investor sentiment once again revolved around U.S. monetary policy, with prospects of an interest rate rise for the first time in nearly a decade and a stronger dollar putting pressure on the yellow metal and the broader commodities basket. Lower gold prices saw total gold supply shrink by 2% in 2015, while scrap supply, traditionally the most price-sensitive element, was up slightly year-on-year. The latter was primarily thanks to higher supply from the countries which saw their domestic currencies weaken and local gold prices surge. That said, last year's volumes, at 1,173 tonnes, remained well below the levels recorded in earlier years. Meanwhile, after six consecutive years of increases, mine production growth came to a halt in the latter half of 2015, with full-year global output only slightly higher year-on-year. Moreover, a switch in producer activity to de-hedging also contributed to lower gold supply.

Physical demand slipped by 2% in 2015, to the lowest since 2010, although the rate of decline slowed considerably compared with the 17% drop recorded in 2014. Jewellery demand remained subdued, largely due to continued weakness in China, which lost its supremacy over India as the world's largest gold consumer in 2015. Retail investment was slightly higher year-on-year, predominantly thanks to a rise in demand for bullion coins, which was triggered by bargain hunting, particularly in the United States, on the back of lower gold prices and increased volatility in financial markets following a sharp correction in Asian equity markets. Demand for gold bars, however, remained weak, at a similar level to 2014, in light of investors' cautious attitude towards commodities and renewed interest in risky assets. Another area that enjoyed growth last year was the official sector, which remained a net buyer for the sixth consecutive year, with net purchases hitting the second highest annual result since the end of the gold standard.

In terms of the Net Balance, 2015 marked the third year in which the gold market remained in surplus, and therefore it is not surprising that the bear market continued. That said, last year gold continued to build a base for brighter prospects in 2016, which will be discussed in greater detail in the outlook section of this chapter.

WORLD GOLD SUPPLY AND DEMAND

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Supply										
Mine production	2,497	2,498	2,427	2,608	2,734	2,829	2,850	3,042	3,131	3,158
Scrap	1,189	1,029	1,387	1,764	1,744	1,705	1,701	1,303	1,158	1,173
Net Hedging Supply	-434	-432	-357	-234	-106	18	-40	-39	104	-24
Total Supply	3,252	3,095	3,457	4,138	4,372	4,552	4,511	4,306	4,394	4,306
Demand										
Jewellery	2,334	2,458	2,338	1,849	2,064	2,064	2,036	2,470	2,242	2,166
Industrial Fabrication	482	489	475	423	476	468	425	418	399	361
...of which Electronics	334	341	331	291	342	339	303	296	285	253
...of which Dental & Medical	61	58	56	53	48	43	39	36	34	32
...of which Other Industrial	87	89	89	79	86	86	84	85	79	76
Net Official Sector	-365	-484	-235	-34	77	457	544	409	466	483
Retail Investment	429	437	924	844	1,231	1,572	1,356	1,790	1,101	1,115
...of which Bars	237	237	667	561	944	1,245	1,050	1,408	851	851
...of which Coins	192	200	257	283	287	326	305	382	251	263
Physical Demand	2,880	2,899	3,501	3,082	3,848	4,560	4,361	5,087	4,207	4,124
Physical Surplus/Deficit	372	195	-44	1,056	523	-9	150	-780	187	182
ETF Inventory Build	260	253	321	623	382	185	279	-880	-157	-124
Exchange Inventory Build	32	-10	34	39	54	-6	-10	-98	1	-48
Net Balance	79	-48	-399	394	88	-187	-120	198	344	354
Gold Price (LBMA PM, US\$/oz)	603.56	695.39	871.96	972.35	1,224.52	1,571.69	1,668.98	1,411.23	1,266.40	1,160.06

Source: GFMS, Thomson Reuters

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.

SUPPLY IN 2015

- Mine production rose by 1% in 2015, reaching 3,158 tonnes, a seventh successive annual increase, albeit the slowest.
- All-in Costs fell by 4% to \$1,310/oz last year, and Total Cash Costs decreased by 5% year-on-year to \$707/oz.
- Last year recorded a shift in producer activity to net de-hedging of 24 tonnes.
- Global scrap supply increased by 1% in 2015 to reach 1,173 tonnes, the first annual increase since 2009.

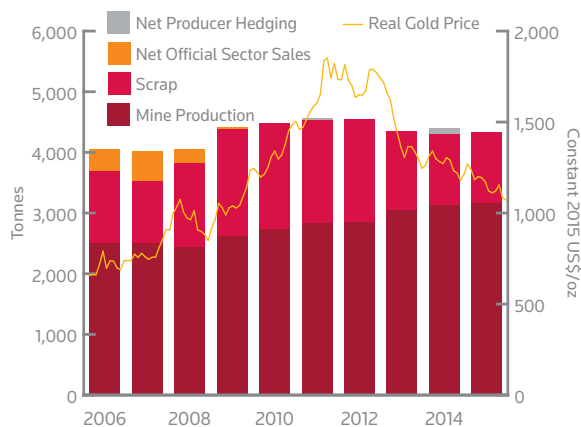
Global **mine production** increased by just under 1% in 2015, reaching 3,158 tonnes, with gains in countries such as Indonesia and the United States outweighing losses elsewhere, in particular in China, Ghana and South Africa. This represents the seventh successive year of increasing mine supply, and is another year of record global output. The rate of increase has, however, slowed, as the pipeline of large new mines has thinned, and output from some of the large mature operations has trended downwards. Consequently, we expect 2015 to represent a peak in global mine supply, with 2016 expected to mark the commencement of a downtrend.

Production costs continued to fall during 2015, with cost-containment programs still very much in evidence last year. However, many producers extensively benefited from continued devaluation of local currencies against the U.S. dollar, as well as lower oil prices. The global average Total Cash Cost fell by 5% last year, to \$707/oz, and the All-in Cost decreased by 4%, reaching \$1,310/oz. However, as a consequence of the fall in the average gold price, simple cash margins continued to contract during 2015, falling by 14% to \$453/oz.

After a year of net hedging in 2014, **producer hedging** activity switched to net de-hedging of 24 tonnes last year. This left the end-year hedge book standing at a delta-adjusted total of 171 tonnes, which represents a 13% year-on-year decrease. The dominant influence on the global producer hedge book during 2015 was the start of delivery into the large hedge positions of Polyus Gold and Fresnillo plc during the prior year. New hedging activity was limited in extent, and featured a number of Australian producers using forward sales agreements to lock in favourable Australian dollar denominated gold prices.

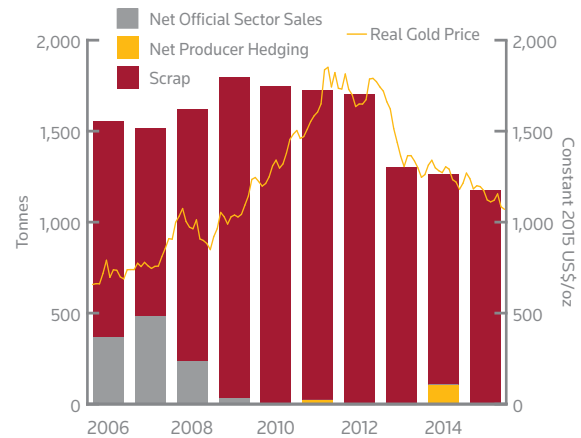
Global **scrap** supply increased by 1% year-on-year in 2015, to an estimated 1,173 tonnes. This marked the first rise in scrap since the peak in 2009 and occurred despite an 8% year-on-year decline in the average dollar gold price for the period. Not surprisingly, growth in scrap emanated mainly from countries not directly pegged to the U.S. dollar with several markets registering gains as their weaker domestic currencies pushed local gold prices higher. Scrap flows from Europe, East Asia, and the Indian Sub-Continent all recorded gains last year as liquidations associated with higher local prices boosted supply. In contrast, scrap flows from North America recorded sizeable falls as weaker gold prices and an improving economic back drop limited distress selling. China recorded a 14% year-on-year gain, to a record high, driven by increased supply chain remelt, while a weaker rupee also saw Indian receipts surge 18% last year. Elsewhere, after an impressive 60% increase in 2014, Russian scrap volumes continued to rise in 2015, up a

WORLD GOLD SUPPLY



Source: GFMS, Thomson Reuters

SUPPLY FROM ABOVE-GROUND STOCKS



Source: GFMS, Thomson Reuters

further 10%, as renewed weakness in the rouble saw the local gold price rise to an all-time high, while scrap volumes in Turkey surged 75% on the back of significantly higher Turkish lira gold prices.

DEMAND IN 2015

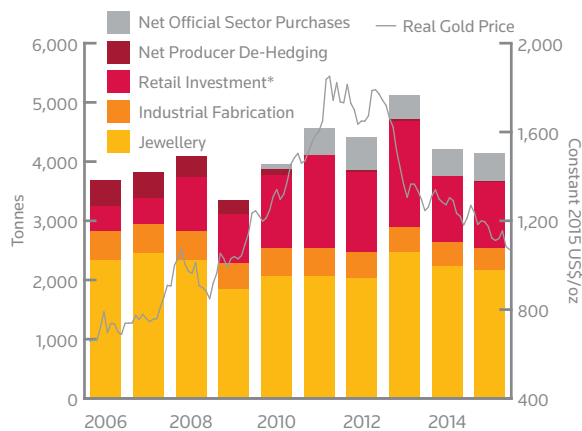
- Total physical demand slipped by 2% in 2015, largely on the back of lower jewellery fabrication, although this was partially offset by a pick-up in central bank purchases and demand for coins.
- Despite lower gold prices in U.S. dollar terms, jewellery fabrication retreated by a further 3% in 2015 to 2,166 tonnes.
- Gold used in industrial fabrication saw a significant contraction in 2015, slumping 10% year-on-year, primarily on the back of substitution to cheaper alternatives in the electronics industry.
- Total identifiable investment, which includes physical bar investment, all coins and ETF inventory build, increased by a modest 5% in 2015, primarily due to a slower pace of ETF selling. A marginal 1% uptick in retail demand, driven by strong demand for gold coins as gold slipped below \$1,100/oz in the second half, lent further support.
- Net official sector buying rose by 4% last year, the second highest annual total since the end of the gold standard.

Following a double-digit fall in 2014, **physical gold demand** declined just 2% in 2015 to an estimated 4,124 tonnes, a five-year low. In what was a relatively mixed outcome last year, jewellery fabrication retreated 3% to a three-year low of 2,166 tonnes, largely on the back of disappointing demand in China which declined for the second year in succession, although this was partially neutralised by continued growth in India. In the case of the former, demand was severely impacted by the strength of the equities market in the first half of 2015 as consumers directed funds away from gold to higher yielding assets. This impacted both jewellery and investment demand for much of the year, although concerns about the domestic economy and the potential for further devaluation of the yuan in 2016 saw investment demand in China rally strongly in the fourth quarter.

Jewellery fabrication in India rallied 7% last year to a record high 736 tonnes, limiting the scale of the global decline. Excluding India, total jewellery fabrication slipped a more pronounced 8%, with some significant declines recorded in several key markets last year. Demand in Europe as a bloc declined 14% in 2015, while South American offtake fell by 24% year-on-year. Weaker domestic currencies, which pushed gold prices higher in local terms, coupled with moribund economic growth, saw East Asian demand also waiver, falling 9% over 2014 volumes. Despite several currencies in the region being pegged to the U.S. dollar, demand across the Middle East also faced stiff headwinds in some markets as geopolitical and economic instability, military conflict, and lack of positive price expectation combined to drag consumption volumes lower in several markets.

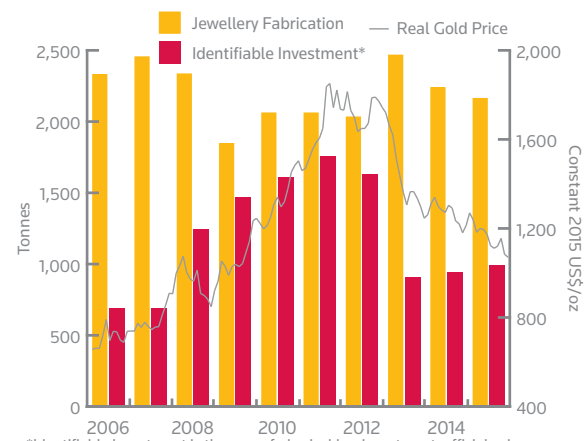
Aside from India there were many markets that enjoyed healthy growth last as lower gold prices reinvigorated retail activity. Demand in North America enjoyed a 5% annual gain, with offtake from the United States in isolation obtaining a similar growth level. An improved economy, coupled with the 8% drop in the dollar gold price last year, provided support to the domestic fabrication markets, although the stronger currency did impact on jewellery exports

WORLD GOLD DEMAND



* Retail Investment refers to physical bar and coin investment. Source: GFMS, Thomson Reuters

JEWELLERY FABRICATION AND IDENTIFIABLE INVESTMENT



*Identifiable Investment is the sum of physical bar investment, official coins, medals & imitation coins and net ETF inventory build. Source: GFMS, Thomson Reuters

in 2015 and likely limited the scale of the increase. Other markets to move against the trend in 2015 were Canada which enjoyed a 9% rise, while Singapore, Saudi Arabia and the UAE recorded annual gains in fabrication volumes of 11%, 10%, and 6% respectively.

Industrial fabrication recorded a significant decline last year, slumping 10% to an estimated 361 tonnes. The hefty fall was primarily the result of the continued thrifting and substitution in the electronics sector, which in isolation declined 11% in 2015 to levels not seen since 2003. Demand for gold used in dental and other industrial & decorative applications also faced headwinds last year despite the lower dollar gold price, declining 7% and 5% respectively.

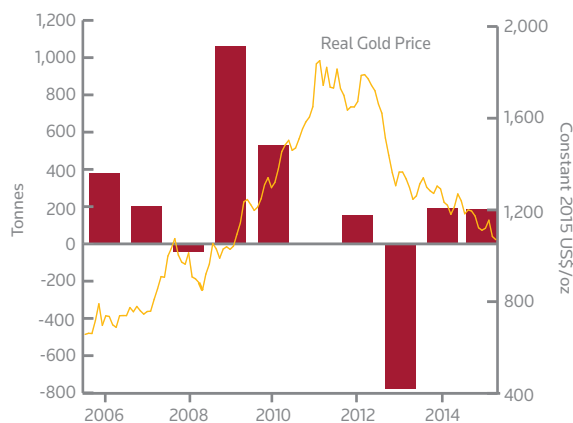
Total identifiable investment demand for gold rose by just 5% to 990 tonnes last year. While this is considerably lower than the record high of 1,757 tonnes of 2011, last year's result was still elevated by historical standards. Reviewing individual components of our identifiable investment figure reveals that the 5% rise in tonnage terms was primarily attributed to the continued slowdown in selling from gold ETFs, which saw combined ETF holdings decline by 124 tonnes last year, an 8% reduction from 2014 levels. Nonetheless, it was the third consecutive year of ETF redemptions, after ten years of increases. Meanwhile, a slight increase in retail investment of 1% to 1,115 tonnes in 2015 provided some support to investment demand overall.

The slowdown in the scale of ETF sales in 2015 was largely due to inflows reaching 82 tonnes in the first two months as investors became concerned over global economic growth due to geopolitical tensions, falling oil prices, ECB monetary stimulus measures and the high volatility of currencies. However, with expectations mounting over the timing of the first U.S. interest rate hike since June 2006, in addition to the rallying dollar index (DXY), gold prices came under pressure, falling by 8% over the year, accompanied by net ETF outflows for the third consecutive year.

Meanwhile, the modest increase in **retail investment** over the year came largely from gold coin demand, which rose by 5% to reach 263 tonnes by end-December. Purchases were concentrated in the third and fourth quarter of the year as bargain hunters took advantage of gold falling below \$1,100/oz for the first time in five years. Meanwhile, physical bar demand rebounded in the second half of the year by 16%, with the two largest consumers of gold China and India reporting 19% and 81% increase respectively.

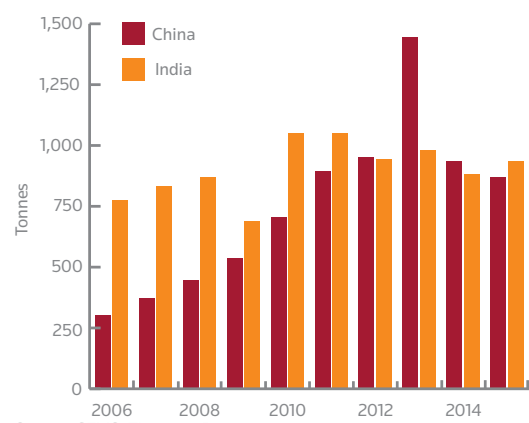
For the first time in half a century, **official sector** activity recorded a sixth successive year of net purchases in 2015. Indeed, heightened geopolitical tensions and the need for diversification in reserve assets resulted in net central bank buying reaching its second highest annual total since the end of the gold standard, as it rose by 4% to 483 tonnes. In July, China announced the first increase in reported gold holdings since April 2009, while effective on 1st October, the International Monetary Fund added the Chinese yuan to its reserve currency basket, known as the Special Drawing Rights. The subsequent monthly announcements of substantial purchases from China, combined with another year of phenomenal buying from Russia, led to these two economies accounting for 84% of net official sector purchases in the second half of the year.

PHYSICAL SURPLUS / DEFICIT OF GOLD



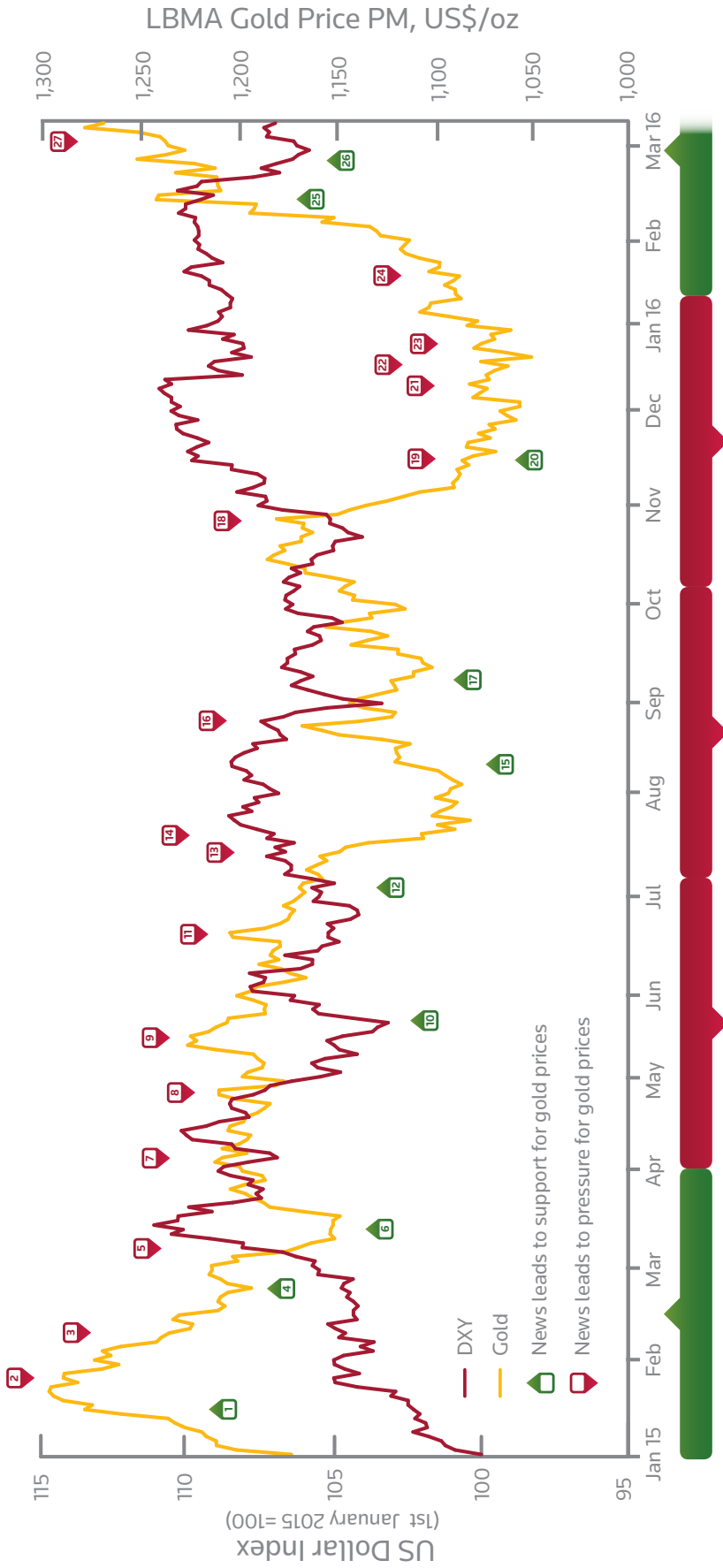
Source: GFMS, Thomson Reuters

INDIA BECOMES WORLD'S LARGEST GOLD CONSUMER* IN 2015



Source: GFMS, Thomson Reuters
*Demand consists of jewellery fabrication, industrial fabrication and retail investment

GOLD PRICE & US DOLLAR INDEX - DAILY



- 1** (15/01/15): SNB abandons cap on the franc.
- 2** (26/01/15): Leftist leader Alexis Tsipras wins Greek parliamentary election.
- 3** (06/02/15): Stronger-than-expected U.S. jobs data. U.S. dollar rises.
- 4** (20/02/15): Gold backed ETFs add 82 tonnes since end-December. Total holdings reach 1,737 tonnes, highest level in five months.
- 5** (06/03/15): Upbeat U.S. non-farm-payroll data fuels speculation of an earlier rate rise than previously anticipated.
- 6** (18/03/15): Fed signals cautious outlook for U.S. economic growth. U.S. dollar drops.
- 7** (06/04/15): Gold drops from intraday high of US\$1,224/oz on dollar strengthening as Fed keeps rate rise talk alive despite weak U.S. jobs data.
- 8** (22/04/15): Sharpest single-day loss in six weeks on strong U.S. housing data; fears over a June rate hike loom. Tensions in Yemen ease.
- 9** (19/05/15): ECB announces it may accelerate its euro bond buying program; euro tumbles.
- 10** (25/05/15): Greek worries over a possible default spread; talks with lenders continue.
- 11** (19/06/15): Gold fails to extend gains above US\$1,200/oz; global equities jump on Greek deal hopes.
- 12** (02/07/15): Alexis Tsipras urges Greek population to reject international bailout deal.
- 13** (15/07/15): Gold breaks below US\$1,150/oz; near 5-year low.
- 14** (20/07/15): U.S. gold futures drop US\$43/oz to US\$1,089/oz following a flash crash at SGE.
- 15** (10-14/08/15): China rattles market with surprise yuan devaluation; weak NFP data stalls gold's longest weekly loss since 1999.
- 16** (25/08/15): U.S. consumer confidence hits 7-month high; China cuts rates. U.S. Dollar and global equities gain.
- 17** (11/09/15): LME in talks with gold industry to launch precious metals derivatives.
- 18** (26/10/15): Russian rouble weakens 6% in a week.
- 19** (08/11/15): Reserve Bank of India issues first tranche of gold bond scheme.
- 20** (13/11/15): Terrorist attack in Paris, ISIS claims responsibility.
- 21** (07/12/15): U.S. jobs report boosts dollar.
- 22** (16/12/15): Fed raises rates for the first time since 2006.
- 23** (22/12/15): U.S. Q3 GDP grows at 2.0%
- 24** (18/01/2016): Reserve Bank of India issues second tranche of gold bond scheme.
- 25** (11/02/2016): Tighter credit markets and uncertainty over Chinese economic growth worry investors; gold, bonds and Japanese yen rise in tandem.
- 26** (29/02/2016): Gold backed ETFs add 283 tonnes since end-2015. Largest 2-month inflow since April 2009.
- 27** (08/03/2016): Reserve Bank of India issues third tranche of gold bond scheme.

Source: GFMS, Thomson Reuters

SUMMARY AND PRICE OUTLOOK

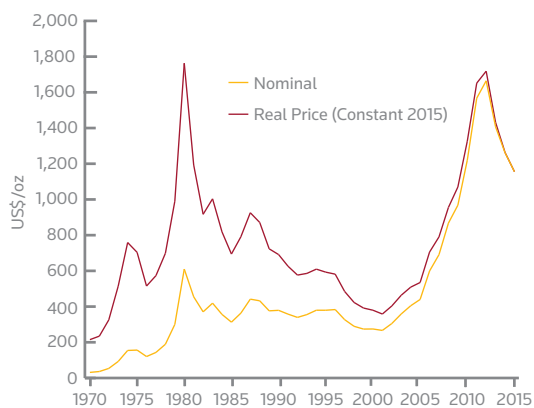
PRICE AND MARKET OUTLOOK

Following three consecutive years of annual price declines, gold has recorded a blistering start to 2016 and is the best-performing asset in what has been a turbulent beginning to the year. The dollar gold spot price surged above the \$1,270/oz level by 10th March, hitting a one-year high and up by 20% since the beginning of the year. Such an impressive performance has been largely attributed to a reduction in risk appetite among investors and fresh interest in safe-haven assets on the back of growing concerns about the global economy. Renewed fears over a hard landing in China and its impact on other major economies, along with an escalation of geopolitical tensions in the Middle East, further declines in oil prices and the turmoil across global stock markets, prompted investors to seek shelter in safe-haven gold. Worries about heightened global market uncertainty have been reiterated by global policymakers, with world's major central banks announcing fresh stimulus measures and the U.S. Federal Reserve putting its rates normalisation plans on hold. Since announcing the long-awaited increase in the federal funds rate in December 2015, for the first time in nearly a decade, members of the FOMC committee have expressed their concerns about increased downside risks to the U.S. economy in recent months, with a particular emphasis on economic weakness overseas and the persistently low inflation. While the Fed initially pencilled in four rate hikes for 2016 back in December, recent economic and financial developments have prompted investors to reassess their expectations and markedly reduce the probability and frequency of further interest rate adjustments during 2016. This has somewhat strengthened market sentiment, with gold benefitting from the so-called "pricing out the U.S. rate increase".

That said, we believe that the recent price rally will prove to be short-lived and once current market turbulence starts to ease we are likely to see the price retreat again, particularly as physical demand in key Asian markets is already weak. While we are highly unlikely to see all four rate hikes, the Fed remains determined to continue tightening, if not in the immediate future then later in the year; and should we see fresh signs of a firm economic recovery in the United States in spite of global weakness, the Fed is likely to bring forward any further adjustments. A strengthening dollar and a return of risk appetite will put renewed pressure on gold's safe haven appeal and prices. While it is likely the gold price will drop below the \$1,200/oz threshold in the coming months, we believe that gold will find support due to the improving market fundamentals. On the supply side, we forecast global mine production to drop in 2016, representing the first annual decline since 2008 and the largest in percentage terms in more than a decade. While we expect a modest recovery in scrap volumes, particularly from markets where the gold price is not expressed in dollar terms, this is unlikely to offset losses in global mine production, thus resulting in lower total supply.

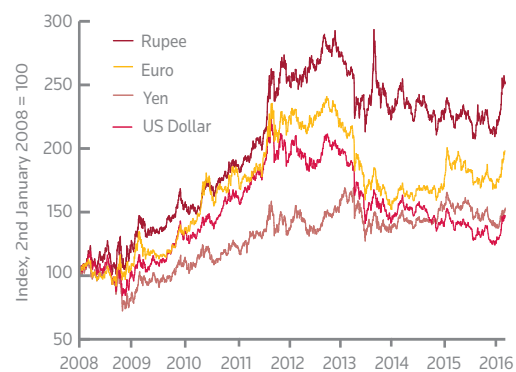
By contrast, we expect physical gold demand to improve later in 2016, particularly for investment-grade jewellery, triggered by a rebound in pent-up demand from Asia. This is likely to be driven by concerns about the slowdown in China, heightened uncertainty in currency markets, particularly in emerging economies, and a growing desire to diversify personal wealth. Moreover, a clear uptrend in the gold price or, at least, signs of stabilisation are likely to see investors returning to the market and gold regaining its lustre. The forecast reduction in global mine output and a gradual recovery in demand will see the physical surplus narrow in 2016, providing support to the gold price and laying the foundation for better prospects. That said, the gold market and future price moves will remain highly reliant on sentiment-driven factors, at least in the short term.

REAL AND NOMINAL GOLD PRICES



Source: GFMS, Thomson Reuters

INDEX OF GOLD PRICE IN MAJOR CURRENCIES



Source: GFMS, Thomson Reuters

2. INVESTMENT

- **Total Identifiable Investment, which includes physical bar investment, all coins and ETF inventory build, posted a modest 5% increase in 2015, to reach 990 tonnes, its highest level since 2012.**
- **If measured in value terms, however, total identifiable investment dropped by 4% to approximately \$37 billion.**
- **The humble year-on-year increase in the tonnage figure was largely attributed to the reduced scale of ETF selling in 2015 from the previous year, with net outflows of gold of 124 tonnes, a 21% reduction year-on-year. However, this still marks the third year of net outflows, following ten years of inflows.**
- **Retail purchases of bars and coins posted a marginal 1% increase in 2015 to 1,115 tonnes. The uptick in demand was driven solely by an increase in gold coin demand, which rose by 5% to 263 tonnes. Purchases were concentrated in the third and fourth quarters of the year as bargain hunters took advantage of gold prices falling below \$1,100/oz for the first time in five years.**
- **Investor activity on COMEX further demonstrated the bearish sentiment towards gold over the year, with net managed money positions falling by 381 tonnes, to reach -75 tonnes by year-end, the lowest net negative position since records began in 2006. The shift in the fall of gold managed money positions into negative territory by year-end marked only the second time in CFTC records of this occurrence, after net positions fell to a low of -35 tonnes in mid-July.**
- **Chinese exchanges continued to dominate global exchange activity, with turnover growing 22% in 2015. Over the past three years our recorded Asian exchange activity has increased by an average 74% CAGR.**

OVERVIEW

The key theme driving investor sentiment in the gold market during 2015 revolved around expectations surrounding the timing of the first U.S. interest rate hike since June 2006. Following the end of a six year long U.S. stimulus package, which ended in October 2014, all attention switched towards the timing of the new tightening cycle, with initial market expectations set on an announcement following the Federal Reserve's June and then September meetings. The announcement by the Federal Reserve that it would raise interest rates by 0.25% on 16th December, therefore, capped a year in which significant pressure had been put on gold. Furthermore, the significant rally of the U.S. dollar index, which rose by 17% year-on-year, to its highest annual average level since 2002, weighed on investment demand, driving gold prices lower. Lower prices, in turn, helped to explain a significant pick-up in physical demand in the second half of the year, as gold prices fell below \$1,100/oz. Meanwhile, heightened concerns over global economic growth, geopolitical tensions, falling oil prices and high volatility in emerging market currencies helped to underpin positive investment demand in the first quarter of the year, explaining, to some extent, the modest increase in our total identifiable investment figure for 2015 as a whole.

IDENTIFIABLE INVESTMENT*

(tonnes)	2011	2012	2013	2014	2015
Retail Investment	1,572	1,356	1,790	1,101	1,115
of which bars	1,245	1,050	1,408	851	851
of which coins**	326	305	382	251	263
ETF Inventory Build	185	279	-880	-157	-124
Total Identifiable Investment	1,756	1,634	910	945	990
Indicative Value US\$ (bn) ***	89	88	41	38	37

*Excludes investment activity in the futures and OTC markets.

**Official Coins and Medals & Imitation Coins.

***Indicative value calculated on an annual basis using annual average gold prices.

Source: GFMS, Thomson Reuters

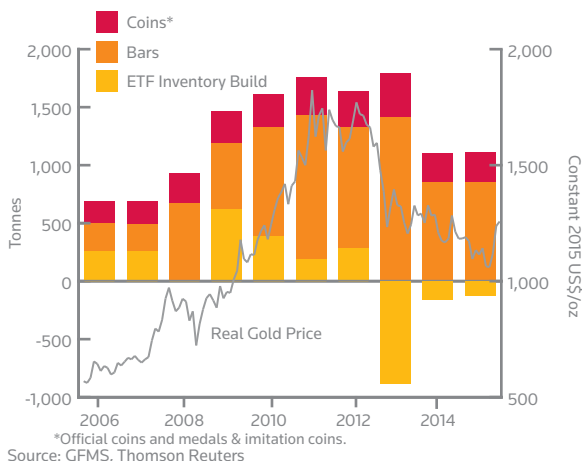
Total identifiable investment demand for gold rose by 5% to 990 tonnes last year. The modest uptick in identifiable investment was largely attributable to the slowdown in selling from gold ETFs, which saw combined holdings decline by 124 tonnes or 21% from 2014 levels. Nonetheless, it was the third consecutive year of ETF redemptions, after ten years of increases. Meanwhile, a slight increase in retail investment of 1%, taking offtake to 1,115 tonnes, provided some support to investment demand. The marginal increase in retail investment came solely from gold coin demand, which rose by 5% to 263 tonnes. Purchases were concentrated in the third and fourth quarters as bargain hunters took advantage of gold falling below \$1,100/oz for the first time in five years.

In the first two months of 2015, investors returned to gold as a safe haven asset, on increased concerns about world economic growth, geopolitical tensions, falling oil prices, high volatility of emerging market currencies, and heightened uncertainty towards U.S. rates. The gold price rose towards its psychological \$1,300/oz level for the first time in five months and this was largely driven by an increase in net managed money positions (including substantial short covering), to a high of 522 tonnes on 27th January, their highest level since November 2012. Meanwhile, ETF holdings recorded an increase of 82 tonnes over the same period. However, identifiable investment over the first half had fallen by 6% to 499 tonnes, as investors turned cautious towards gold in anticipation of the first U.S. Fed rate rise. ETF outflows returned all prior gains, while managed money net positions recorded a 239 tonne decrease, driven largely by short selling. Over the remainder of the year, market sentiment remained weak as investors were waiting on the sidelines for more clarity on U.S. monetary policy outlook. Investors continued to pile out of paper gold, with ETFs recording a further 128 tonne of outflows. Meanwhile managed money positions fell into a net negative position twice over the course of the year, in July and then over November and December, marking the first net negative managed money position since the CFTC began to measure this data in 2006.

Retail investment recorded a 13% decline in the first half of 2015, to 495 tonnes, with the two largest consumers of gold, China and India recording disappointing demand year-on-year. One of the main reasons for the poor demand from China during the period was the extraordinary performance of the domestic stock market. The Shanghai SE Composite Index rose 43% in the first five months of the year, drawing massive capital flows away from other markets, including gold. Meanwhile, continued expectation of lower gold prices kept Indian demand down by 31%. However, in the second half of the year, with gold prices falling to their lowest level in six years in mid-July, in addition to a sharp downward correction in equity markets (particularly in emerging countries), retail investment rose by 17%, driven largely by demand for gold coins, which on a global basis rose to 81 tonnes in the third quarter, their highest level since 2013.

Since the beginning of 2016, at the time of writing, gold has rallied by \$198/oz or 19%. The risk-off investor sentiment, which brought gold to its highest level in over a year, was driven by growing geopolitical stress amongst oil producing countries, as the crude oil price continued to plummet, falling below \$30 bbl, its lowest level since 2004. Meanwhile, equity markets' weakness and growing expectations that the pace of U.S. interest rate rises would slow following the Fed meeting on 27th January, further boosted investor appetite. Over this period combined ETF holdings rose by 19% to reach 1,813 tonnes, its highest level since 27th March 2014, while managed money positions increased by 457 tonnes. Meanwhile, physical coin demand remained strong after having been at an elevated level in the final quarter of the year.

IDENTIFIABLE INVESTMENT



US DOLLAR INDEX



EXCHANGE TRADED FUNDS

ETF holdings fell by 8% in 2015, with the loss over the second half of the year exceeding inflows in the first half. For the full year of 2015, expectations of a U.S. interest rate rise largely influenced interest in gold ETFs.

Combined holdings of ETFs declined by 124 tonnes or 8% over the year, from 1,653 tonnes to 1,530 tonnes. Total ETF holdings in value terms at the end of the year, at \$52 bn, were \$12 bn or 19% lower year-on-year, compared to a loss of \$6 bn in 2014. With a strong rally in gold prices at the beginning of the year, the first quarter of 2015 saw an inflow of 36 tonnes before selling resumed and continued for the next three quarters. Redemptions recorded 128 tonnes in the second half of 2015, offsetting all previous gains. The heaviest outflows concentrated in July and November, with 64 tonnes and 66 tonnes respectively, compared to an inflow of 63 tonnes in January, the highest monthly gain for the year.

With the gold price surging to \$1,300/oz in late January gold ETF holdings clawed their way higher in the first two months, to stand at approximately 1,700 tonnes for most of the first quarter. However, this was followed by outflows in the following months, as a result of plummeting gold prices combined with cautious sentiment towards gold derived from a sluggish economy in general. In particular, demand from China, the second largest gold consumer, suffered a significant drop in the second quarter year-on-year, as its strong domestic equity market drained capital away from the gold jewellery and physical investment markets during the period.

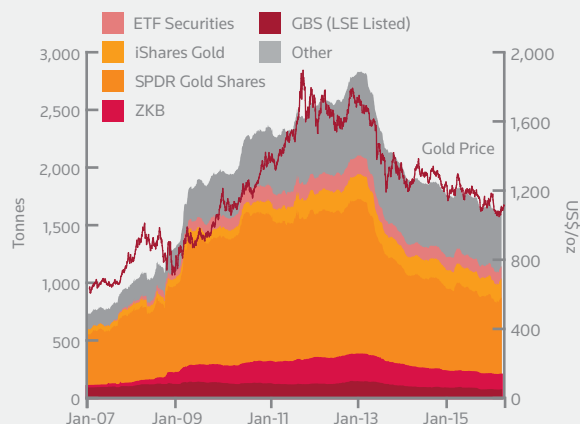
For the full year of 2015, gold market sentiment was largely influenced by expectations of a U.S. interest rate rise, as well as a stronger dollar. In the second half of 2015, the timing of the U.S. interest rate rise became the dominant factor in the market and this uncertainty added more volatility to gold ETF holdings, as every time stronger-than-expected economic data was released this prompted more liquidation in the paper market. The Federal Reserve finally announced the long-awaited increase in U.S. rates at the last Federal Open Market Committee (FOMC) meeting in December 2015. However, given that the lift was in line with markets' expectations and had already been priced into market sentiment, total ETF holdings saw a loss of some nine tonnes.

Among the individual funds, the largest redemptions took place in the established entities, with SPDR Gold Shares, the largest gold ETF accounting for approximately 40% of the total ETF holdings, posting an outflow of 68 tonnes or 10% over the year, more than half of the total outflows recorded for the period. Meanwhile, other noteworthy decreases were seen by GBS LSE, ZKB gold and iShares COMEX Gold Trust, recording losses of 16 tonnes, 11 tonnes and nine tonnes respectively. In contrast, combined holdings of four China-based ETFs, namely Hunan Gold ETF, Guotai Gold ETF, E-Fund Gold ETF and Bo Gold ETF, doubled over the course of the year to six tonnes. While these only represent a small portion of the global ETF market, their performance should serve as a proxy to the world second largest consumer's interest in gold as an investment.

Turning to 2016, as of end-February, gold ETF holdings absorbed a substantial inflow of 283 tonnes, fully offsetting losses of 2015. For the single month of February, inflows into gold ETFs reached 210 tonnes, the highest monthly increase on record, lifting total holdings to the level of 1,813 tonnes or \$72 bn in value terms. In particular, gold holdings for SPDR Gold Shares stood at 793 tonnes at the end of February, responsible for three quarters of all purchases. This gain was in tandem with the surge in the gold price in

the first quarter of 2016, as the spot price increased by 17% or \$177/oz since the start of the year. The stellar growth at the beginning of 2016 clearly denoted investors' desire to diversify their investment portfolios by increasing the proportion of gold-backed assets. This was largely driven by growing concerns about the global economy and reduced expectations of further interest rate adjustments from the Federal Reserve this year.

GOLD ETFS AND OTHER SIMILAR PRODUCTS



Source: GFMS, Thomson Reuters, collated from respective ETF Issuers' data

ACTIVITY ON COMMODITY EXCHANGES

- Trading volumes on major Chinese exchanges posted sizeable increases, as opposed to other markets, which showed a modest upturn or declined.
- COMEX reported the first record net short since 2006.

Total volumes of gold futures traded on **COMEX** rose by a marginal 3% in 2015, to 42 million contracts. This is equivalent to a nominal 130,160 tonnes. Open interest, at 1,293 tonnes by end-December, was up by 12%. The marginal increase in turnover, which was concentrated in the first and third quarters of the year, clearly demonstrated a positive correlation between activity and major price movements of gold over the year. Indeed, if we look at CFTC reports on managed money, which can

be used as a proxy for investor activity on the exchange, net positions rose to a high of 522 tonnes on 27th January, its highest level since November 2012, as gold rose towards \$1,300/oz for the first time in five months. However, turning to the second half of the year, when the increased uncertainty over the timing of the first U.S. rate increase weighed on investor sentiment, net managed money positions fell into their first net negative position since the CFTC began to measure this data in 2006. The fall was driven by short speculative positions reaching their highest level in history, at 377 tonnes, which saw the gold price slip below \$1,100/oz for the first time in five years. By year-end net managed money positions reached -75 tonnes, the lowest net position recorded since records began.

Trading volumes on the **Shanghai Futures Exchange** saw a modest 6% year-on-year rise to reach 25,317 tonnes. Investors preferred domestic equities during the first half of the year due to the stronger performance of the equity market and gold's disappointing price performance. Meanwhile, on the **Shanghai Gold Exchange (SGE)**, China's only legal source of VAT free gold, trading volumes (inclusive of SGE International Board) rose by 59%, to 12,044 tonnes, Au(T+D) futures with the most heavily traded contract posting a 31% increase year-on-year. The premium daily average increased to \$4.63/oz last year, up 63% from 2014. Additionally, 2015 was a record year for gold withdrawals with its weekly withdrawals averaging 51.9 tonnes.

Tokyo Commodity Exchanges continued to report a decline in trading volumes in 2015, albeit at a slower rate compared to 2014, with gold futures declining by 9% year-on-year, reaching a record low of 547 tonnes in November. Meanwhile, looking to other exchanges, **Dubai Gold & Commodities Exchange (DGCX)** saw a 27% year-on-year decline in volumes, which can partially be attributed to increased geopolitical uncertainty surrounding the region and the dramatic fall in the oil price.

GOLD TRADED ON COMMODITY EXCHANGES

	(total volume in nominal tonne equivalents)			Change y-o-y
	2013	2014	2015	
COMEX	147,093	126,028	130,160	3%
SHFE	20,088	23,858	25,317	6%
SGE *	5,365	7,576	12,044	59%
TOCOM	12,225	8,745	7,928	-9%
SGE Spot	2,003	2,560	4,092	60%
MCX	8,945	3,972	3,960	-0.3%
DGCX ¹	426	426	312	-27%
ICE Futures US	1,116	508	294	-42%
Borsa Istanbul ¹	438	239	255	7%

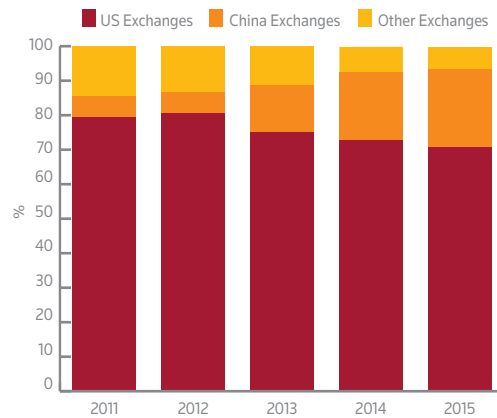
*All SGE contracts excluding SGE Spot.
¹100% Physical Delivery
 Source: Thomson Reuters, relevant exchanges

MANAGED MONEY NET POSITIONS ON COMEX



Source: CFTC

GLOBAL EXCHANGE ACTIVITY



Source: GFMS; Thomson Reuters, CFTC, ICE Futures US, SGE, SHFE, TOCOM, MCX, DGCX, Borsa Istanbul

PHYSICAL BAR INVESTMENT

– Demand for bullion bars was flat year-on-year in 2015, increasing by a mere 0.1%, to an estimated 851 tonnes.

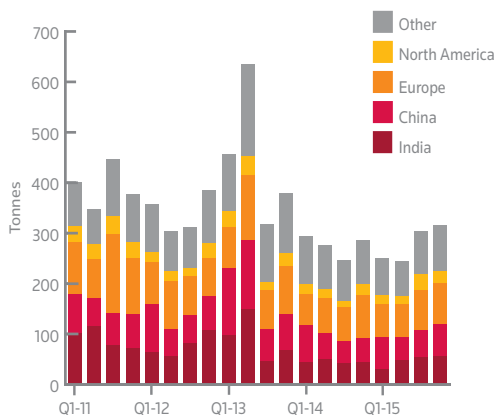
Following three years of consecutive declines, physical bar investment in **Europe** finally posted an upturn last year, increasing by 8% to 227 tonnes. The majority of the rise was driven by Germany, which represents over half of the total figure in Europe. We estimate that Germany added 19 tonnes last year, driven by a combination of factors. Firstly, the euro gold price repeatedly dipped below the psychological €1,000/oz threshold, which sparked interest. Increased price volatility particularly contributed to higher turnover. Secondly, Germans increasingly started to hedge their bets on Europe's ability to cope with the migrant influx which created stronger division in the country and put a heavier burden on the leading nation of the Eurozone. This was also one of the reasons why we witnessed significant increases in some parts of Eastern Europe such as **Poland** and **Slovenia**. Global stock market woes, particularly in China, motivated some investors to buy physical gold. When excluding **Germany** from the European total, however, demand for physical gold bars actually continued the descent that started in 2011, falling by 1% in 2015. We estimate that demand in the second largest buyer of physical gold bars in Europe, **Switzerland**, remained flat compared to last year. In **Italy**, demand was up by 5% driven by a combination of general macroeconomic concerns and the ECB's ability to stimulate inflation and growth in Europe.

Physical bar demand in **North America** increased by 11% to total 29 tonnes last year. Demand for gold bars in the region was lacklustre in the first half of the year, dropping 12%. This dismal start was more than offset by a 41% increase in bar demand in the second half of the year. Much of the growth in the latter half of the year was spillover demand from coins. Coin sales in North America surged 36% last year, but demand exceeded sales in the period. In order to satiate demand, investors opted to buy small bars and rounds when they were not able to buy coins.

China's demand for gold bars took a severe hit since the second half of 2013, when the government first started taking additional steps to curb corruption, resulting in a significant decline in gold-related gifting activities. However, demand for gold bars rebounded in the second half of 2015, especially in the fourth quarter (when demand surged by 28% year-on-year), after struggling in the first six months of the year. The depreciating yuan and the lower gold price environment encouraged China's older generations to purchase gold bars (especially 200 gramme bars) as gifts to their third generation in celebration of the Chinese New Year and birthdays. The introduction of 'Year of the Monkey' gold bars (based on the Chinese zodiac symbol) into the market during the fourth quarter also stimulated demand.

Another observation is that some Chinese companies had been giving out gold bars for free, hoping to generate greater revenues. For example, Chinese property developers, in an effort to reduce their inventories, have been offering free gold bars to those clients who were willing to offer a deposit on a property. Meanwhile, for tax purposes, some Chinese companies had also been giving gold bars instead of cash payments to their employees as an end-of-the-year bonus or incentive. China's demand for gold bars actually reversed course, and recorded a 19% year-on-year increase during the second half of 2015, resulting in a less than two percent year-on-year decline.

RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

Bar investment in **India** last year was 13% higher than in 2014, with part of the growth happening towards the second half as price averaged less than Rs. 26,000. The short-term investors primarily paid only the duty on gold and held it as consignment for a 30-45 day period. These were then transferred or sold to a different customer thus netting in the duty differential following any price rise. Retail demand was strong as well during Akshaya Tritiya and Diwali when the majority was in the 10 gramme to 50 gramme denomination bars. Out of 127 tonnes in the 100 grammes minted bar category that was imported last year, sizeable volumes were consumed by retail investors.

OFFICIAL COINS

— *Global official coin minting grew by 10% year-on-year in 2015, as the price decline towards the end of the year triggered buying activity amongst price-sensitive investors.*

After a lacklustre 2014, total gold coin fabrication grew by 10% in 2015 to reach 190 tonnes. This was the highest sales level recorded since 2013, a year characterised by bargain hunting when the gold price fell by 30%. This brings total value fabricated to an average value of \$7.08 bn, unchanged year-on-year, as the surge in volumes fabricated was offset by the drop in the gold price. North America, one of the largest bullion coin fabricating regions globally, saw fabrication volumes increase by 37% year-on-year. Strong gains were also recorded by Asia and Africa, growing by 14% and 29% respectively. Europe, however, experienced a decline of 12%, solely driven by a slump in bullion coin fabrication in Turkey (-51%), although demand in the rest of Europe actually rose by 41%.

Price movements were the key catalyst behind last year's surge in bullion coin sales; the gold price fell below \$1,100/oz at the beginning of the third quarter and towards \$1,050/oz in December – both important psychological levels to trigger buying activity amongst investors. A volatile financial markets backdrop provided fewer alternatives for investors in search of higher returns, prompting some to park assets in a safe haven like gold. Despite continued rhetoric during last year in anticipation of an interest rate rise by the Fed and widely held notions that gold as an asset class was losing its lustre as the global economy emerges from recession, strong sales figures showed that bullion coins were still firmly in favour amongst investors. Other factors which catalysed additional bullion buying included the need to hedge against a depreciating currency amid continuing quantitative easing programmes in Europe and Japan. Despite the general decline in the gold price in dollar terms, the gold price in euro and yen has fallen by a lesser extent as stimulus measures in these countries resulted in much weaker local currencies. Meanwhile, the weak economic climate in emerging markets such as South Africa saw strong uptake for gold as a hedge against currency depreciation and economic risks.

Demand for **medallions and imitation coins** in India declined by 6%, making it the third consecutive year of decline. One of the key reasons, other than the restrictions on banks to distribute coins, was the lack of offtake from monthly savings schemes that jewellery stores operated. It was of least interest for jewellers to sell coins against such schemes and instead they pushed forward jewellery sales, due to lower margins that coins fetch. Most demand was concentrated in the 995 minted medallions, popular in the 8 to 20 gramme category. The launch of India's first official coin, 'Ashoka Chakra' during the time of Diwali saw an underwhelming response, attributed to less awareness and minimal distribution network. These coins are made from gold sourced through Gold Monetisation Scheme.

OFFICIAL COINS (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
United States	27.5	19.0	31.8	50.9	44.5	36.5	29.2	37.3	23.8	33.6
Canada	8.3	9.0	27.6	38.2	34.1	35.8	23.9	35.5	22.1	29.5
South Africa	2.4	6.8	8.7	23.2	20.0	23.8	23.7	27.5	21.5	27.7
China	9.4	7.2	5.5	6.7	8.5	23.9	21.4	21.8	14.1	23.9
Austria	4.4	5.3	24.9	33.4	17.9	21.1	12.4	20.3	15.0	23.5
Turkey	56.7	56.7	53.1	30.9	35.6	58.9	39.9	90.6	40.5	19.8
Australia	5.3	5.6	9.6	11.0	8.4	10.6	10.0	16.2	11.6	9.9
United Kingdom	3.5	3.4	4.3	4.7	4.4	5.8	6.8	4.9	4.5	9.5
Germany	5.5	5.5	5.5	5.0	5.0	4.7	5.0	4.2	4.2	4.2
Russian Federation	1.6	4.3	5.7	6.5	5.4	4.6	6.4	5.7	4.5	4.1
Mexico	1.4	1.2	2.5	0.3	2.3	0.2	1.4	1.4	1.2	1.3
France	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.8	0.8
Other Countries	6.1	7.0	8.2	12.8	12.3	12.5	11.8	12.2	9.5	2.0
World Total	132.3	131.3	187.4	223.8	198.5	238.7	192.0	277.9	173.3	189.9

Source: GFMS, Thomson Reuters

PHYSICAL BAR INVESTMENT

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Europe										
Germany	22.3	30.3	109.1	128.7	121.7	154.5	104.1	112.5	97.0	115.3
Switzerland	10.5	12.5	88.9	97.1	92.4	115.9	80.5	65.1	44.6	44.5
Belgium	-4.3	-2.0	-0.1	12.2	18.7	23.8	19.2	21.0	20.4	20.3
United Kingdom	0.0	-2.6	0.0	4.7	9.3	10.4	15.1	13.4	7.6	6.9
<i>Other Countries</i>	-29.7	-33.3	17.8	10.7	-5.8	44.5	35.6	39.7	40.4	39.7
Total Europe	-1.2	4.8	215.7	253.3	236.3	349.0	254.4	251.7	209.9	226.8
North America										
United States	4.9	-2.5	51.4	63.5	62.0	47.5	25.9	33.4	24.8	27.3
Canada	4.0	1.4	5.2	7.4	3.4	5.1	2.6	5.0	1.5	2.0
Mexico	0.8	1.8	5.3	3.3	2.8	2.9	2.8	0.1	0.1	0.1
Total North America	9.7	0.8	61.9	74.3	68.3	55.5	31.3	38.4	26.4	29.3
South America										
Venezuela	0.0	0.0	0.0	2.0	2.0	2.0	2.0	2.6	2.0	2.0
<i>Other Countries</i>	-3.6	-2.0	-0.6	0.6	0.3	0.5	0.5	1.2	0.3	0.3
Total South America	-3.6	-2.0	-0.6	2.6	2.3	2.5	2.5	3.8	2.3	2.3
Asia										
China	10.1	21.0	60.8	102.3	178.6	237.8	249.3	382.1	201.5	199.0
India	139.8	148.6	159.9	117.5	266.3	288.0	205.9	265.8	109.8	124.2
Thailand	15.9	4.6	42.6	-10.1	63.0	103.6	101.9	148.9	84.4	69.6
Vietnam	69.5	56.1	96.2	58.2	67.0	87.8	67.4	77.8	49.2	31.4
Iran	12.0	20.2	30.6	15.8	33.8	40.4	44.2	46.4	31.5	27.6
South Korea	2.7	2.8	-0.6	-16.2	1.2	6.0	5.5	14.2	16.0	20.6
Pakistan	2.1	2.6	-4.4	-19.4	7.0	14.6	12.3	23.9	13.4	15.6
Saudi Arabia	8.0	9.0	13.5	10.9	14.5	17.4	16.3	17.8	14.6	13.9
Japan	-47.0	-56.4	-39.4	-30.8	-41.0	-47.2	-10.5	2.7	-1.9	13.5
Indonesia	-1.0	0.3	2.9	-6.0	15.3	24.8	22.1	43.1	18.1	11.4
<i>Other Countries</i>	19.2	23.1	24.3	3.9	19.9	48.8	32.1	58.8	49.3	43.5
Total Asia	231.2	231.9	386.5	226.0	625.6	822.0	746.5	1,081.5	585.9	570.2
Oceania & Other										
Australia	0.8	1.0	2.9	4.4	10.2	15.5	14.8	17.6	16.2	15.1
Egypt	0.6	0.7	0.4	0.7	1.2	0.7	0.8	15.2	9.9	7.7
Total Oceania & Other	1.4	1.7	3.3	5.1	11.3	16.2	15.6	32.8	26.1	22.8
World Total	237.5	237.2	666.7	561.3	943.8	1,245.1	1,050.4	1,408.2	850.6	851.3
<i>...of which:-</i>										
<i>Middle East*</i>	34.8	45.0	61.4	34.9	65.8	93.1	74.4	113.1	87.8	71.8
<i>East Asia*</i>	56.1	38.5	171.4	92.7	291.1	438.4	460.1	701.5	391.4	367.2
<i>CIS*</i>	3.6	4.2	4.4	4.9	3.1	2.8	2.7	2.7	2.8	2.6
<i>Indian Sub-Continent*</i>	143.0	152.3	156.6	98.5	273.6	304.4	220.8	293.0	126.0	142.6

Source: GFMS, Thomson Reuters; *The key regional bullion markets

MEDALS AND IMITATION COINS (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
India	55.8	64.7	63.5	53.5	82.6	80.0	106.3	96.3	70.8	66.6
Other Countries	3.6	3.7	6.2	5.4	5.7	7.8	7.1	7.5	6.6	6.8
World Total	59.4	68.4	69.7	58.9	88.3	87.8	113.4	103.8	77.4	73.4

Source: GFMS, Thomson Reuters

3. MINE SUPPLY

- **Global mine production grew by less than 1% last year to total 3,158 tonnes in 2015.**
- **Growth in Indonesia and North American countries was partially offset by losses in China and several African countries.**
- **Mining project start-ups were a more modest contributor to growth last year, with many of the larger production gains coming from more favourable grade and process recovery at several large, established operations.**
- **Producers' costs of production (when expressed in U.S. dollars) showed a decrease last year, aided by pronounced dollar strength and lower oil price-related inputs.**
- **Total Cash Costs fell by 5% to \$707/oz. All-in Costs dropped by 4% to \$1,310/oz.**
- **Producers de-hedged last year as scheduled contract deliveries exceeded the emplacement of new hedges.**
- **Mine production is expected to show a decrease in 2016 for the first year since 2008.**

TOP 20 GOLD MINING COUNTRIES

Rank			Production (t)	
2015	2014		2014	2015
1	1	China	478.2	458.1
2	2	Australia	274.0	275.9
3	3	Russia	247.5	252.4
4	4	United States	208.7	216.0
5	5	Peru	173.0	175.9
6	7	Canada	152.1	158.7
7	6	South Africa	159.3	150.7
8	9	Indonesia	116.4	134.3
9	8	Mexico	117.8	124.6
10	10	Ghana	107.4	95.1
11	11	Uzbekistan	81.4	83.2
12	12	Brazil	81.2	80.8
13	13	Argentina	59.7	64.1
14	14	Papua New Guinea	56.3	57.2
15	16	Mali	47.4	49.1
16	19	Colombia	43.1	47.6
17	15	Kazakhstan	48.9	47.5
18	20	Philippines	42.8	46.8
19	17	Tanzania	45.8	46.8
20	21	Dem. Rep. of Congo	40.0	45.7
		Rest of World	550.6	547.2
		World Total	3,131.5	3,157.7

Source: GFMS, Thomson Reuters

MINE PRODUCTION

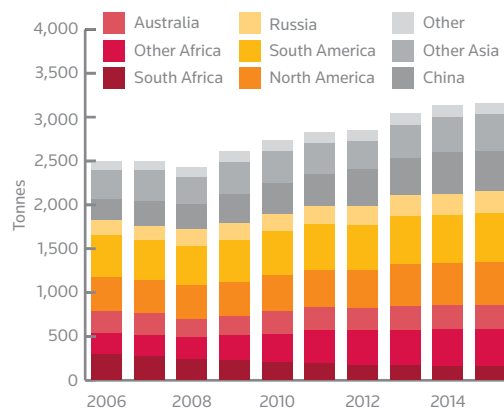
INTRODUCTION

Global gold mine production showed another year of growth last year, albeit at the margin, to record a fresh all-time-high totalling 3,158 tonnes in 2015, a rise of almost 1%. Exploring this top level number in a little more detail though reveals a handful of nuances: firstly, the rate of increase has slowed, representing roughly one quarter of the compound annual growth rate posted over the past eight consecutive years of production gain. Secondly, the growth was entirely loaded to the first half of the year, with output in the second half having decreased modestly. This occurrence was materially influenced by lower production in China, the world's largest producer of gold, during the second half of the year.

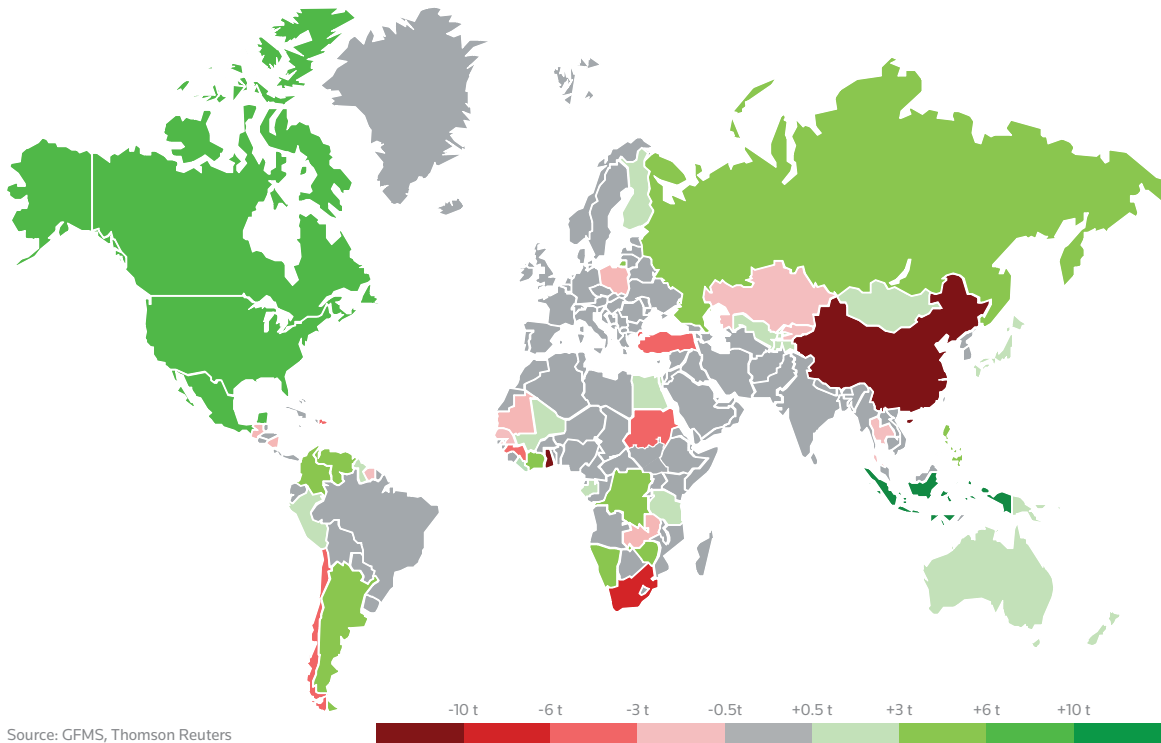
GFMS reads into this outcome that production will record a year-on-year drop in 2016 and that this will mark the beginning of a sustained downtrend in gold mine output lasting several years, with the level recorded for 2015 to therefore mark a multi-year high. This speaks to an inflection point GFMS has been forecasting to occur around this point in time for several years now, since the gold price dropped dramatically in 2013.

This assessment is governed by a deferral and thinning of the project pipeline that has developed as a consequence of lower prices, but also due to a broader suite of project development challenges. Through the commodities bull

GLOBAL GOLD PRODUCTION



MINE PRODUCTION WINNERS AND LOSERS, 2015 VERSUS 2014



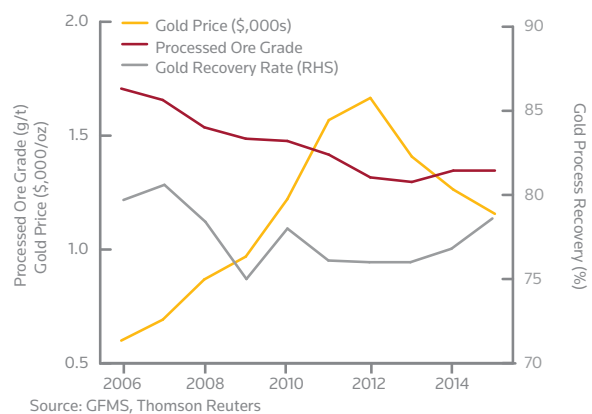
market of the past decade, countries with mineral endowment have understandably pursued tactics to assume a larger ‘slice of the pie’. It is also the case that drives by mining companies to act as responsible corporate citizens are prioritised now more than ever before. Such initiatives are far-reaching but include environmental compliance, mine site rehabilitation requirements and greater benefits to local communities, in terms of training and employment. Such moves clearly represent progress but must be acknowledged as factors that will continue to add to the cost and extend the lead times associated with future project developments. This will make it increasingly difficult for developments to meet investment hurdles assuming other factors remain equal.

Looking at regional production trends, the stand-out change was the drop year-on-year in Africa from which mine supply fell by 1%. This was brought about as a result of three of the five largest country-level losses globally; South Africa, Ghana and Sudan. At the other end of the spectrum, North American output rose most strongly, by 4%, with all three countries in the region posting solid gains last year. Asia’s growth was marginal with strong gains in Indonesia and lesser rises in the Philippines and Uzbekistan, largely offset by a material loss recorded for Chinese output.

Gold mining costs fell last year on a Total Cash Cost basis by 5% to an average of \$707/oz; while on an All-in Costs basis the number was reduced by 4% to \$1,310/oz. Although there have been business improvement factors behind a small portion of this, in the main, producers have benefited hugely from the dual tailwinds of foreign exchange depreciation of almost every producer currency against the dollar and additionally from cost input benefits associated with the dramatically lower oil price.

The producer community collectively reduced hedge cover last year by 24 tonnes to leave the aggregate producer hedge book at 171 tonnes at end year. Following the addition to the hedge book of 104 tonnes in 2014, the total supply of gold from the mining industry (mining plus/minus hedging) actually fell last year.

GLOBAL GOLD GRADES & RECOVERY RATES



MINE SUPPLY

REGIONAL PRODUCTION OVERVIEW

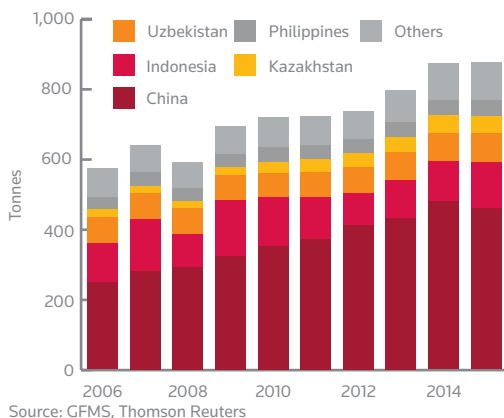
China's annual mine production dipped for the first time in the modern era, recording a 20 tonne or 4% drop in 2015. The fall was pronounced during the second half of the year, mainly as a result of lower gold prices, which forced many small higher cost mines, which had started in recent years thanks to the high gold price, to close. This theme shows through in the country's smelted production, which for the gold sector recorded a 10% decline. Meanwhile gold output from the non-ferrous sector was up by a third, to the highest level ever, as overseas miners took advantage of attractive smelter fees. The government reinforced health & safety and environmental protection laws in 2015, which impacted output from domestic gold miners, particularly in provinces with a long history of mining such as Shandong and Fujian. The industry is extremely fragmented, with over 2,000 gold mining companies, such that annual output from the top ten gold producers comprised less than a half of the country's mine production. M&A activity was subdued last year, as owners of small mines proved extremely reluctant to sell at what are considered depressed market prices.

Indonesian output showed the stand-out gain in 2015, adding 18 tonnes, marking its highest level of production since 2009. The largest mine level gain globally was at Batu Hijau, which grew by 19 tonnes, nine-fold due to a combination of improved recovery, accessing a new phase of higher grade ore, throughput and resolution of the export delays which weighed in 2014. Despite volatile quarterly output, Grasberg delivered its highest output since 2011, at 38 tonnes, up 9%. The continued ramp-up combined with the exploitation of a gold-rich zone at Oyu Tolgoi pushed up **Mongolian** gold output to 31 tonnes. Though there were fewer start-ups in 2015, was a notable development at Siana in the **Philippines**. Operations there began mining new ore in March and the mine accounted for a two tonne increase year-on-year.

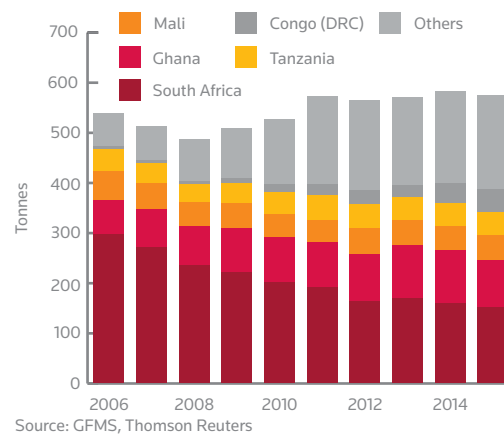
South Africa's long-running downward production trend is well documented and was no different in 2015. Lower grades and recovery at Kloof and work to de-risk Mponeng from concerns about seismicity and ventilation cut output from each asset by three tonnes. This loss was compounded by the two tonne drop in production from Moab Khotsong, which integrated within it the operations of Great Noligwa mid year. Despite a strike ballot by The Association of Mineworkers and Construction Union (AMCU) in October at AngloGold Ashanti, Harmony Gold and Sibanye Gold, there was little industrial action within 2015. **Ghana's** losses were the second deepest globally, at twelve tonnes, with a six tonne drop in production following the cessation of underground operations at the mature Obuasi mine, which was the largest mine-level reduction globally. Poorer grades and power shortages (widespread across Ghana) led to a production fall of three tonnes at Ahafo.

There have however been pockets of positive production results from Africa as well. **Namibian** output increased three-fold, to seven tonnes with Otjikoto delivering five tonnes in its first full year of operation. Increased ore throughput led to a four tonne rise in gold production from Kibali, pushing output from the **Democratic Republic of Congo** up by 14%. An expanded plant at Sukari in **Egypt** added two tonnes of production to that country while significant rises in production from all four publicly listed mines in **Côte d'Ivoire** grew production there by four tonnes.

ASIAN MINE PRODUCTION



AFRICAN MINE PRODUCTION



Mine production increases of seven tonnes each from the three North American countries pushed output from that continent to its highest level since 2001. A significant portion of the rise in the **United States** was attributed to Barrick's Cortez and Goldstrike operations which added a combined eight tonnes, with higher grades and expanded capacity by way of a new thiosulphate leach plant being responsible respectively. Gains were partially countered by a four tonne drop at Bingham Canyon, following work to stabilise the east wall of the pit, and suspension of mining at Hycroft. **Éléonore**, in its first year of commercial production, drove **Canada's** growth, adding eight tonnes. In addition a combined three tonnes from LaRonde and Detour Lake was partly offset by particularly hard ore impeding mill throughput rates at Meadowbank. There were two stand-out production gains in **Mexico**; processed grades at Penasquito showed a substantial increase of 53% last year, while the resumption of full operations at Herradura together added a combined volume of 13 tonnes to the country's tally.

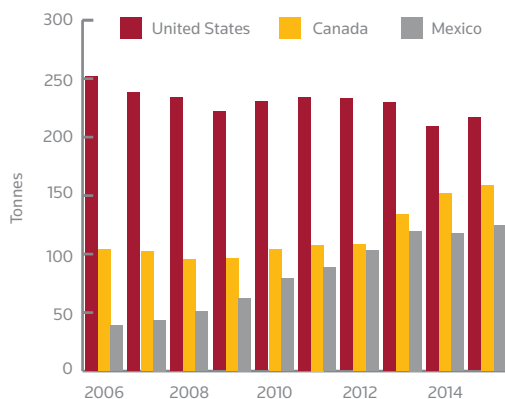
Estimated **Colombian** gold output rose by five tonnes; field research has highlighted continuing artisanal participation, with the number of such miners, or barequeros, now standing at 111,405. The theme is continued in **Peru**, where, despite a government crackdown, illegal mining has proved resilient with smuggling routes shifting from Bolivia toward Ecuador and Colombia. In the country's formal sector, ramp-up at the new Inmaculada provided an additional three tonnes, representing the largest start-up in 2015, although this was somewhat mitigated by a combined three tonne production drop from Yanacocha and the now closed Breapampa. Hyperinflation and the run-away parallel exchange rate in **Venezuela** boosted illegal mining with metal mined in the jungle state of Bolivar following well-established trade routes across the border to Colombia and Brazil. Mine production in **Argentina** rose to its highest level since the Gold Survey began in 1967, helped by the start of commercial production at Cerro Negro, at which output reached 16 tonnes in 2015. However the higher occurrence of gypsum in the ore at Alumbrera, and the associated lower grindability of the ore and well as lower grades at Veladero, introduced a combined offset of eight tonnes. Carbonaceous ore mined in the higher benches of Pueblo Viejo led to lower grades and a four tonne drop in output from the **Dominican Republic**.

Russia, which contributes 83% of European output, added five tonnes in 2015. This rise came amid significant rouble weakness, benefiting producers with strong growth in revenue relative to the cost of production. Of particular prominence, a new stage of the processing plant at Belaya Gora, the opening of a satellite operation at Neryungri and increased ore volumes at Blagodatnoye added a combined two tonnes. Some losses were seen, with output from the Kubaka Mill down one tonne. **Turkish** output was down significantly by four tonnes, with a transition from mining oxide to sulphide at Çöpler and lower grades at Kışladağ contributing a one tonne loss each.

Australian gold output reached its highest level since 2003, at 276 tonnes, aided by contributions from newly commissioned and re-commissioned mines, including Kathleen Valley and Old Pirate. With new operations adding an estimated three tonnes. The bulk of the growth though was spearheaded by higher grades and throughput at two of the largest mines, Boddington and Tanami; together adding six tonnes. Partially countering this, a scheduled mill shutdown and lower grades at Telfer and at Sunrise Dam respectively, contributed a combined three tonne loss. Despite the El Niño drought-related shutdown of Ok Tedi in July, a significant rise in grades and throughput at Lihir and Simberi (adding six tonnes combined) meant that production in **Papua New Guinea** overall grew by one tonne.

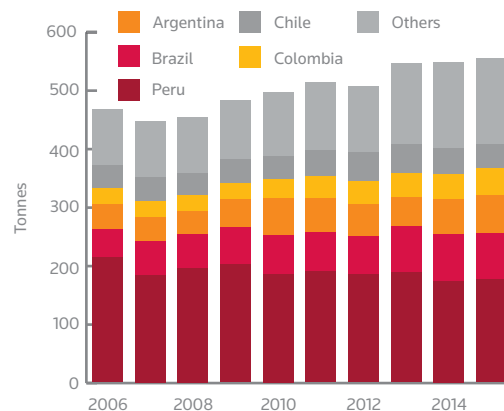


NORTH AMERICAN MINE PRODUCTION



Source: GFMS, Thomson Reuters

SOUTH AMERICAN MINE PRODUCTION



Source: GFMS, Thomson Reuters

WORLD GOLD MINE PRODUCTION

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Europe										
Russia	172.8	169.0	186.4	200.8	197.1	207.2	219.3	237.5	247.5	252.4
Turkey	8.1	10.1	11.4	14.5	16.6	24.1	29.6	33.5	31.0	27.5
Others	16.6	13.9	13.5	16.3	17.5	18.6	23.0	25.4	26.2	25.5
Total Europe	197.6	193.1	211.2	231.6	231.2	249.9	272.0	296.4	304.7	305.4
North America										
United States	251.8	238.0	233.6	221.4	229.7	233.5	232.4	229.6	208.7	216.0
Canada	103.5	102.2	95.0	96.0	103.5	107.8	107.8	133.6	152.1	158.7
Mexico	39.0	43.7	50.8	62.4	79.4	88.6	102.8	119.8	117.8	124.6
Total North America	394.3	383.9	379.4	379.9	412.5	429.9	443.1	483.0	478.6	499.3
South America										
Peru	213.5	183.6	195.5	201.4	184.8	189.6	184.4	187.7	173.0	175.9
Brazil	49.2	58.1	58.7	64.7	67.5	67.3	67.3	80.1	81.2	80.8
Argentina	43.4	42.5	40.3	48.8	63.5	59.1	54.6	50.1	59.7	64.1
Colombia	26.0	26.0	26.0	27.0	33.5	37.5	39.1	41.2	43.1	47.6
Chile	40.4	41.5	39.2	40.8	38.4	44.5	48.6	48.6	44.2	40.4
Dominican Republic	0.0	0.0	0.0	0.3	0.5	0.5	4.1	26.5	35.6	31.1
Venezuela	26.5	24.3	24.3	24.8	24.9	25.5	21.8	22.9	23.2	27.2
Suriname	16.9	16.1	17.9	20.8	22.9	24.6	26.5	27.0	26.6	25.4
Ecuador	14.0	14.0	14.0	14.0	17.2	17.6	17.6	17.4	17.8	17.6
Other	38.1	40.7	38.2	40.3	43.3	49.0	44.4	45.1	44.9	44.3
Total South America	468.1	446.9	454.2	483.0	496.6	515.2	508.4	546.6	549.2	554.4
Asia										
China	247.2	280.5	292.0	324.0	350.9	371.0	411.1	432.2	478.2	458.1
Indonesia	114.1	149.5	95.9	160.5	140.1	121.1	93.0	110.7	116.4	134.3
Uzbekistan	74.1	72.9	72.2	70.5	71.0	71.4	73.3	77.4	81.4	83.2
Kazakhstan	22.1	22.7	22.1	23.7	31.2	38.8	40.0	44.9	48.9	47.5
Philippines	36.1	38.8	35.6	37.0	40.8	37.1	41.0	40.3	42.8	46.8
Mongolia	18.9	18.4	16.5	14.1	13.9	12.4	12.8	17.8	30.5	31.3
Kyrgyzstan	10.6	10.5	18.4	17.0	18.5	19.7	11.3	20.2	19.2	17.7
Other	50.4	45.6	41.1	47.8	54.4	52.2	55.3	54.8	56.2	56.9
Total Asia	573.5	639.0	593.8	694.7	720.8	723.6	737.7	798.3	873.6	875.9
Africa										
South Africa	295.7	269.9	233.8	219.5	199.9	190.8	163.5	168.9	159.3	150.7
Ghana	69.9	77.3	80.4	90.3	92.4	91.0	95.7	107.4	107.4	95.1
Mali	56.9	51.9	47.0	49.1	43.9	43.5	50.3	48.2	47.4	49.1
Tanzania	44.8	40.1	35.6	40.9	44.6	49.6	49.1	46.6	45.8	46.8
Dem. Rep. of Congo	5.6	6.5	7.2	10.0	17.0	22.0	26.1	25.3	40.0	45.7
Burkina Faso	2.1	2.9	6.9	13.8	25.3	34.1	31.3	35.0	38.5	38.0
Zimbabwe	17.2	13.5	8.9	9.8	16.3	19.0	19.5	19.6	18.8	22.7
Ivory Coast	3.0	3.0	5.3	8.6	7.3	13.4	14.0	13.6	18.0	22.2
Guinea	16.6	18.0	23.9	22.5	20.4	19.7	18.4	19.0	21.0	20.0
Sudan	3.6	3.1	2.7	4.0	10.1	22.5	27.9	20.1	21.5	16.5
Egypt	0.0	0.0	0.0	0.0	4.7	6.3	8.2	11.1	11.8	13.7
Other	24.5	27.4	34.5	41.2	44.8	61.1	61.8	56.4	52.3	55.6
Total Africa	539.9	513.6	486.2	509.7	526.8	572.9	565.9	571.3	581.7	576.0
Oceania & Other										
Australia	246.8	247.4	215.2	223.5	260.8	258.6	251.7	268.1	274.0	275.9
Papua New Guinea	61.7	61.7	70.3	70.6	69.7	63.5	57.2	62.4	56.3	57.2
New Zealand	10.6	10.6	13.4	13.4	13.7	11.6	10.2	12.4	11.3	11.9
Other	4.3	2.0	2.9	2.1	2.2	3.4	3.7	3.3	2.1	1.7
Total Oceania & Other	323.4	321.8	301.8	309.7	346.4	337.1	322.8	346.3	343.7	346.7
World Total	2,496.7	2,498.3	2,426.6	2,608.4	2,734.4	2,828.8	2,849.8	3,041.8	3,131.5	3,157.7

Source: GFMS, Thomson Reuters

CORPORATE ACTIVITY

The aggregate value of gold M&A activity nearly doubled year-on-year in 2015, albeit led by the de-listing transaction of Polyus Gold, Russia’s largest gold producer, valued at \$5.4Bn, when the majority shareholders took on the London-listed free float. With the exception of this deal, the theme remained that of larger companies deleveraging by divesting non-core operations, at a similar rate to 2014, while on the flip side of these deals, smaller companies took advantage of opportunities to acquire leveraged assets at low valuations. The aggregated value of deals completed during 2015 was \$13.9Bn, approximately 90% higher than in 2014, based on data from ThomsonOne Investment Banking.

Among the largest transactions of the first half of 2015 was Tahoe Resources’ acquisition of Rio Alto Mining in an all-stock deal valued at \$1.1Bn. The combined company brought Tahoe’s Escobal silver mine in Guatemala and Rio Alto’s La Arena gold mine and Shahuindo gold project (both in Peru) into a single portfolio. Coeur Mining, the largest U.S. silver producer, made headlines twice in 2015, first acquiring Goldcorp’s Wharf mine for \$105M in cash, followed by an all-stock transaction of Paramount Gold and Silver Corp, for its Don Ese deposit, valued at \$146M. Elsewhere, Probe Mines Limited, with assets including the Borden gold project in Ontario, Canada, was acquired by Goldcorp in all-stock transaction. The transaction rationale appears to be to explore consolidation opportunities with Goldcorp’s Porcupine mine, some 160km to the North West.

Activity during the latter half of the year included Newmont’s cash purchase of AngloGold Ashanti’s Cripple Creek & Victor operations for \$820M, and Evolution Mining’s acquisition of Barrick’s Cowal gold mine and La Mancha’s Australian operations for an estimated \$550M and A\$413M, respectively. As market sentiment deteriorated and investors continued to turn against mining and exploration companies, divestment continued to be a strategic move for many “tier 1” gold producers. Newmont sold its Waihi gold mine to OceanaGold for \$101M, followed by Barrick’s sales of Ruby Hill, together with a 70% interest in the Spring Valley project, for \$110M to a private equity fund managed by Waterton Global Resource Management. This divestment strategy extended to more mature project-stage assets in some cases, as illustrated by the acquisition of King of the Hills and Kallis from St. Barbara for A\$3M.

In December, Randgold Resources, walked away from a proposed joint venture with AngloGold Ashanti to develop Obuasi’s Deeps project in Ghana. The deal didn’t meet Randgold’s investment criteria and could have cost up to \$1Bn to reach fruition.

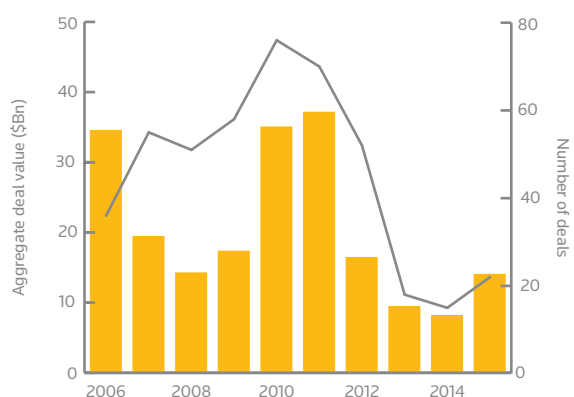
2015 TOP 10 GOLD PRODUCERS

Rank			Output (t)	
2015	2014		2014	2015
1	1	Barrick Gold	194.4	190.3
2	2	Newmont Mining	150.7	156.6
3	3	AngloGold Ashanti	138.0	122.8
4	4	Goldcorp	89.3	107.8
5	5	Kinross Gold ¹	82.0	78.4
6	7	Newcrest Mining	72.4	77.4
7	6	Navoi MMC ¹	73.0	74.9
8	8	Gold Fields ¹	63.6	62.9
9	9	Polyus Gold	52.7	54.8
10	11	Agnico Eagle	44.5	52.0

¹ Estimate

Source: Company Reports; GFMS, Thomson Reuters

GOLD M&A PLUS INITIAL PUBLIC OFFERINGS

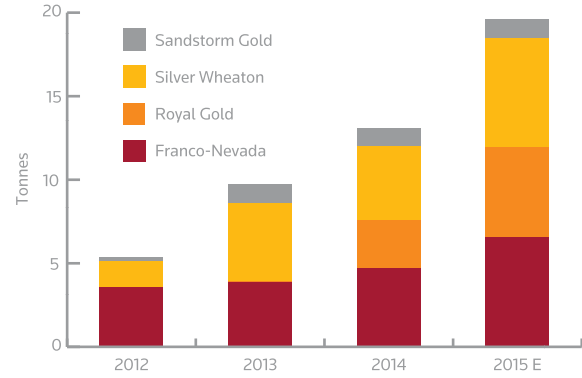


Turning to 2016, two major all-stock offers have been announced so far. In early February, Tahoe Resources announced the potential purchase of Lake Shore Gold and one month later, Endeavour Mining announced its intent to buy True Gold Mining, in an all-stock transaction valued at C\$191M. Endeavour looks to add True Gold’s Karma gold mine in Burkina Faso to further strengthen its West African operating portfolio. Both deals are stated to close in April 2016.

STREAMING

While streaming has been expanding for over a decade, it came into particular prominence in 2015. Streaming involves the payment up front of future metal production over a long time frame, typically on a life-of-mine basis. When a streaming company enters into a deal, it will make an initial payment to the mining company in cash. The reported metal production is then used to calculate the amount of metal credits due. The streaming company takes delivery of refined metal credits in a quantity equal to that which was set out in the deal. Consequently, the streamer makes an ongoing delivery payment on a per-ounce basis to the mining company, ordinarily at a heavy discount to spot.

VOLUME OF GOLD STREAMED



Source: GFMS, Thomson Reuters; company reports

The falling price of commodities presents significant challenges for mining companies to either raise capital or prudently manage the balance sheet. Net debt now represents 44% of the \$400Bn market capitalisation of the top 50 mining companies globally. Companies’ credit ratings have been deteriorating and they are, in recognition of weaker market conditions, seeking to deleverage. Looking to raise capital via equity in a bear market can be prohibitive if not nigh-impossible, since the number of willing investors will generally have shrunk, and companies’ share prices already fallen. In this environment streaming may be considered an attractive form of financing, though the scale of the industry as a whole is still relatively small.

Just over \$2.4Bn was raised in 2015 as upfront payments for gold only or streams involving gold, compared to roughly \$1.7Bn for silver or copper streams. Silver Wheaton’s purchase of a gold stream at Salobo was the first and largest of 2015. This agreement was for 25% of gold production (as was the previous agreement made in 2013), now entitling Silver Wheaton to purchase an aggregate 50% of gold output of the mine until its closure. The upfront payment was \$0.9Bn in 2015 compared to \$1.3Bn in 2013 in line with lower gold prices. The other four largest gold streams were conducted by Royal Gold, involving two primary gold mines, a copper mine and a development project. The deal with Teck over the Carmen de Andacollo copper mine is unusual in that the price paid by Royal Gold for the gold is based on the monthly average price of the preceding month rather than the typical fixed cost or spot price. The deal with New Gold for the Rainy River project was the first major gold stream on an advanced stage asset for Royal Gold.

In 2016, \$0.6Bn has been raised thus far, including an interesting early development stage precious metals stream between Silver Wheaton and Panoro Minerals, involving Cotamabas, an early stage copper-gold-silver project in Peru. Rather than transfer the \$140M of capital up front, Silver Wheaton will advance \$14M to Panoro until the feasibility documentation has been produced and permitting has been granted. At that point Silver Wheaton can receive a portion of the capital back or proceed with the stream. While streaming deals on projects are inherently risky for the streamer, we are increasingly seeing them put in place as the streaming companies become more established and, as the stream portfolio grows, more able to assume additional risk associated with project delivery. This comes at a time during which funding for development projects has been very hard to come by.

2015 FIVE LARGEST GOLD STREAM TRANSACTIONS

Streamer	Mining Company	Mine/Project	Initial Deal*			Date	Silver in deal?
			Cash (\$M)	Gold acquired (%)	Cost		
Silver Wheaton	Vale	Salobo	900	25%	\$400/oz	2 Mar	no
Royal Gold	Barrick Gold	Pueblo Viejo	610	7.5%	30% spot	5 Aug	yes
Royal Gold	Teck Resources	Carmen de Andacollo	525	100%	15% spot**	9 Jul	no
Royal Gold	New Gold	Rainy River	175	6.5%	25% spot	20 Jul	yes
Royal Gold	Golden Star Resources	Wassa, Bogoso and Prestea	130	8.5%	20% spot	7 May	no

*details for first tranche of the deal, for most streams after a certain defined number of ounces has been delivered, the price and percentage of production delivered will change. **Previous month’s average spot price.

Source: Company Reports; GFMS, Thomson Reuters

GOLD PROJECT PIPELINE

In last October's Gold Survey 2015 Q3 Update & Outlook, we discussed a number of gold projects that were under construction or had been approved for development. Here, we revisit those projects, some of which have achieved first production or remain on schedule to do so, while some others have since encountered difficulties.

The gold project pipeline that will add to production during the 2016-2017 period mainly comprises small-to-medium scale projects, a number of which are expansions of existing operations or redevelopments of past-producing assets that had previously been placed on care & maintenance. With the ongoing suspensions of Nataalka and Pascua Lama, there are no near term projects expected to deliver production on the scale of Pueblo Viejo or Kibali, to cite examples of the large-scale new mines that have helped to push global mine supply ever higher over the last few years. This situation is unsurprising given the recent gold price trend, and reflects a more cautious approach to capital expenditure for expansion (and indeed reserve replacement) by the major and mid-tier miners, while junior developers have been constrained by extremely limited funding opportunities amid plunging valuations.

Turning first to **Canada**, New Gold is in the process of developing its \$877M Rainy River project, situated in northwest Ontario. The project has reserves of 3.8 Moz, and will produce an annual average of 325 koz over a 14 year mine life, with commissioning expected to commence in mid-2017. However, Goldcorp's Cochenour is expected to remain at the advanced exploration stage throughout 2016-17, as recent work has revealed the project to be more complex than originally thought. Unanticipated geological complexity is in large part responsible for the serious difficulties encountered at another operation located in the Red Lake district, Rubicon Minerals' Phoenix gold project. Milling operations were suspended in October last year due to elevated ammonia levels in effluent from the tailings management facility. Subsequently, the 2016 resource estimate for the project revealed reductions of 91% and 86% of the contained gold in the indicated and inferred resource categories respectively. Consequently Rubicon has suspended activities at the project and is now reviewing its options.

Continuing south to the **United States**, first production is due from OceanaGold's \$380M Haile project during 2017. Haile, located in South Carolina, is expected to produce an annual average of 148 koz of gold over an initial 10 year mine life. On the other side of the country, Golden Queen Mining announced in early March this year that it had poured first gold at the Soledad Mountain project in California. Newmont Mining is currently undertaking development activity in Nevada, with commercial production declared at Turf Vent Shaft in November last year, adding 100-150 koz per year to supply from the Leeville mine over 11 years. The company's Long Canyon Phase 1 project is scheduled to deliver first production in 2017. Newmont's major growth project, Merian in **Suriname**, is due to commence production this year. Annual average gold production from Merian is forecast to be 300-400 koz, over an 11 year mine life. Meanwhile in **Mexico**, Torex Gold announced the first gold pour at its \$800M El Limon-Guajes project in late December last year, and expects to declare commercial production during Q2 2016. Commercial production was declared effective on 1st January 2016 at Guyana Goldfields' Aurora project, with a recent update to its feasibility study outlining an average life of mine production rate of 190 koz per year, over 16 years. Also in **Guyana**, the first gold pour at Troy Resources' Karouni was announced in November last year, and commercial production was declared in February. In **Australia**, Metals X poured first gold at its Central Murchison Gold Project (CMGP) in October 2015. CMGP is a brownfields project centred on the refurbished Bluebird process plant, and is expected to produce approximately 115 koz during 2016. Saracen Mineral Holdings announced a re-start of production and the first gold pour for nine years at Thunderbox during February 2016, and is due to produce approximately 125 koz annually over a 10 year mine life.

Moving focus to West Africa, Asanko Gold's Obotan project in **Ghana** poured first gold in January, with commercial production expected in Q2 2016. Further west in **Liberia**, Aureus Mining's New Liberty achieved commercial production on 1st March 2016, having produced 17 koz in 2015 during the commissioning phase. True Gold Mining's Karma project in **Burkina Faso** remains on schedule for its first gold pour during Q1 2016, and it was announced in early March that True Gold is to be acquired by Endeavour Mining, which operates several other gold mines in West Africa. Also in Burkina Faso, Roxgold's Yaramoko project is expected to begin commissioning in Q2 2016, and will produce an annual average of 100 koz over a seven-year mine life. However, as a consequence of an extended due diligence period, Hummingbird Resources' Yanfolia project in **Mali** is now expected to commence production in 2017 rather than 2016.

PRODUCTION COSTS

- **Average Global Total Cash Costs decreased by 5% in 2015 to \$707/oz.**
- **As a consequence of the decreasing gold price, the simple cash margin continued to contract in 2015, falling by 14% to \$453/oz.**
- **Total Production Costs (including depreciated capital expenditure) fell by 2%, to \$955/oz.**
- **All-in Costs, which include all cash and non-cash costs, sustaining capital expenditures, indirect costs and overheads, decreased by 4% to \$1,310/oz.**
- **In 2015, approximately 50% of supply covered by the GFMS Gold Mine Economics service was produced at an All-in Cost lower than the annual average gold price.**
- **Non-cash asset impairments are estimated to have contributed \$135/oz to the average All-in Cost in 2015. Excluding impairments, the All-in Cost is estimated at \$1,175/oz.**

PRODUCTION COST REPORTING

Total Cash Costs and Total Production Costs, as referred to in this report, conform to the Gold Institute standard for cost reporting. Where data reported by miners do not conform, adjustments, and in some cases, estimates have been made. Readers should note that cost analysis undertaken in *GFMS Gold Survey 2016* draws on annual data within our Gold Mine Economics service, and incorporates both data for primary gold mines and significant gold producing by-product gold producers (costed on a co-product accounting basis). Earlier data have been restated to reflect this change, from analysis that in the past has been presented for primary gold mines only.

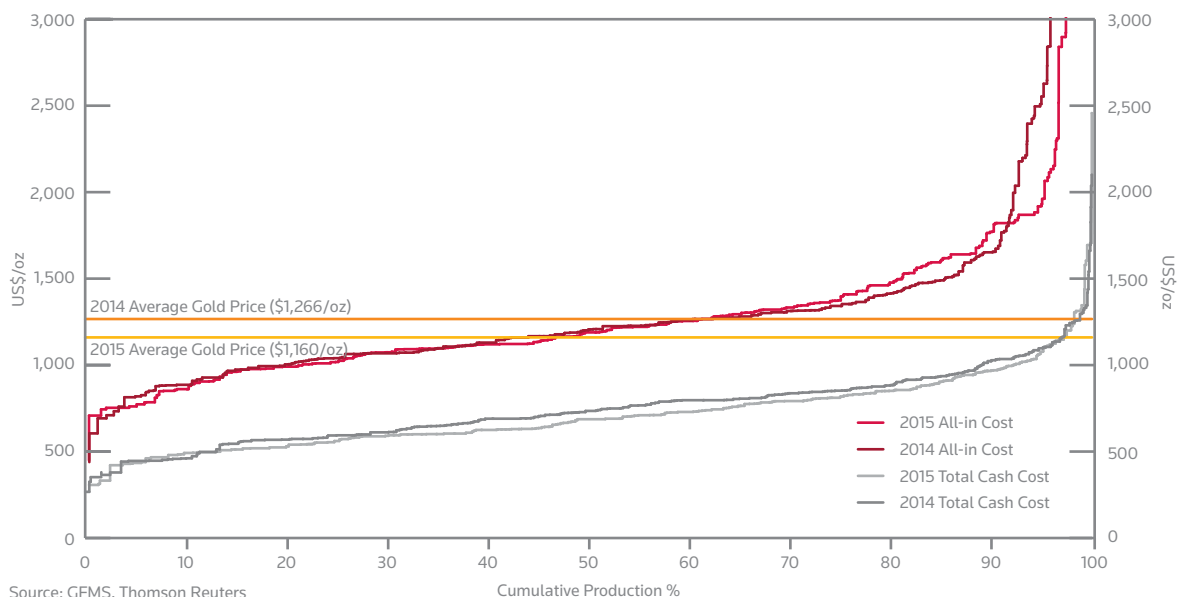
Co-product costs are derived by multiplying the Total Cash Cost by the percentage revenue contribution from gold. This is in contrast to by-product costing, whereby non gold revenue is netted off as a credit against the Total Cash Cost. The co-product analysis method has been employed where gold represents 65% or less of a mine's revenue.

Total Cash Cost comprises mine site cash expenses (mining, ore processing, on-site general and administrative costs), refining charges, royalties and production taxes, net of by-product credits.

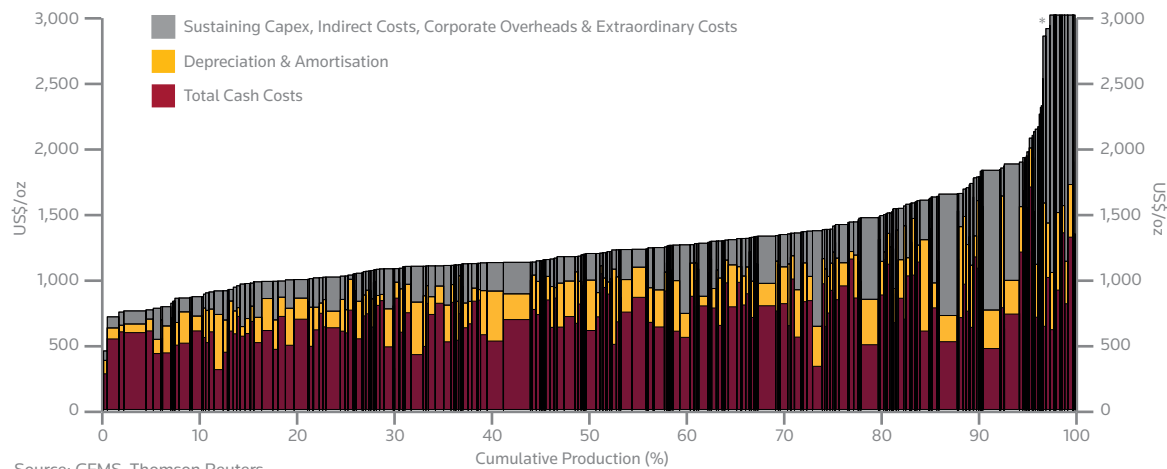
Total Production Cost is Total Cash Costs, plus depreciation, amortisation and reclamation cost provisions.

All-in Cost is a proprietary Thomson Reuters GFMS cost parameter, designed to reflect the full marginal cost of gold mining. In addition to Total Production Costs, it includes ongoing capital expenditure, indirect costs and overheads.

WORLD TOTAL CASH AND ALL-IN COST CURVES



2015 ALL-IN COST CURVE



Cost containment and capital discipline have become familiar themes to observers of the mining industry in recent years, as producers have battled against the effects of the downturn in commodities prices. Gold miners have much in common with their peers in other mining sectors, in that many saw their costs escalate in parallel with increasing metals prices during the decade-long bull run, only to find themselves debt-laden and struggling to remain profitable when the downturn started to bite.

Since 2013, wide-ranging cost cutting programs have become standard for gold miners, with the result that producer costs have subsequently trended downwards. During 2015, the cash costs reported by producers on a quarterly basis provided an indication that this trend was likely to continue for the year as a whole. With most producers having reported end-December results, we are now able to assess the outcome for 2015 on the basis of the standardised cost metrics applied to the population of mines included in GFMS Gold Mine Economics.

On a global basis, the average Total Cash Cost for gold producers was \$707/oz in 2015, a 5% year-on-year decrease. The cost curves on the previous page illustrate this, showing that the 2015 Total Cash Cost curve has shifted slightly downwards relative to that of 2014. However, the same period saw the average gold price fall by \$106/oz to \$1,160/oz, a decrease of 8%, with the result that the simple margin for gold producers contracted by 14% in 2015, to \$453/oz.

Turning to more inclusive measures of production costs, the "All-in Cost" parameter developed by the GFMS team at Thomson Reuters is intended to represent the long-term cost of production. In addition to the components included in the Total Production Cost, the All-in Cost also includes corporate administration costs (head office overheads), interest charges, exploration expense, extraordinary charges (such as retrenchment costs and asset carrying value write-downs), plus sustaining capital expenditure.

The estimated average All-in Cost for 2015, at \$1,310/oz, is 4% lower than that of 2014. This includes asset impairments, which, to date, have not been as extensive as those reported during 2014, adding an estimated \$135/oz to the 2015 All-in Cost, whereas impairments contributed \$162/oz to the All-in Cost in 2014. We would, however, expect the 2015 figure for impairments to rise further as year-end reporting becomes complete. Excluding non-cash impairment charges, the All-in Cost for 2015 is estimated at \$1,175/oz.

The All-in Cost curves in the chart show relatively little year-on-year change over the low- to mid-range, with the most significant decreases in All-in Costs being realised for operations in the uppermost decile. As a consequence of the downward gold price trend, the proportion of supply included in Gold Mine Economics produced at an All-in Cost below the annual average gold price has decreased from approximately 60% in 2014, to 50% last year.

Two factors have been cited widely by producers as exerting downward pressure on costs during 2015, namely foreign exchange movements and the falling oil price. However, the extent to which producers have benefited from these cost drivers can vary significantly. Although currency devaluation developed last year in many important gold producing countries, the degree to which producer costs are incurred in local currency can vary widely. Similarly, although a decreasing oil price is broadly beneficial to producers, an operator's fuel costs may not be directly exposed to oil price movements due to fuel price hedging, or local controls on fuel prices.

Turning to the regional breakdown of 2015 production costs, South American Total Cash Costs were flat year-on-year, increasing by only \$2/oz to \$668/oz. Performance was mixed at the region's largest operations last year. At Pueblo Viejo, the favourable effects of lower energy and fuel costs on unit cash costs were more than outweighed by the negative impact of lower production. However, Veladero and Yanacocha both posted reductions in unit cash costs for the year, despite lower output in both cases.

By comparison, Australian Total Cash Costs fell by a substantial 13% in 2015, to \$693/oz. Looking at some of the country's largest operations, costs fell year-on-year at Tropicana, Boddington, and Kalgoorlie Super Pit, where cash costs decreased by 8% despite a 2% fall in production, thanks to a combination of Australian dollar devaluation and lower operating costs due to reduced fuel and power costs.

Although producers in the United States did not benefit from currency devaluation, the North American region as a whole still saw a 3% year-on-year fall in Total Cash Costs. In the United States, cash costs were lower at both Goldstrike and Cortez, largely on the back of higher output. However, cash costs increased at Newmont's Nevada operations, due to a combination of lower output and lower waste capitalisation. For Canadian and Mexican gold producers, currency devaluation provided tailwinds industry-wide.

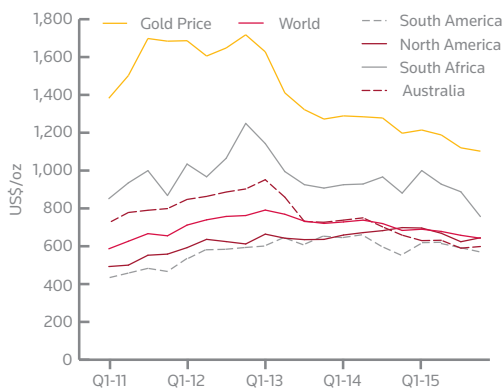
In South Africa, the steep downtrend in producer-reported costs in U.S. dollar terms towards the end of last year, as shown in the chart below, mirrors the sharp rand devaluation seen over the same period. However, miners in South Africa continue to face sharply escalating power and labour costs, as well as vociferous union opposition towards any proposal to cut headcount. These factors go some way to explain why the year-on-year decrease in average South African costs was less substantial than some of those seen elsewhere. Having fallen by only 2% to \$910/oz in 2015, Total Cash Costs in South Africa remain the highest of those regions considered here.

GOLD PRODUCTION COSTS

(US\$/oz)		2014	2015
North America	Total Cash Costs	722	703
	Total Production Costs	974	979
	All-in Costs	1,364	1,493
South America	Total Cash Costs	666	668
	Total Production Costs	916	986
	All-in Costs	1,311	1,564
Australia	Total Cash Costs	793	693
	Total Production Costs	1,018	953
	All-in Costs	1,261	1,138
South Africa	Total Cash Costs	930	910
	Total Production Costs	1,110	1,062
	All-in Costs	1,355	1,349
Other	Total Cash Costs	726	690
	Total Production Costs	944	908
	All-in Costs	1,423	1,150
World	Total Cash Costs	742	707
	Total Production Costs	971	955
	All-in Costs	1,365	1,310

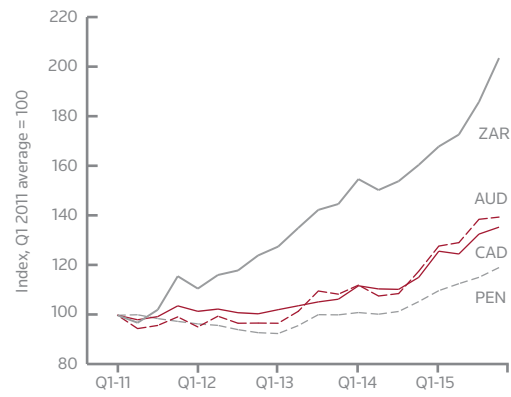
Source: GFMS, Thomson Reuters

COMPANY REPORTED QUARTERLY TOTAL CASH COSTS



Source: GFMS, Thomson Reuters; Company Reports

QUARTERLY AVERAGE CURRENCIES AGAINST THE US\$



Source: Thomson Reuters

PRODUCER HEDGING

GFMS estimates that the global producer hedge book stood at a delta-adjusted total of 5.51 Moz (171 t) at the end of 2015, which represents a 13% decrease on the prior year, or net de-hedging of 0.79 Moz (24 t). Following modest de-hedging in the first half of 2015, new hedging activity during the third quarter saw a handful of Australian producers lock in favourable Australian dollar-denominated gold prices. However, a lower gold price and a subtle recovery in the Australian dollar during the fourth quarter led to a hiatus in hedging by Aussie and U.S. producers, contributing to the resumption of the broader trend of a run-down in the hedge book.

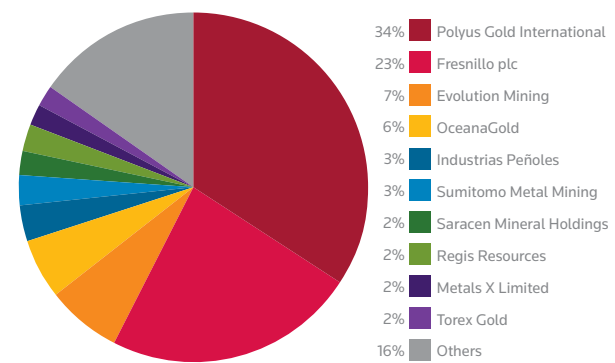
In addition to the activity from Polyus Gold and Fresnillo plc, GFMS recorded decreases to the delta-hedge positions of a further 32 companies over the year. A majority of these companies had placed their hedge positions prior to end-2014, and appeared to have experienced ‘hedging fatigue’ as gold prices denominated in non-U.S. dollar currencies rose above 2014 levels and lured other producers to hedge. The companies that de-hedged by the greatest volume last year included B2Gold Corp (-5 t), Northern Star Resources (-5 t), Petropavlosk (-3 t) and Detour Gold (-2 t).

Evolution Mining undertook the largest hedge of 2015, increasing its outstanding forward sales position by 0.38 Moz (12 t) to 0.73 Moz (23 t) by end-2015. Another significant hedger last year, Metals X Limited, entered into a forward sales agreement for 0.25 Moz (8 t) of gold, or 21% of its planned production out to 2018, at an average price of A\$1,631.23 per ounce. Nevertheless, new hedging activity by Evolution Mining and Metals X in the third quarter was significantly outweighed by the run-down of existing hedge positions by Polyus and Fresnillo.

As in 2015, de-hedging by Polyus and Fresnillo will most probably emerge as the largest contributor to the de-hedging activity this year, on a combination of scheduled deliveries into forward sales contracts, and maturing options. At end-December 2015, the delivery schedule of the global book indicated that 2.78 Moz (87 t) of de-hedging was due over 2016. The largest proportion of this comprises scheduled deliveries into forward sales contracts, followed by maturing vanilla options and Polyus’ 2016 barrier options.

As the dust begins to settle following gold’s strong recovery year-to-date, gold producers are beginning to embrace the opportunity to lock in favourable gold prices. In early March, Polyus Gold announced it had entered into an additional hedge agreement to cover a further 0.60 Moz (19 t) of production over the next four years. This is the biggest hedge seen so far in Q1 2016 and has been followed by several more meaningful hedge transactions. These have included New Gold’s collar structure and Evolution Mining’s forward sales covering 0.27 Moz (8 t) and 0.15 Moz (5 t), respectively. In late February, Acacia Mining also made headlines by entering into a zero cost collar structure covering 0.14 Moz (4 t) with delivery scheduled for 2016. With more companies yet to report and prices near 2015 highs, we do expect to see more hedging announcements to take place covering activity from the first quarter of 2016.

GLOBAL HEDGE BOOK HOLDERS*, END-DECEMBER 2015



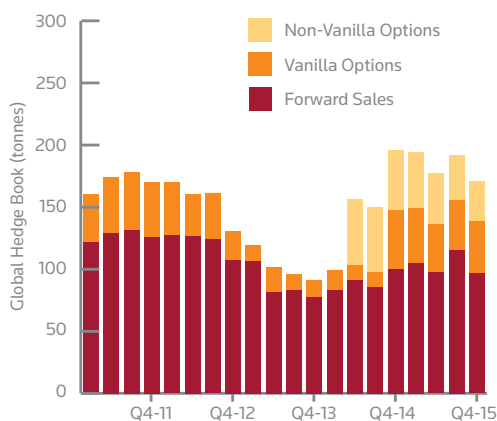
Source: GFMS, Thomson Reuters *Numbers on a nominal (number of contracts) basis

COMPOSITION OF THE DELTA-ADJUSTED HEDGE BOOK

(tonnes, end-period)	2015					yoy
	14.Q4	15.Q1	15.Q2	15.Q3	15.Q4	
Forward Sales	100	105	97	116	97	-4%
Options	96	89	80	76	75	-22%
Total	196	194	177	192	171	-13%

Source: GFMS, Thomson Reuters

EVOLUTION OF THE GLOBAL HEDGE BOOK



Source: Thomson Reuters

4. SUPPLY FROM ABOVE-GROUND STOCKS

- In 2015, total above ground stock, or much of cumulative historical mine production*, rose 2% to 186,200 tonnes.
- The stock of fabricated products (excluding coins) reached 113,600 tonnes by the end of 2015, a net gain of 1,400 tonnes. This was equivalent to 61% of total above-ground stock, which was flat from the prior year.
- The largest component of fabricated products, i.e. jewellery, increased by 1,000 tonnes to reach 88,000 tonnes by year-end. At 47%, jewellery also represents the largest part of total above ground stocks.
- The second largest component of total above-ground stocks, private and official bullion holdings at 37%, reached 69,000 tonnes last year. Just under half of that amount was held by the official sector.
- Net official sector purchases accounted for 483 tonnes last year. However, net producer de-hedging of 24 tonnes resulted in a rise of 507 tonnes in net official stocks.

SCRAP SUPPLY

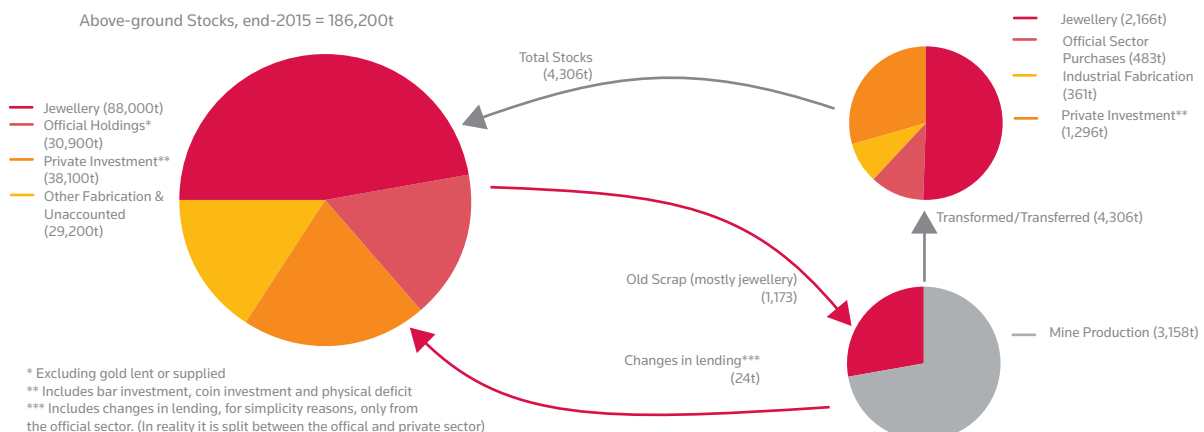
— Global scrap supply rose by 1% following five consecutive years of decline reaching 1,173 tonnes. Higher local gold prices generated increased selling, whereas lower distressed sales somewhat countered that trend.

Last year, global scrap supply reversed from its five year decline and increased by 1% to 1,173 tonnes. The minor uptick can be attributed to a combination of factors. Chinese jewellery fabricators scrapped parts of their inventory due to disappointing new demand whereas continued appetite for stock market speculation motivated some consumers to exchange their jewellery for equities. But the main motivation for consumers to either sell or hold on to their gold jewellery was gold priced in their respective currencies. Unsurprisingly, jewellery scrap from Russia, Turkey and Indonesia posted remarkable increases last year driven by 45%, 20% and 10% declines respectively against the dollar.

With **Turkey** and **Russia** part of **Europe**, the continent recorded an 8% increase in gold jewellery scrap generation last year reaching 319 tonnes. In the case of Turkey, scrap generation rose a whopping 75% to 72 tonnes, on the back of significantly higher Turkish lira gold prices. Although gold is culturally deeply ingrained in the country, consumers have developed a stronger incentive to speculate with physical material over the years as fewer people believe that the dollar denominated gold highs of 2011 will be revisited. Turkey also experienced a stronger flow of material entering the country from other countries in Europe, mainly at the periphery like Greece, Romania and Bulgaria where distressed selling due to economic woes and restricted

*Some material has been lost from the market over time; the estimate for this is carried as "unaccounted" in the chart below.

GOLD TRANSFERS (NET) TO AND FROM GLOBAL ABOVE-GROUND STOCKS, 2015



Source: GFMS, Thomson Reuters

access to credit motivated people to get rid of their valuables such as gold.

This generally increased activity however was not reflected by the countries within the single euro currency bloc where consumers on average had little desire to scrap their holdings en masse. Other countries with significant volumes, like **Spain and Italy**, contracted by 16% and 9% respectively. In the case of the latter, which represents around 22% of the continent's total, declines last year were driven by a combination of reduced distress selling on a slightly more optimistic economic backdrop and lower average euro gold prices which reduced the incentive amongst consumers to sell their old scrap.

In **Germany** gold scrap generation fell by an estimated 3% to 23 tonnes last year. At that level, volumes represent around 50% of scrap returned from the market during the peak of gold's bull run in 2011. Despite the decline, it looks as if the market is consolidating and we would not be surprised if volumes would rise again this year. Industry residues and jewellery scrap, ranging between 8, 14 and 18 carat, represented the bulk of the material.

North America generated 99 tonnes of gold scrap in 2015, down 15.1% from the previous year. This was the slowest rate of decline since 2012 and marks the fourth consecutive contraction in scrap sales in the region. This rate of decline was an improvement over the previous two years, when scrap flows contracted 30% in 2013 and 22% in 2014. While the decline in gold prices was the leading factor behind the sustained drop in scrap flows, the continued improvement in economic activity has reduced the level of near to market stocks available for scrappage.

United States scrap sales fell at a faster pace relative to the region, by 17%, totalling 69 tonnes. Improved economic activity and lower unemployment reduced household needs to sell valuables like gold jewellery, whose inventories and sales are comprised as to approximately 50% by gold and jewellery, coins, and decorative items. Gold scrapping at pawn shops continued to dwindle. One major recycler, of which half their inventory and sales involve gold and jewellery, reported a 33% contraction in gold volumes scrapped across its United States pawn business in this fiscal year that ended September 30th.

Scrap collected in **Mexico** dropped to 25 tonnes last year, down 9% from 2014. This decline marked the third consecutive drop in scrap generation for the country. Mexico accounted for 25% of North American scrap last year, up from 12% a decade ago. Mexico's economy expanded at a 2.3% clip last year, up from 2.1% in 2014 and this improvement reduced household needs to scrap gold for its liquidation value.

Canada only accounts for 5% of North American scrap generation, but the country is a larger refiner of scrap, importing from Mexico and the United States. Scrap in Canada fell 10% in 2015 to reach five tonnes, a slower rate of decline from 15% the previous year, but even so this volume was the lowest since 2005.

Scrap supply in **Asia** rose 3% in 2015 to an estimated 657 tonnes. This annual increase was mainly fuelled by increases recorded in China, Indonesia, and India. China's scrap supply reached 225 tonnes in 2015, 14% up year-on-year. Despite the weak gold price, the uptick in scrap supply did not necessarily stem from typical end-user liquidation. As jewellery demand remained sluggish last year, jewellery fabricators continued to clear out their jewellery inventory to refineries in order to boost liquidity. In addition, the strong rise in equities during the first half of the year created incentives for people to bring out their old jewellery pieces for liquidity and further capital to invest.

In **Indonesia**, scrap supply increased by 27% to 46 tonnes last year, with recycling encouraged by the weaker domestic currency that saw the average gold price in rupiah terms rise 4.6% last year. Scrap supply from **India** rose by 18% to 88 tonnes, a relatively significant rebound compared to a 26% decline in 2014. Poor crop yields and falling gold prices

VISIBLE SUPPLY OF GOLD TO THE MARKET

	2013		2014		2015	
	tonnes	share	tonnes	share	tonnes	share
Mine Production	3,042	58%	3,131	69%	3,158	71%
Above-Ground Stocks	2,183	42%	1,420	31%	1,297	29%
- Scrap	1,303	-	1,158	-	1,173	-
- Hedging Supply	-	-	104	-	-	-
- ETF Inventory Drawdown	880	-	157	-	124	-
Total	5,225	-	4,552	-	4,455	-

Source: GFMS, Thomson Reuters

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.

SUPPLY OF GOLD FROM FABRICATED OLD GOLD SCRAP

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Europe										
Turkey	82.5	71.5	199.0	217.2	122.0	78.0	72.3	56.3	41.4	72.4
Italy	53.5	57.1	61.0	78.0	98.0	116.5	122.6	85.5	75.4	68.9
Russian Federation	19.3	20.7	21.4	28.7	26.4	23.5	24.2	18.6	29.8	32.9
United Kingdom	10.7	11.7	38.7	59.4	69.8	76.0	69.0	41.0	31.2	30.4
Germany	11.4	18.8	24.4	32.7	44.1	45.5	40.3	31.1	23.8	23.1
France	18.6	16.8	21.2	24.9	29.2	40.3	33.5	26.7	21.5	22.0
Spain	6.1	5.8	10.6	20.1	31.9	32.7	35.9	23.5	18.7	15.7
Portugal	1.0	0.9	1.1	1.5	8.6	15.5	16.0	11.2	9.1	9.4
Belgium	2.7	2.6	3.7	6.1	8.2	9.1	8.6	7.8	6.7	6.7
Austria	3.9	3.7	4.7	6.4	7.9	8.0	7.6	6.7	6.1	6.3
Poland	2.8	2.8	2.8	3.1	3.9	7.7	7.5	5.1	4.1	4.3
Sweden	4.1	4.6	4.7	6.4	6.6	6.7	6.4	4.5	4.0	4.0
Switzerland	4.8	4.8	5.3	6.5	6.3	6.5	6.2	4.3	3.4	3.3
Finland	2.2	1.8	2.1	2.6	6.0	6.1	5.8	3.6	3.2	3.3
Other Countries	20.1	19.3	21.3	30.1	35.0	39.4	38.3	26.7	21.8	20.0
Total Europe	238.9	238.1	416.6	517.1	497.6	505.0	488.0	348.2	296.9	319.3
North America										
United States	81.0	84.5	93.5	124.0	143.0	159.9	149.4	105.8	83.5	69.1
Mexico	12.0	17.6	28.1	40.8	45.6	47.6	54.1	37.2	27.2	24.6
Canada	7.5	6.3	6.9	9.2	11.1	10.8	9.8	6.7	5.7	5.1
Total North America	100.5	108.4	128.5	174.0	199.7	218.3	213.3	149.7	116.3	98.8
South America										
Brazil	6.8	6.4	7.5	11.4	16.1	22.2	24.6	16.0	9.8	6.8
Venezuela	4.3	5.7	6.0	7.1	8.3	8.7	8.1	6.0	5.4	5.4
Colombia	4.1	4.3	5.1	6.6	8.1	8.7	9.5	1.4	1.4	1.7
Dominican Republic	4.2	4.2	4.3	4.2	5.0	5.9	6.1	1.3	1.1	1.2
Argentina	5.1	4.4	4.4	5.9	5.6	5.8	6.1	0.5	0.5	0.4
Other	6.1	7.9	9.2	16.1	21.9	20.7	20.4	6.8	6.7	6.4
Total South America	30.6	32.9	36.5	51.2	65.0	72.0	74.8	31.9	24.9	21.9
Asia										
China	44.6	41.6	70.3	116.3	133.2	143.6	165.6	176.3	197.7	225.0
India	80.0	73.0	89.5	115.5	81.0	58.5	113.0	100.8	74.2	87.5
Indonesia	71.9	68.0	72.5	79.9	64.9	58.3	49.0	36.2	36.3	46.1
UAE	34.0	43.8	59.4	70.6	110.0	71.4	73.4	57.0	51.4	43.5
S Korea	86.8	36.1	56.3	57.1	48.8	47.2	37.8	26.1	27.7	29.4
Japan	27.0	25.9	53.6	35.3	43.9	55.1	42.2	36.2	26.1	28.8
Thailand	19.1	37.4	51.7	66.0	44.7	52.4	43.6	30.6	25.7	24.6
Vietnam	8.3	9.0	12.2	51.5	49.8	41.1	36.4	28.2	26.2	22.8
Pakistan	33.4	31.7	35.5	53.9	50.4	42.7	47.2	37.2	28.8	22.5
Iran	21.9	23.1	26.0	32.2	32.7	32.4	32.9	24.3	22.1	17.7
Saudi Arabia	133.7	56.4	69.4	57.3	44.1	37.1	33.5	23.6	20.8	16.8
Malaysia	19.1	16.4	18.4	19.3	22.2	19.2	16.7	13.3	12.4	10.9
Taiwan	18.4	18.5	33.6	34.9	27.5	19.5	15.4	12.0	11.1	10.7
Iraq	6.5	5.4	7.4	20.3	19.1	17.1	15.3	10.8	10.4	8.4
Lebanon	9.9	4.9	6.2	15.1	19.7	14.9	12.7	10.0	8.8	8.2
Hong Kong	7.1	7.5	8.0	8.4	8.0	7.3	6.8	6.0	6.4	6.6
Jordan	8.7	7.0	5.6	9.2	12.7	10.8	9.7	7.2	7.4	6.6
Syria	17.4	13.6	14.5	15.3	17.7	19.0	17.8	14.5	6.6	4.0
Kuwait	21.8	9.8	10.2	10.4	8.5	7.7	6.2	5.0	4.5	3.9
Singapore	4.2	5.0	5.4	6.1	5.8	8.9	7.4	4.8	4.5	3.8
Israel	11.4	5.0	6.1	6.6	8.3	7.0	5.6	4.4	4.5	3.8
Bahrain	3.8	3.8	3.8	4.7	4.5	4.0	3.5	2.6	2.5	2.0
Oman	3.8	3.1	3.8	4.5	4.4	3.4	3.1	2.4	2.2	2.0

SUPPLY OF GOLD FROM FABRICATED OLD GOLD SCRAP

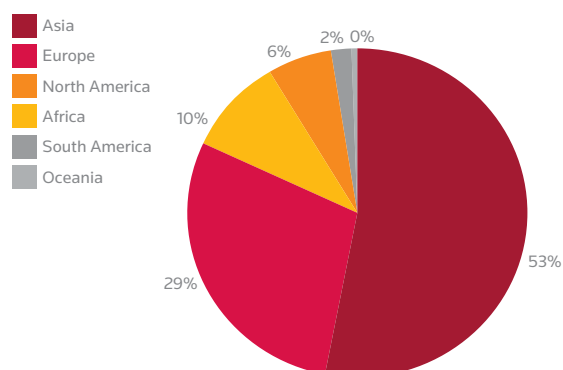
(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Qatar	2.3	2.6	2.5	2.8	2.4	2.0	1.8	1.5	1.4	1.3
Philippines	1.5	1.5	1.9	2.7	2.3	2.1	1.9	1.5	1.4	1.3
Bangladesh	2.5	2.5	2.7	3.0	2.7	2.6	2.7	2.3	1.8	0.9
Other	11.0	11.4	12.4	13.7	13.8	13.6	13.0	11.4	15.6	18.1
Total Asia	710.1	563.8	738.9	912.4	882.8	798.8	814.0	686.0	638.2	657.0
Africa										
Egypt	77.5	56.5	35.8	65.0	48.0	47.6	53.6	43.2	39.9	35.1
Morocco	6.3	6.3	6.4	9.7	9.3	12.0	11.3	9.4	9.0	9.1
Libya	9.7	9.5	10.4	13.4	15.8	16.6	14.4	8.8	8.2	7.7
Algeria	2.8	3.4	3.6	5.8	6.1	7.9	7.6	6.8	6.6	6.8
Other	11.0	8.5	8.9	12.2	12.7	14.7	14.2	12.2	11.6	11.8
Total Africa	107.3	84.1	65.0	106.1	91.8	98.8	101.0	80.4	75.2	70.4
Oceania										
Australia	1.5	1.5	2.0	3.1	6.8	12.0	10.2	7.3	6.6	5.5
Total Oceania	1.5	1.5	2.0	3.1	6.8	12.0	10.2	7.3	6.6	5.5
World Total	1,188.9	1,028.7	1,387.5	1,763.8	1,743.6	1,704.8	1,701.4	1,303.4	1,158.2	1,172.8
...of which:-										
Middle East*	435.2	306.3	449.8	531.1	453.8	352.3	341.4	262.7	223.9	225.6
East Asia*	310.3	269.1	386.0	479.9	454.2	457.7	425.0	373.1	377.2	411.4
CIS*	24.0	25.4	26.7	35.3	32.8	30.1	31.2	25.0	41.0	47.9
Indian Sub Continent*	119.8	111.7	132.5	176.9	138.3	107.7	166.5	143.3	107.4	112.4

Source: GFMS, Thomson Reuters * The key regional bullion markets

caused the increases in loan defaults. Meanwhile, local banks tended to oppose populist measures introduced by the state heads Andhra Pradesh and Telangana with regard to waiving defaulting agriculture gold loans, which resulted in increased gold jewellery reaching the market for auction. Additionally, given the poor monsoon, farmers chose to sell gold for more cash, which also added to the volumes.

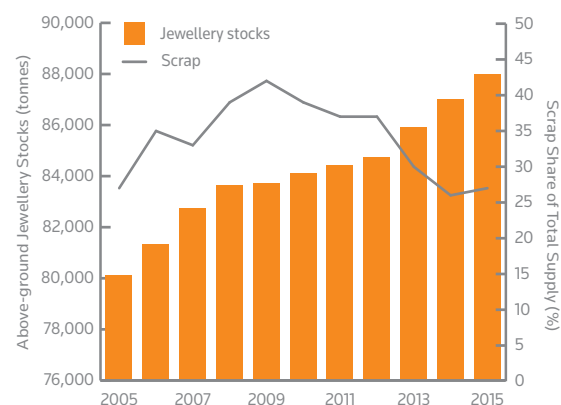
Elsewhere, **Japan** experienced a rebound in scrap supply last year with a 5% uptick in the average yen gold price. We estimates recycling volumes increased by 10% to reach 29 tonnes last year. During the first half of 2015 when the local currency depreciated by almost 40%, reaching the lowest point since 2013, the gold price in yen terms reached 4,935 yen per gramme; the highest in 2015. This encouraged market liquidity with more people selling gold for cash. **Vietnam** and **Malaysia** both recorded double-digit declines of 13% and 12% respectively while scrap supply from **South Korea** increased by 6% on an annual basis. **Thailand** saw a further reduction in scrap supply last year, falling 4% over 2014 volumes, the fourth successive drop that has now seen Thai scrap decline over 63% from the 2009 peak of 66 tonnes to 25 tonnes last year.

ABOVE-GROUND SCRAP STOCKS BY REGION 2015



Source: GFMS, Thomson Reuters

ABOVE-GROUND JEWELLERY STOCKS & RETURN OF SCRAP



Source: GFMS, Thomson Reuters

SUPPLY FROM ABOVE-GROUND STOCKS

5. OFFICIAL SECTOR

- *Heightened geopolitical tensions and the desire for diversification in reserve assets resulted in net central bank buying reaching its second highest annual total since the end of the gold standard, at 483 tonnes.*
- *In July, China announced the first increase in reported gold holdings since April 2009, while effective on 1st October 2016, the International Monetary Fund (IMF) will add the Chinese yuan to its reserve currency basket, known as the Special Drawing Rights (SDR).*

For the sixth consecutive year, central banks remained a significant source of net demand in the gold market in 2015. Total **net purchases** increased by 4% year-on-year to reach 483 tonnes. **Gross purchases** also increased by 8% in 2015 to reach 561 tonnes, the highest level in three years.

For the first time since April 2009 China announced an increase in gold holdings; this was of 604 tonnes, to 1,658 tonnes by end-June. This figure was then steadily raised on a monthly basis to reach 1,762 tonnes by year-end. Russia, for the fourth consecutive year, was recorded as the largest purchaser of gold in 2015, increasing total gold holdings by 17% or 206 tonnes by year-end. After a pause in purchases over the early months of the year (including a sale of 0.5 tonnes in January), due to a weakened rouble and higher gold prices, Russia resumed healthy monthly buying over the rest of the year, with the pace accelerating in the third quarter. Plunging oil prices in addition to western sanctions have resulted in the rouble weakening by over 50% against the U.S. dollar in 2015, driving Russia to further diversify its reserves away from the U.S. dollar.

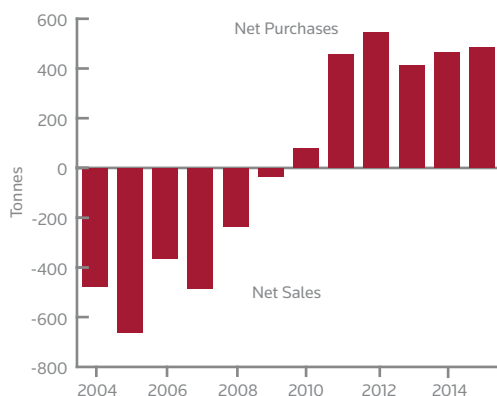
Meanwhile, substantial buy-side interest was recorded from other CIS countries, with Kazakhstan and Tajikistan purchasing 30 and 3.9 tonnes respectively over the year, again continuing their move to diversify away from the U.S. dollar. Elsewhere, Jordan recorded a 22 tonne increase over the year, with purchases concentrated in the first quarter, before the slump in spot gold prices to below \$1,100/oz in July resulted in an additional purchase of 6.6 tonnes. Further more modest purchases included the United Arab Emirates (7.5 t), Ukraine (3.7 t) and Malaysia (2.5 t).

In 2015, **gross official sector sales** rose by 43% to 77 tonnes, reaching the highest level since 2011; this still represents a low base by historic standards, however. Venezuela was reportedly responsible for the largest sale of gold by end-June of 44 tonnes. The transaction was part of a swap agreement, in which an estimated \$1Bn in cash was transferred for gold. (This technically shows up as a sale and repurchase transaction, with title passing for the duration of the exercise). The trigger for the swap 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 exports revenues are from oil.

The third largest seller in 2015 was Colombia, which sold 6.9 tonnes of gold in July and August, equivalent to two thirds of their total gold holdings. The gold sale, which marked the first adjustment to Colombian gold holdings since October

2011, took place as gold spot prices fell below \$1,100/oz for the first time in five years. Indeed, the anticipation of lower gold prices earlier in the year led El Salvador to sell 5.4 tonnes of gold in March (roughly 80% of their total gold holdings). Meanwhile Germany continued its regular pattern of small scale sales as part of its official coin programme, selling three tonnes, with the main transaction in June. Smaller sales were made by Canada (1.3 t), Mexico (1.3 t) and Sri Lanka (0.9 t).

WORLD OFFICIAL SECTOR SALES AND PURCHASES



Source: GFMS, Thomson Reuters

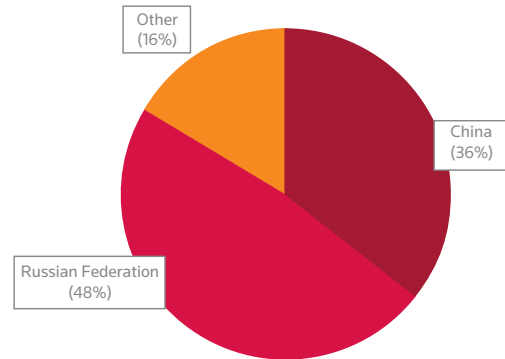
A DIVERGENCE BETWEEN EMERGING MARKETS

After two decades in which central banks were net sellers of gold, a fundamental shift to the market in 2010 resulted in central banks once more becoming net purchasers. A key driver was an increase in purchases from emerging economies, where the desire to diversify their foreign exchange reserves away from the U.S. dollar saw these nations accountable for over 90% of purchases in 2014. However, many of these countries had a significant contraction in total foreign exchange reserves, which created a divergence between different emerging markets requirement to hold gold as part of their total reserves.

Firstly, if we look to the two largest purchasers of gold in 2015, Russia and China, we can see that these two countries make up for 84% of net gold purchases in the second half the year (see chart). Russia, for the fourth consecutive year, took the top spot continuing to diversify its assets away from the U.S. dollar in light of falling oil prices, U.S. sanctions and a weakening rouble. In July China, for the first time since April 2009, announced an increase in gold holdings, and thereafter released monthly purchases over the rest of the year after adopting the IMF's Special Data Dissemination Standard (SDDS). Alternatively, if we look at the each of these countries' total foreign exchange reserves, Russian total reserves have fallen by \$19.5 Bn over the year, while Chinese total reserves fell by \$513 Bn, the largest annual decline on record for China. However, if we look to Venezuela, which also recorded a contraction in its foreign exchange reserves over the year (see chart), the country was responsible for the largest single sale of gold in 2015, in which an estimated 44 tonnes of gold was used as part of a swap agreement, in exchange for \$1 Bn in cash.

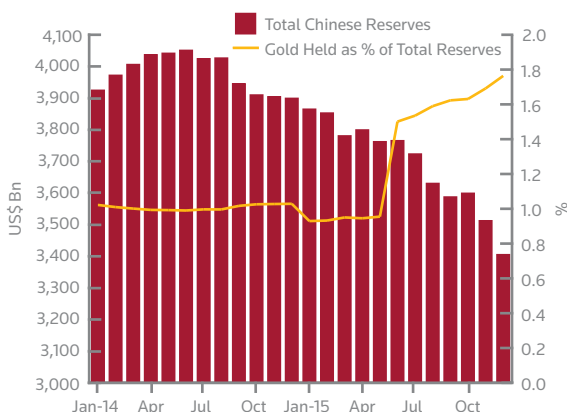
We believe that one explanation to explain this divergence in behaviour between the largest purchasers and sellers of gold, in an environment of falling foreign exchange reserves for many emerging economies, arises because of the percentage of their reserves that are held as gold. In Russia we can see that the percentage of gold rose in 2015 from 11.9% to 13.1%, while Chinese reserves rose marginally but remain very low at 1.8%. By comparison Venezuelan reserves were 69% gold when they last reported back in 2014, before the dramatic decline in oil revenue. We believe that the percentage of gold held by each country in relation to their total reserves will be a large factor in the potential future trajectory for gold transactions across these and other emerging market countries in the coming year. Given this we expect China to continue making fresh purchases at the current high level throughout 2016, while Russia while continue to buy but its higher percentage of reserves in gold and its severe economic recession mean the pace may well drop back as the year progresses. The slowdown in Russia and some modest sales in some struggling emerging economies will lead to a slowdown in overall net purchases from the exceptional pace in 2015. That said, 2016 will still be the seventh successive year of net purchases for the first time in half a century.

PURCHASERS OF GOLD IN H2 2015



Source: GFMS, Thomson Reuters; IMF

CHINESE TOTAL FOREIGN EXCHANGE RESERVES



Source: IMF; GFMS, Thomson Reuters

RUSSIAN TOTAL FOREIGN EXCHANGE RESERVES

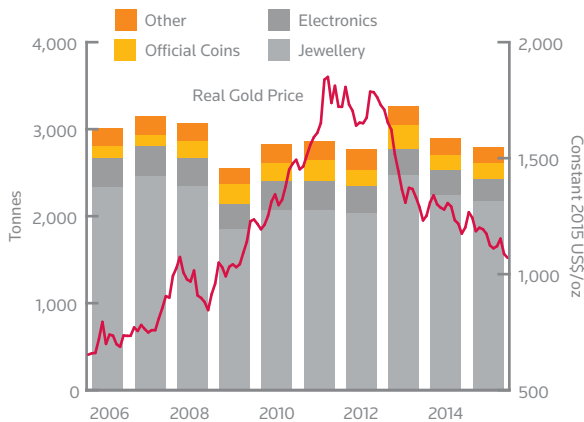


Source: IMF; GFMS, Thomson Reuters

6. FABRICATION DEMAND

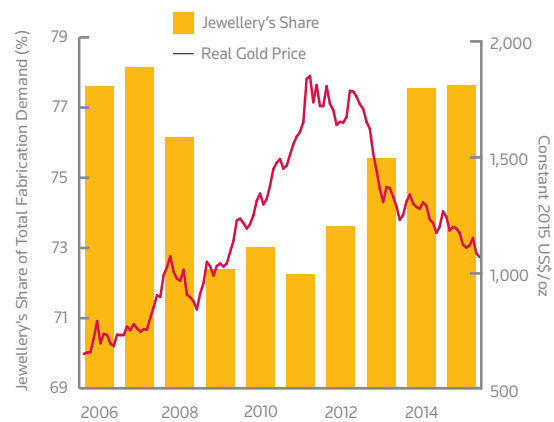
- Global fabrication demand declined 3.5% in 2015, the second fall in succession, slipping to an estimated 2,789.9 tonnes.
- The bulk of the drop was due to a 3% decline in jewellery fabrication, despite the 8% fall in the average dollar gold price, while a significant decline in industrial demand also dragged down total fabrication volumes.
- Jewellery fabrication, excluding the use of scrap, saw a moderately higher fall, retreating 7%, equivalent to a loss of 122.9 tonnes of new gold demand.
- Jewellery fabrication in East Asia retreated by 9% last year, led lower by a double digit drop in demand from China to an estimated 579.7 tonnes. This is the second successive annual decline, which has now seen domestic fabrication fall 39% or 378 tonnes from the 2013 peak.
- In contrast, Indian jewellery fabrication jumped 7% in 2015 to an estimated 736.2 tonnes, reaching a record high in the process as lower gold prices encouraged retail expansion and greater market participation by consumers, while a relaxing of import regulations encouraged stocking across the supply chain.
- Jewellery production in the Middle East continued to wrestle with economic, political and regional disruptions with fabrication for this bloc slipping 6% year-on-year, while European offtake remained moribund due to the weaker economic climate, declining by 14%. Meanwhile, North American demand enjoyed the benefit of a lower gold price and stronger economy to record a 5% annual gain.
- Official coin minting is estimated to have returned to growth in 2015, enjoying a 10% year-on-year rise to 189.9 tonnes.
- Ongoing thrifting and substitution, coupled with generally weak global economic environment, drove industrial demand 10% lower last year. The fall was most acute within the electronics sector where migration away from gold to cheaper alternatives saw demand slump 11% in 2015, to levels not seen in 12 years.
- Despite the weaker dollar gold price environment, dental demand continued to retreat, slipping 7% last year to 31.5 tonnes, as consumers look to more cosmetically pleasing and affordable applications.
- Other industrial and decorative demand slipped 5% in 2015 to 75.7 tonnes as weak exports and a tepid industrial performance from China and across East Asia broadly dragged fabrication lower.

WORLD GOLD FABRICATION



Source: GFMS, Thomson Reuters

JEWELLERY'S SHARE OF TOTAL FABRICATION DEMAND



Source: GFMS, Thomson Reuters

WORLD GOLD FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Europe										
Turkey	242.0	276.8	236.7	111.3	109.0	136.3	114.2	178.1	155.8	111.9
Italy	235.9	228.4	186.7	134.6	126.3	103.3	95.9	92.3	96.0	94.3
Russia	65.2	79.4	76.0	57.5	61.0	66.2	72.2	74.3	70.1	50.7
Switzerland	60.7	62.2	58.2	37.5	40.8	47.9	47.8	46.0	44.3	40.9
Germany	51.3	51.5	49.1	38.1	40.8	38.8	36.4	36.8	36.3	35.7
Austria	5.7	6.5	26.3	34.6	19.1	22.3	13.7	21.5	16.2	24.7
United Kingdom	24.4	16.9	15.6	15.2	13.9	15.5	15.2	13.9	15.1	20.2
France	14.4	14.0	13.0	11.0	11.1	10.1	8.4	7.6	7.8	7.4
Spain	24.2	23.6	19.3	13.6	8.4	7.1	6.3	5.8	5.5	5.6
Greece	7.8	8.5	7.4	6.2	6.2	4.5	4.0	3.5	3.9	4.0
Poland	4.5	6.0	6.1	4.6	3.2	3.0	2.7	2.5	2.8	3.2
Netherlands	5.3	4.2	3.3	2.9	3.0	2.8	2.6	2.4	2.3	2.3
Czech Republic	2.7	2.9	2.9	2.6	2.5	2.2	2.1	1.9	2.1	1.7
Portugal	5.3	4.6	3.6	2.9	2.3	1.7	1.4	1.4	1.7	1.7
Serbia	1.5	1.5	1.5	1.3	1.2	1.0	1.0	1.0	1.0	0.8
Romania	0.6	0.5	0.5	0.3	0.5	0.5	0.5	0.7	0.8	0.8
Sweden	1.7	1.3	1.1	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Other Countries	11.5	11.0	10.3	8.1	7.6	7.1	6.5	6.2	6.6	6.5
Total Europe	764.7	799.9	717.4	483.3	457.7	471.1	431.7	496.7	469.1	413.3
North America										
United States	210.9	179.0	175.2	173.4	179.1	166.7	148.6	163.3	151.7	164.1
Canada	22.0	22.2	40.1	48.4	43.7	44.9	32.4	44.5	31.7	40.0
Mexico	28.5	25.3	23.0	18.9	18.2	13.2	13.2	7.7	8.5	9.1
Total North America	261.4	226.5	238.3	240.7	241.0	224.9	194.2	215.4	191.8	213.3
South America										
Brazil	22.3	23.4	25.0	24.9	29.5	27.7	29.5	32.9	34.0	24.0
Chile	3.9	3.6	3.2	2.8	2.9	2.2	2.2	2.4	2.8	2.7
Dominican Republic	4.8	4.5	4.3	2.8	2.5	1.9	1.8	1.2	1.5	1.8
Other Countries	18.2	15.9	13.0	9.8	9.2	8.0	7.8	7.6	8.6	8.8
Total South America	49.3	47.4	45.5	40.3	44.0	39.7	41.3	44.2	47.0	37.2
Asia										
India	633.8	684.4	708.1	571.0	783.4	761.0	736.0	715.8	770.6	811.7
China	289.1	345.0	382.7	431.3	522.5	650.7	697.7	1,058.3	730.9	668.1
Japan	175.0	177.8	163.7	140.5	157.5	147.2	126.1	124.2	118.6	102.2
South Korea	112.6	115.9	107.8	90.6	92.6	81.4	69.9	64.7	61.2	55.7
Indonesia	64.8	63.2	61.4	46.0	39.9	43.3	48.0	56.1	48.5	42.8
Saudi Arabia	89.6	99.6	85.0	53.5	46.6	36.8	32.5	41.4	37.3	40.9
UAE	46.6	49.4	46.3	35.9	32.9	28.4	27.5	37.8	36.0	38.7
Malaysia	58.0	61.0	56.3	45.0	43.7	37.1	34.7	44.6	40.7	35.9
Iran	36.2	40.7	41.0	38.6	42.2	41.4	40.9	45.6	35.5	29.8
Singapore	28.7	29.5	27.6	23.3	25.3	23.6	21.8	25.4	26.1	26.1
Pakistan	53.9	50.4	43.8	29.7	26.1	22.1	20.6	24.6	20.9	22.6
Thailand	52.7	47.5	40.3	25.2	22.0	18.7	17.0	23.7	19.9	20.8
Taiwan	30.7	29.7	27.5	23.1	26.1	24.0	22.5	22.2	21.3	20.2
Vietnam	22.6	21.6	19.6	14.7	13.5	12.4	10.7	11.4	12.4	13.0
Jordan	8.5	8.7	8.7	9.6	9.9	9.2	8.6	9.5	11.4	12.5
Hong Kong	14.9	15.4	15.6	14.7	15.8	16.5	14.8	14.6	13.9	12.1
Uzbekistan	11.3	11.9	10.9	8.8	10.4	11.4	10.9	11.1	11.2	9.7
Kazakhstan	11.3	11.9	10.9	8.8	10.4	11.4	10.9	11.1	10.5	8.4
Kuwait	9.7	8.9	9.5	7.4	6.6	6.2	5.6	6.3	7.0	6.8
Israel	9.9	9.0	8.7	7.2	6.3	5.5	5.1	5.9	6.9	6.0

WORLD GOLD FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bahrain	9.6	9.9	8.7	6.5	5.7	5.1	4.6	5.8	5.6	5.8
Iraq	4.6	5.3	4.6	3.8	3.7	3.8	3.9	5.0	4.9	5.1
Oman	6.8	7.1	6.0	4.5	4.1	3.5	3.2	3.8	3.6	3.7
Sri Lanka	5.1	5.2	4.5	3.8	3.7	3.2	3.1	3.5	3.5	3.2
Nepal	5.8	5.3	4.5	3.5	3.5	3.3	3.5	3.9	3.0	2.9
Myanmar	4.0	4.0	3.5	3.0	2.6	2.3	2.3	2.7	2.4	2.6
Qatar	3.1	3.2	2.7	2.1	1.9	1.6	1.7	2.1	1.9	2.1
Syria	16.0	17.7	15.6	12.0	11.7	8.4	5.4	4.2	2.5	2.0
Bangladesh	6.0	6.5	5.8	4.6	4.2	3.8	3.7	4.3	2.7	1.4
Other Countries	8.6	12.3	12.3	8.9	7.7	6.4	6.1	6.8	6.5	6.4
Total Asia	1,834.8	1,963.2	1,948.2	1,680.4	1,984.8	2,032.8	2,002.8	2,402.5	2,083.1	2,025.2
Africa										
Egypt	50.3	56.5	64.5	44.9	43.3	30.2	38.7	41.8	41.5	38.6
South Africa	10.3	14.0	16.4	28.3	24.6	27.4	27.2	30.8	24.9	30.7
Morocco	10.6	10.3	9.5	7.6	7.0	6.8	6.6	6.5	6.8	6.8
Libya	4.9	5.2	4.8	3.9	3.5	2.4	2.3	2.5	2.7	2.3
Other Countries	11.6	12.4	11.5	9.9	9.4	9.2	8.8	9.2	9.5	9.3
Total Africa	87.7	98.4	106.6	94.7	87.7	76.0	83.5	90.8	85.3	87.7
Oceania										
Australia	10.3	10.5	14.0	14.6	12.0	13.9	13.3	19.6	14.8	13.3
Total Oceania	10.3	10.5	14.0	14.6	12.0	13.9	13.3	19.6	14.8	13.3
World Total	3,008.1	3,145.9	3,070.0	2,554.2	2,827.3	2,858.4	2,766.9	3,269.2	2,891.2	2,789.9
...of which:-										
East Asia*	860.7	917.6	912.5	863.0	966.8	1,061.7	1,069.7	1,452.7	1,100.4	1,004.1
Indian Sub-Continent*	704.6	751.7	766.7	612.5	820.9	793.4	766.9	752.0	800.6	841.9
Middle East*	538.2	598.3	542.7	340.5	326.2	319.4	295.5	393.5	355.8	309.8
CIS*	88.7	108.4	103.4	78.1	84.2	90.9	95.9	98.5	93.6	70.6

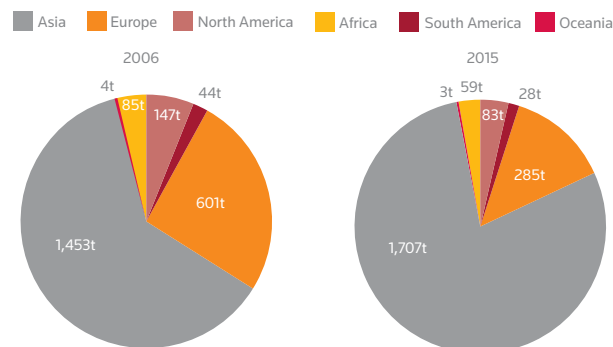
Source: GFMS, Thomson Reuters *The key regional bullion markets

CARAT JEWELLERY

INDIAN SUB-CONTINENT

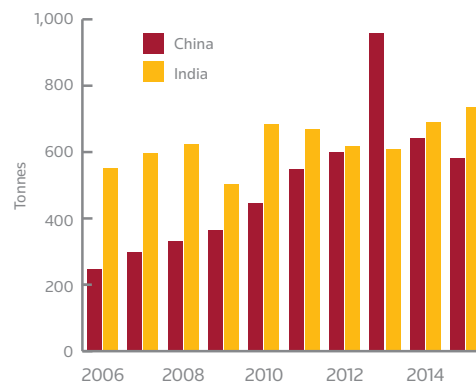
Jewellery fabrication in India touched a fresh record last year of 736.2 tonnes. The increase was aided by two main drivers. One was following the easing of gold import regulations, and secondly, the fall in domestic gold prices to levels not seen since 2011. Both of these helped retailers continue with their expansion plans, adding to their inventory.

GLOBAL JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

CHINESE AND INDIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

GOLD FABRICATION IN INDUSTRIAL AND DEVELOPING COUNTRIES (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Industrial Countries*										
Jewellery Fabrication	614.5	578.2	493.1	377.0	362.5	326.1	302.7	311.3	317.8	314.2
Electronics	288.0	290.6	274.8	227.3	272.1	260.6	226.9	219.5	212.0	190.4
Dentistry	57.7	54.8	52.7	50.0	45.8	40.3	36.0	33.8	31.5	29.4
Other Industrial	44.7	46.8	46.0	38.7	41.1	39.5	37.4	36.7	36.9	36.2
Official Coin	56.3	49.6	105.9	147.5	116.6	116.9	89.3	119.7	83.2	111.9
Medals	1.8	1.8	1.8	1.8	1.9	3.3	2.3	2.4	2.4	2.3
Sub Total	1,063.0	1,021.7	974.3	842.4	839.9	786.7	694.6	723.4	683.8	684.4
Developing Countries*										
Jewellery Fabrication	1,719.7	1,879.4	1,844.8	1,471.6	1,701.6	1,738.3	1,733.6	2,158.5	1,924.1	1,851.8
Electronics	46.4	50.9	55.8	63.9	70.1	78.4	76.0	76.7	73.3	63.1
Dentistry	3.0	2.8	2.9	2.6	2.6	2.6	2.5	2.5	2.4	2.1
Other Industrial	42.3	42.7	42.8	40.3	44.7	46.2	46.4	48.3	42.6	39.4
Official Coin	76.0	81.7	81.5	76.3	81.9	121.8	102.8	158.2	90.1	78.0
Medals	57.7	66.7	68.0	57.1	86.5	84.5	111.1	101.5	75.0	71.1
Sub Total	1,945.1	2,124.2	2,095.7	1,711.8	1,987.4	2,071.7	2,072.3	2,545.7	2,207.4	2,105.5
World Total	3,008.1	3,145.9	3,070.0	2,554.2	2,827.3	2,858.4	2,766.9	3,269.2	2,891.2	2,789.9

Source: GFMS, Thomson Reuters

*Industrial and Developing countries consistent with IMF definitions

JEWELLERY CONSUMPTION * (INCLUDING SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
India	516.4	557.8	599.8	471.4	657.6	618.3	552.0	612.7	662.1	674.5
China	244.7	302.2	340.6	376.3	453.8	550.9	608.7	972.1	633.3	563.7
United States	306.1	257.9	188.1	150.3	121.4	111.5	104.2	122.0	131.0	140.5
Saudi Arabia	106.3	122.0	110.9	81.8	71.6	55.7	47.1	59.0	52.8	57.5
UAE	92.4	99.8	100.0	74.6	71.6	62.1	55.5	68.6	59.9	55.3
Turkey	165.3	188.1	153.2	75.2	67.4	70.1	61.5	73.3	68.2	49.3
Russian Federation	70.1	85.7	92.4	56.7	60.1	64.7	69.6	73.3	70.6	42.5
Egypt	60.0	67.8	74.3	56.7	53.4	33.8	39.7	45.1	46.9	40.9
Iran	41.5	47.4	45.8	39.9	42.3	41.3	43.4	47.9	35.7	35.4
Hong Kong	15.1	18.2	17.0	16.4	20.6	35.8	34.3	53.7	41.3	34.3
Indonesia	57.7	55.2	55.9	41.0	33.8	38.2	42.7	49.7	43.7	34.1
S Korea	61.9	62.2	53.2	47.6	43.4	35.1	31.6	29.8	29.5	28.7
United Kingdom	52.5	50.3	37.2	31.8	27.3	22.6	21.4	23.4	27.6	27.4
Israel	29.3	28.4	28.1	26.6	25.7	21.9	21.5	25.3	23.3	24.8
Pakistan	54.7	51.8	45.5	30.9	27.3	23.1	21.4	24.6	19.2	20.5
Japan	32.8	31.7	31.2	22.3	21.3	16.6	16.7	21.4	20.0	19.7
Kuwait	20.0	20.1	19.6	15.1	14.1	12.9	12.1	17.2	20.9	19.1
Italy	64.8	57.4	49.1	41.4	34.9	27.6	22.3	20.2	18.8	18.1
Iraq	20.6	21.3	20.6	19.8	19.7	19.8	18.9	25.4	15.2	17.9
Canada	27.4	24.7	22.3	18.6	17.5	16.3	15.7	16.3	16.7	16.9

Source: GFMS, Thomson Reuters

*Fine gold content of all new jewellery sold at the retail level (excluding the exchange of old for new jewellery), calculated by taking jewellery fabrication, plus imports less exports and adjusting for retail stock movements.

That said, it was also an opportunity for many of the family managed businesses to expand their presence across the region instead of operating a single store model.

Additionally, there was an influx of new branded stores with gold imported through unofficial means. Discussions with retailers indicated that sales growth was largely in the plain jewellery segment. Jewellery consumption, while reaching a new record level in 2015, increased just 2% on an annual basis, with poor crop yields following a below average monsoon dragging down rural expenditure.

INDIAN JEWELLERY FABRICATION AND CONSUMPTION

(tonnes)	Q1-15	Q2-15	Q3-15	Q4-15
Fabrication	165.6	168.9	193.3	208.4
Consumption	148.5	158.2	181.1	186.7
Average Price (Rs./10g)	27,055	26,908	26,005	24,985

Source: GFMS, Thomson Reuters

EAST ASIA

Jewellery fabrication in East Asia retreated a further 9% in 2015, pulled lower by a hefty 10% fall from China, although there were several markets in the region that saw offtake decline year-on-year. In the case of China the strength of the equities markets played a significant role in dragging fabrication down as consumers looked to other higher yielding assets and this, coupled with a lack of positive price expectation, saw both fabrication and consumption volumes hit hard. There was a modest rise towards year-end as investment demand returned on a weaker equities market and the devaluation of the yuan but the damage was already done. Elsewhere, currency weakness in several key markets drove gold higher in local terms and this in turn impacted consumer demand. The price impact, coupled with a poor economic performance, hindered retail sales. Indonesia and Malaysia both recorded sizeable falls in 2015, sliding 12% year-on-year, while Taiwan and Hong Kong declined 9% and 13% respectively. Japan continued to face economic headwinds which drove fabrication lower. There were a few markets to move against trend last year, with Thailand and Singapore both enjoying healthy gains.

EUROPE

Two successive years of gains for the European jewellery market were more than wiped out in 2015 as jewellery fabrication plummeted by 14% to a fresh 21st century low. The performance across the region was far from uniform though with the Russian and Turkish markets seeing demand drop dramatically, by 35% and 20% respectively as prices in both rouble and lira terms hit record highs and in the case of Russia the economy continues to suffer from a deep recession. These two countries alone accounted for 89% of the decline for the region as a whole. Elsewhere the picture was generally one of small losses, in part due to higher prices, although in some areas this was at least partially offset by a bit of a renaissance for yellow gold. However, there were two very noticeable exceptions to this, namely Switzerland and Italy. In both cases this was due to weak export demand; in the case of Switzerland this was fuelled by weakness in China and for Italy it was particularly from the Middle East which was hindered by lower revenue from its energy sector. As a result these two countries experienced declines of 11% and 2% respectively.

NORTH AMERICA

North American jewellery fabrication rose to 83.4 tonnes in 2015, a 5.2% increase over the previous year. This was the highest level of gold demand since 2010, but growth slowed slightly from the 5.5% increase in 2014. This slowdown contrasts the increase in jewellery consumption growth in the region. Jewellery consumption rose to 164.1 tonnes last year, up 6.7% compared with 6.1% in 2014. Much of the slowdown in fabrication growth is due to the stronger United States dollar. The greater buying power of the dollar boosted retailers' incentive due to increase in their purchasing allocation of foreign-made pieces. As a result, imports' share of consumption rose to 56% in 2015 from 55% in 2014. Despite this loss in share for domestic manufacturers, North American fabrication still expanded due to healthy consumption growth. Lower retail prices made gold jewellery more affordable to consumers. Additionally, the region experienced 2.4% economic growth in 2015, unchanged from the previous year and up from an average of 2.2% growth in the previous five years. Better consumer confidence and higher discretionary spending, particularly in the United States, boosted consumer interest in purchasing gold jewellery.

CARAT JEWELLERY FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Europe										
Turkey	184.9	219.7	183.2	80.0	73.0	77.0	73.8	87.1	114.8	91.6
Italy	224.4	215.3	172.6	123.3	116.0	93.8	86.2	82.6	86.2	84.9
Russia	47.6	58.5	53.2	34.9	39.4	45.1	49.2	51.9	49.8	32.2
Switzerland	35.8	36.0	35.0	20.1	21.1	29.4	31.1	30.1	28.7	25.4
Germany	19.9	19.9	19.0	14.8	15.1	15.4	14.7	14.7	14.7	14.0
United Kingdom	19.6	12.2	10.0	9.2	8.2	6.9	6.7	7.3	8.9	9.0
France	13.4	13.0	12.0	10.1	10.2	9.2	7.6	6.5	6.3	6.0
Spain	22.4	21.8	17.6	12.3	7.4	6.2	5.4	4.9	4.6	4.7
Greece	7.4	8.1	7.0	5.8	5.8	4.1	3.7	3.5	3.9	4.0
Poland	3.9	5.1	5.4	3.7	2.6	2.3	2.0	1.8	2.1	2.7
Portugal	5.3	4.5	3.3	2.8	2.2	1.6	1.3	1.3	1.5	1.6
Serbia	1.2	1.3	1.2	1.0	0.9	0.8	0.7	0.8	0.8	0.8
Other Countries	15.2	14.4	13.2	10.3	9.7	9.1	8.5	8.6	9.1	9.1
Total Europe	601.0	629.7	532.7	328.3	311.6	300.9	290.9	301.1	331.4	285.8
North America										
United States	108.0	94.5	77.0	63.0	66.0	60.3	53.7	61.4	63.8	66.8
Canada	13.3	12.8	12.1	9.8	9.3	8.7	8.2	8.7	9.3	10.1
Mexico	25.9	22.7	18.9	17.3	14.4	11.5	10.6	5.1	6.3	6.5
Total North America	147.2	130.0	108.0	90.1	89.7	80.5	72.5	75.2	79.3	83.4
South America										
Brazil	17.5	18.6	19.2	17.7	22.6	19.4	19.3	21.6	25.1	15.8
Chile	3.9	3.6	3.2	2.8	2.9	2.2	2.2	2.4	2.8	2.7
Dominican Republic	4.8	4.5	4.3	2.8	2.5	1.9	1.8	1.2	1.5	1.8
Costa Rica	1.7	1.3	1.3	1.1	1.2	1.3	1.3	1.0	1.2	1.7
Colombia	1.9	1.6	1.4	1.2	1.1	1.2	1.1	1.1	1.3	1.5
Other Countries	13.8	12.0	9.5	6.5	5.9	4.4	4.2	4.2	4.9	4.6
Total South America	43.6	41.6	38.8	32.1	36.1	30.3	29.8	31.5	36.9	28.0
Asia										
India	550.9	594.7	623.2	503.4	685.0	667.0	618.2	607.4	690.0	736.2
China	244.8	297.1	329.6	363.6	444.3	547.4	598.8	958.0	641.4	579.7
Indonesia	64.3	62.7	60.8	45.6	39.4	42.8	47.4	55.5	47.9	42.2
Saudi Arabia	89.6	99.6	85.0	53.5	46.6	36.8	32.5	41.4	37.3	40.9
Malaysia	58.0	61.0	56.2	45.0	43.7	37.1	34.7	44.6	40.7	35.9
UAE	45.4	48.1	44.6	34.0	31.0	26.3	24.7	34.4	33.1	35.1
Iran	32.2	36.2	35.7	31.0	32.8	31.8	31.7	35.3	28.0	29.1
South Korea	64.4	64.0	56.0	48.0	43.8	35.2	29.9	29.4	28.7	27.9
Pakistan	53.9	50.4	43.8	29.7	26.1	22.1	20.6	24.6	20.9	22.6
Thailand	50.2	44.8	37.5	22.7	19.3	16.0	14.3	20.9	17.2	18.0
Singapore	9.9	10.9	10.2	7.9	8.9	9.7	10.4	15.0	15.9	17.6
Vietnam	22.6	21.6	19.6	14.7	13.5	12.4	10.7	11.4	12.4	13.0
Japan	21.1	19.0	17.5	14.4	14.3	12.9	13.3	14.5	13.3	13.0
Jordan	8.5	8.7	8.7	9.6	9.9	9.2	8.6	9.5	11.4	12.5
Hong Kong	11.6	11.8	12.2	11.6	12.2	12.8	11.4	11.3	10.9	9.4
Uzbekistan	10.0	10.6	9.6	7.6	9.2	10.2	9.7	9.9	10.1	8.6
Kazakhstan	10.0	10.6	9.6	7.6	9.2	10.2	9.7	9.9	9.3	7.4
Kuwait	9.7	8.9	9.5	7.4	6.6	6.2	5.6	6.3	7.0	6.8
Lebanon	5.4	5.5	4.8	3.4	2.6	2.9	3.7	6.4	6.0	6.2
Bahrain	9.6	9.9	8.7	6.5	5.7	5.1	4.6	5.8	5.6	5.8
Israel	9.3	8.4	8.1	6.6	5.7	4.9	4.5	5.3	6.5	5.6
Iraq	4.6	5.3	4.6	3.8	3.7	3.8	3.9	5.0	4.9	5.1
Taiwan	12.3	10.3	9.1	5.8	5.3	4.6	4.6	4.9	4.5	4.0
Oman	6.8	7.1	6.0	4.5	4.1	3.5	3.2	3.8	3.6	3.7

CARAT JEWELLERY FABRICATION (INCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sri Lanka	5.1	5.2	4.5	3.8	3.7	3.2	3.1	3.5	3.5	3.2
Nepal	5.8	5.3	4.5	3.5	3.5	3.3	3.5	3.9	3.0	2.9
Myanmar	4.0	4.0	3.5	3.0	2.6	2.3	2.3	2.7	2.4	2.6
Qatar	3.1	3.2	2.7	2.1	1.9	1.6	1.7	2.1	1.9	2.1
Syria	15.4	17.1	15.0	11.4	11.1	7.7	4.8	3.7	2.4	2.0
Armenia	0.9	5.1	5.6	3.1	2.5	1.9	1.9	2.0	1.9	1.8
Bangladesh	6.0	6.5	5.8	4.6	4.2	3.8	3.7	4.3	2.7	1.4
Other Countries	7.6	7.2	6.7	5.8	5.3	4.5	4.2	4.8	4.6	4.6
Total Asia	1,452.9	1,560.5	1,558.9	1,324.4	1,557.1	1,599.1	1,581.7	1,997.0	1,728.6	1,706.7
Africa										
Egypt	50.3	56.5	62.4	44.0	42.1	28.7	37.5	40.7	40.6	37.8
Morocco	10.6	10.3	9.5	7.6	7.0	6.8	6.6	6.5	6.8	6.8
South Africa	7.5	7.0	7.4	5.1	4.5	3.7	3.5	3.3	3.4	3.0
Libya	4.9	5.2	4.8	3.9	3.5	2.4	2.3	2.5	2.7	2.3
Algeria	3.0	3.4	3.1	2.5	2.4	2.1	2.1	2.3	2.3	2.2
Tunisia	1.8	1.9	1.8	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Other Countries	6.8	7.1	6.7	5.9	5.5	5.4	5.2	5.4	5.6	5.5
Total Africa	84.9	91.4	95.5	70.5	66.5	50.7	58.5	62.1	62.9	59.2
Oceania										
Australia	4.5	4.4	4.0	3.2	3.2	2.9	2.8	2.9	2.7	2.8
Total Oceania	4.5	4.4	4.0	3.2	3.2	2.9	2.8	2.9	2.7	2.8
World Total	2,334.2	2,457.6	2,337.8	1,848.6	2,064.1	2,064.4	2,036.2	2,469.8	2,241.8	2,166.0
...of which:-										
East Asia*	570.7	614.3	619.0	587.7	652.4	737.6	782.0	1,172.9	839.7	767.9
Indian Sub-Continent*	621.7	662.0	681.8	544.9	722.6	699.4	649.1	643.6	720.1	766.4
Middle East*	474.8	534.1	478.9	297.6	276.5	245.6	240.7	286.5	302.9	284.1
CIS*	68.5	84.8	78.0	53.1	60.2	67.4	70.4	73.7	71.1	50.0

Source: GFMS, Thomson Reuters *: The key regional bullion markets

SOUTH AMERICA

South America's economy has been hit by a double whammy of weak commodity exports to China exacerbated by sharp declines in commodity prices, leading to recessionary conditions at home. The strengthening U.S. dollar worsened the situation as it imported inflation. These events jointly contributed to stagflation, particularly in Brazil. Similar trends were echoed elsewhere in the region, if generally to a lesser extent and this dented consumer confidence and retail spending. Weaker domestic currencies meant a markedly higher gold price in local currency terms – another impediment to jewellery purchases. Indeed, we estimate a drop in jewellery fabrication for the region as a whole of 24% last year.

MIDDLE EAST

Jewellery fabrication across the Middle East as a bloc recorded a 6% decline in 2015, the first decline since 2012. The drop in demand may surprise given that the dollar gold price retreated 8% last year, but it comes off the back of some healthy gains in both 2013 and 2014. The region was far from uniform with several markets stronger than the previous year but, as a group, demand was generally weaker. Jewellery demand in the UAE is estimated to have declined by 6% in 2015. It was a year of two contrasting halves with demand in the first half slipping by 16% year-on-year before increasing by 11% in the second half as lower gold prices stimulated retail activity. Saudi Arabia was one market that moved against the regional trend to register a 10% rise in fabrication last year. Demand was boosted by the lower price environment with strong demand during the price dips for investment grade jewellery. Iran's gold market benefited from the improved relations with the West with a strong finish to the year as consumers absorbed the news and impact of the lifting of sanctions, although a weak first half kept annual offtake to a 4% gain. Elsewhere in the

region, fabrication demand was broadly weaker as economic uncertainty - the acute drop in oil revenues central to this - impacted consumer sentiment and curbed retail activity.

CARAT JEWELLERY FABRICATION (EXCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Europe										
Italy	170.9	158.2	111.6	90.3	70.0	49.8	46.2	58.6	66.2	66.8
Turkey	117.4	164.7	100.2	24.8	18.5	29.0	30.8	51.4	88.5	45.7
Switzerland	35.8	36.0	35.0	20.1	21.1	29.4	31.1	30.1	28.7	25.4
Germany	13.9	14.2	13.3	9.8	10.0	10.4	9.7	11.6	12.7	12.0
Russia	38.8	49.0	43.2	21.2	27.4	34.6	38.2	43.9	31.9	11.8
United Kingdom	14.1	7.1	4.4	4.8	3.4	2.4	1.7	4.3	6.8	6.9
France	11.4	11.0	10.0	8.1	7.7	6.2	4.6	4.5	5.0	4.6
Greece	5.8	6.7	5.1	2.8	2.5	0.8	0.6	2.1	2.8	2.8
Spain	16.3	16.3	11.1	3.7	0.5	0.5	0.2	1.9	2.3	2.7
Poland	1.6	2.5	2.8	1.5	0.2	0.1	0.5	0.7	1.3	1.8
Portugal	4.4	3.7	2.5	1.5	0.6	0.3	0.4	0.8	0.9	1.0
Other Countries	7.3	7.6	7.0	4.1	2.4	1.3	0.7	4.2	6.0	6.1
Total Europe	437.7	476.9	346.0	192.7	164.3	164.7	164.6	214.0	253.0	187.6
North America										
United States	84.0	72.0	57.0	41.0	39.5	34.4	27.3	33.4	35.3	39.4
Canada	7.8	8.3	7.6	5.3	4.6	4.2	4.6	5.3	6.3	7.1
Mexico	19.4	14.1	7.8	4.5	1.3	0.4	2.0	4.7	4.8	4.4
Total North America	111.2	94.4	72.4	50.8	45.4	39.0	33.9	43.4	46.4	50.9
South America										
Brazil	12.2	13.0	12.6	8.1	9.3	6.7	6.5	6.4	16.2	9.8
Chile	3.3	2.8	2.3	2.1	2.1	1.3	1.3	1.6	2.0	1.9
Other Countries	11.3	7.8	5.3	2.8	1.9	2.1	1.8	2.9	4.4	5.0
Total South America	26.8	23.6	20.2	13.0	13.3	10.0	9.7	11.0	22.6	16.7
Asia										
India	470.9	521.7	533.7	387.9	604.0	608.5	505.2	506.6	615.8	648.7
China	201.6	257.0	264.9	262.7	334.6	438.4	468.1	818.1	480.8	391.0
Malaysia	49.4	53.5	48.6	36.0	35.2	29.9	28.3	39.0	35.6	31.5
Saudi Arabia	30.0	55.2	38.8	22.4	21.1	14.5	12.5	27.6	24.6	31.0
Indonesia	26.0	25.8	29.5	16.8	16.6	20.5	29.9	42.8	35.8	29.0
UAE	33.0	36.8	32.0	19.3	9.4	11.2	13.0	24.6	24.0	27.3
Iran	14.0	17.9	15.3	11.7	15.0	14.3	15.7	23.0	16.8	19.8
Singapore	6.6	6.8	5.8	3.4	5.0	5.5	6.9	12.8	13.8	15.8
Thailand	36.7	28.8	21.0	6.1	6.1	3.5	4.0	14.6	11.6	12.1
Jordan	6.6	6.9	7.0	8.7	8.5	7.8	7.2	8.5	10.2	11.6
South Korea	33.0	33.6	25.2	7.3	10.3	5.1	6.2	14.3	12.7	10.7
Pakistan	24.5	23.6	14.8	3.9	6.3	6.0	3.8	11.7	6.9	9.8
Vietnam	14.3	12.6	11.1	3.3	3.3	5.5	4.8	6.4	7.5	8.5
Uzbekistan	8.7	9.4	8.3	5.9	7.6	8.7	8.1	8.5	8.8	7.1
Kazakhstan	8.7	9.4	8.3	5.9	7.6	8.7	8.1	8.5	8.0	5.4
Kuwait	2.7	3.4	4.1	2.9	3.0	3.1	3.1	4.5	5.3	5.3
Bahrain	6.4	6.7	5.5	3.0	2.8	2.5	2.5	4.2	4.1	4.5
Hong Kong	5.3	5.2	5.2	4.4	5.5	7.0	6.1	6.5	5.7	4.0
Iraq	0.3	0.7	0.2	-	0.2	0.7	1.3	3.2	3.2	3.7
Israel	3.9	3.4	2.2	1.7	1.0	0.9	1.0	2.6	3.6	3.3
Taiwan	1.8	2.7	2.9	1.1	1.2	1.5	2.7	3.6	3.5	3.2
Oman	3.8	4.6	2.8	1.8	1.6	1.5	1.4	2.4	2.4	2.7

CARAT JEWELLERY FABRICATION (EXCLUDING THE USE OF SCRAP)

(tonnes)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nepal	4.3	3.7	2.8	1.6	1.7	1.7	2.2	2.8	1.8	2.3
Myanmar	2.8	2.9	2.4	1.8	1.6	1.4	1.5	2.1	1.9	2.1
Japan	9.7	6.4	4.2	3.1	0.7	-	2.4	6.2	2.6	1.1
Bangladesh	3.5	3.9	3.1	1.6	1.5	1.2	1.0	2.0	0.9	0.5
Other Countries	21.2	27.5	22.8	14.1	13.1	9.4	8.6	12.6	12.6	13.5
Total Asia	1,029.4	1,169.9	1,122.2	838.1	1,124.2	1,218.9	1,155.2	1,619.4	1,360.3	1,305.1
Africa										
Egypt	7.8	18.0	28.4	6.5	15.1	3.9	5.1	17.2	19.4	19.3
South Africa	6.2	5.8	6.0	3.8	3.2	2.1	2.0	2.2	2.4	2.0
Other Countries	14.7	14.6	11.4	5.8	6.1	4.8	4.7	6.6	7.9	7.2
Total Africa	28.7	38.4	45.8	16.1	24.4	10.8	11.8	26.0	29.7	28.5
Oceania										
Australia	3.8	3.7	3.3	2.2	1.7	0.6	0.4	1.2	1.1	1.6
Total Oceania	3.8	3.7	3.3	2.2	1.7	0.6	0.4	1.2	1.1	1.6
World Total	1,637.6	1,806.8	1,609.9	1,112.9	1,373.2	1,444.1	1,375.5	1,914.9	1,713.1	1,590.2
...of which:-										
Indian Sub-Continent*	505.9	555.2	555.7	396.0	614.8	618.3	513.0	524.6	627.5	663.7
East Asia*	391.9	439.7	424.9	348.7	422.8	520.3	562.7	969.2	614.3	511.9
Middle East*	238.8	334.1	248.5	110.2	103.0	94.5	97.9	175.7	208.3	180.6
CIS*	56.8	72.5	64.9	35.7	44.6	53.3	55.7	62.4	50.1	25.7

Source: GFMS, Thomson Reuters; *The key regional bullion markets

INDUSTRIAL DEMAND

- Gold demand for industrial and dental applications declined 9.5% year-on-year to an estimated 361 tonnes, 26% below the 2007 peak.

- Gold demand in the electronics sector accelerated its decline last year, down 11.2% year-on-year, with nearly all regions posting losses in 2015.

- The strength of the United States currency weighed on global semiconductor sales, as dollar-priced components increased the local price of end-products in general.

- The long-standing downtrend of dentistry demand persisted in 2015, recording a drop of 7.0% year-on-year.

ELECTRONICS

Demand in the electronics sector, which constitutes the bulk of total demand for industrial and dental applications (70% as of 2015), has been in a chronic downward trend in the past five years, declining by 11.2% year-on-year to 253.5 tonnes, compared to a drop of 3.7% in 2014. This accelerating decline was mostly a result of a sluggish global economy combined with substitution and miniaturisation in industrial practice. More affordable alternatives, primarily copper and palladium-copper and increasingly silver and aluminium, have been used in a wider range of mainstream applications and continued to erode the market share of gold used in bonding wire production. However, the latter is still the preferred alternative for high-end applications due to its reliability in more challenging stress environments, tests for which include those such as temperature cycling and pressure cooker tests (PCT). In fact, it is estimated that the proportion of gold now used in bonding wire fabrication has dropped to approximately 40% of total global wire fabrication in 2015, down from 60% in 2012.

At a regional level, as the headwinds of global economy continued for most of the year, Japan, the biggest consumer in this sector, accounting for more than one quarter of the world's gold industrial demand, suffered an 18.1% decline to 67.5 tonnes in 2015. Gold demand from China, which was also curbed by the country's recent economic slowdown, has

also fallen into a downward trajectory, recording a drop of 16.0% year-on-year to 47.2 tonnes. South Korea and Taiwan saw demand slipping back into 23.5 tonnes and 14.9 tonnes in 2015, down by 14.9% and 4.5% respectively. Among all major consumption regions, the United States was the only country remaining broadly steady, registering 55.4 tonnes for 2015.

With softening demand and lingering macroeconomic challenges, semiconductor production, as a proxy for gold demand in the electronics sector, was largely stagnant over the second half of 2015, after a robust first half.

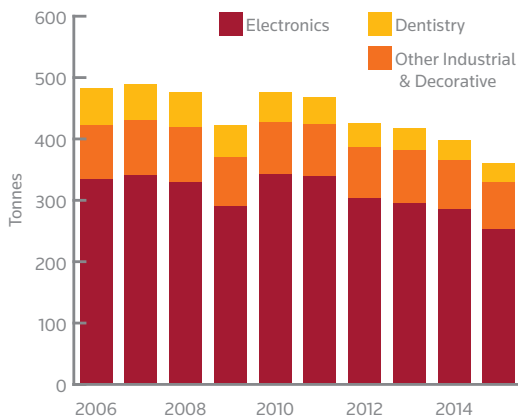
According to the latest statistics released by the Semiconductor Industry Association (SIA), the global semiconductor industry posted sales totalling \$335.2 billion in 2015, a slight decrease of 0.2% from the previous year. On a regional basis, annual sales in China increased 7.7% despite Caixin China manufacturing purchasing managers' index (PMI) posting numbers under 50 for most of the year. Japan and Europe registered drops of 10.7% and 8.5% year-on-year respectively, while the Americas and Asia Pacific are likely to have held relatively firm last year, dropping by just 0.8% and 0.2% respectively.

As for the automotive market, a key sector within the semiconductor industry, growth has been seen over the major regions. The U.S. light-vehicle sales increased by 5.7% over the year to an all-time record of 17.5 million units in 2015, compared with the previous record of 17.4 million units attained in 2000. Germany's new car registrations rose 5.6% in 2015 and all the major German brands, including scandal-hit Volkswagen, recorded year-on-year increases. Recent growth in Chinese vehicle production, mainly in the fourth quarter of 2015, lifted full year production higher by 3.3%. This rally was mostly derived from light-duty vehicles demand, since the Chinese government halved the vehicle purchase tax in October in order to stimulate domestic car sales.

In terms of other major sectors within the semiconductor market, end equipment demand was weaker in 2015. This was a result of the higher prices in regions where the local currency depreciated against the dollar, as many of the components are priced in U.S. dollars. With the rise of the U.S. currency, buyers either delayed purchases or bought cheaper substitute products, resulting in lower semiconductor sales.

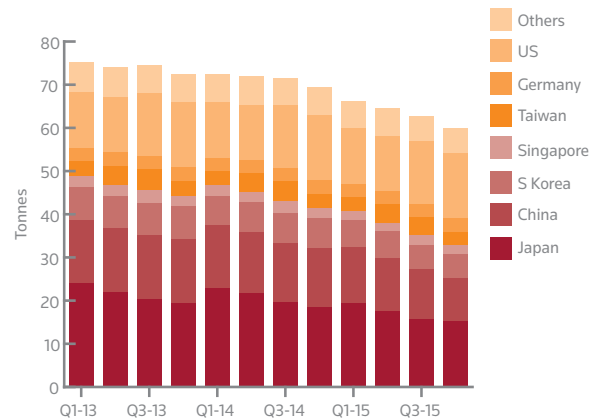
The NAND (Not AND is a concept in high capacity storage technology used in flash devices like USB) market continued to deteriorate throughout the year. According to industry analysts Gartner, revenue for this market grew only 4.1% in 2015 in light of elevated supply growth, resulting in an aggressive pricing environment. The dynamic random-access memory (DRAM) market hit a downturn in 2015, after robust growth of 32.0% in 2014. The shift in consumers' preference to mobile devices continued to weigh on world PC demand, with sales of PC contracting by 2.4% on an annual basis. Moreover, exports continued to fall, dragged lower by a weak final quarter when shipments were lower by almost 11% on a yearly comparison. While Microsoft's new Windows 10 operating system received good reviews, it wasn't enough to spur many businesses to upgrade to new computers during the holidays.

GLOBAL INDUSTRIAL DEMAND



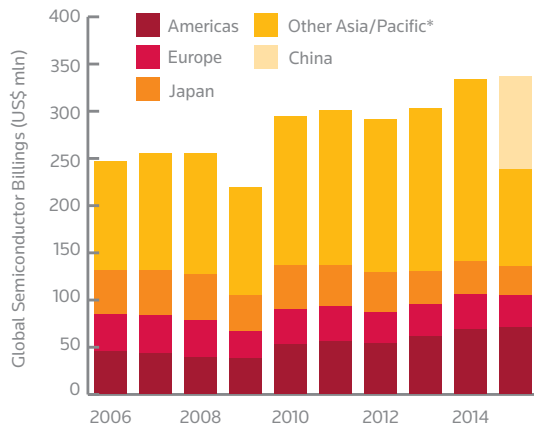
Source: GFMS, Thomson Reuters

GLOBAL ELECTRONICS DEMAND



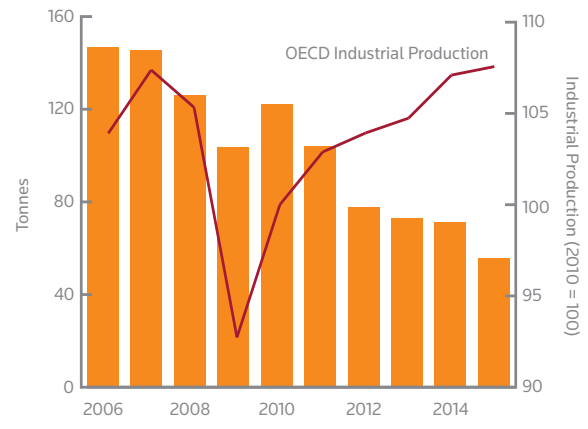
Source: GFMS, Thomson Reuters

GLOBAL SEMI-CONDUCTOR BILLINGS



Source: SIA; * 2015 data excludes China

FABRICATION OF GOLD BONDING WIRE



Source: GFMS, Thomson Reuters; OECD

DENTISTRY

Global dentistry demand for gold continued its long-term declining trend, slumping by a sizeable 7.0% year-on-year. In the last decade, the proportion of gold in this segment has been eroded by other more affordable alternatives such as resin composites, ceramics and porcelain-fused metal for both price and cosmetic concerns. On a regional basis, demand retracement was seen in almost all markets, including losses of 7.5% in Asia, 6.4% in North America, and a 6.6% year-on-year decline in Europe. Japan remains easily the largest market in this industry segment, contributing almost 50% of total global demand. In 2015, demand for gold used in Kinpala 12, the alloy used in dentistry in Japan, retreated for the seventh consecutive year. A weaker economic environment, which may have seen consumers delay dental work, dragged down annual consumption. However, the drop in the palladium price, which is also used in the dental alloy, did encourage supply chain restocking as the insurance rebate from the government was higher than the actual cost of the metal.

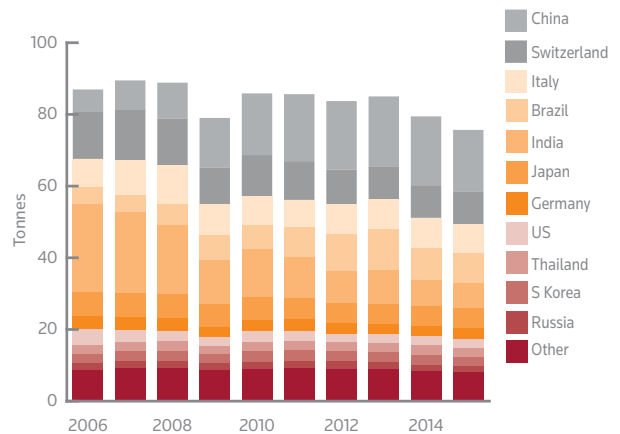
OTHER INDUSTRIAL & DECORATIVE

In 2015, gold demand in the other industrial & decorative segment slipped by 4.7% year-on-year. On a regional basis, demand from China and South Korea declined by nearly 9.9% and 11.1% respectively as a result of weak exports and tepid industrial performance last year. Gold consumed in India declined by 4%, primarily led by slowing demand from *jari*. The shifting fashion to 'lookalike' synthetic materials was one of the major reasons for the fall. However, those in the trade believe further declines are now limited as consumers are increasingly realising the difference between the fake *jari* and the genuine article. The electroplated jewellery segment popularly known as "1 gramme gold" jewellery (though one gramme of gold is not used) noted steady volumes. Demand from Brazil dropped by 7.1% despite a strong fourth quarter, while demand from Italy saw a modest decrease of 3.5% over the same period.

OUTLOOK

Looking ahead, there is likely to be no early reversal of the downtrend in gold industrial demand, given prolonged economic weakness in general, and particularly the slowdown in emerging markets' economic growth. The likelihood of a stronger U.S. dollar and Japanese yen in 2016 may place further pressure on global semiconductor sales, though the recovering demand from the United States due to a stronger economy may offset part of the loss. Substitution is expected to weigh heavily on the industrial demand for gold in the foreseeable future, and dentistry demand should continue to slide.

OTHER INDUSTRIAL DEMAND



Source: GFMS, Thomson Reuters

sBEad*coin



extraterrestrial

CHINA

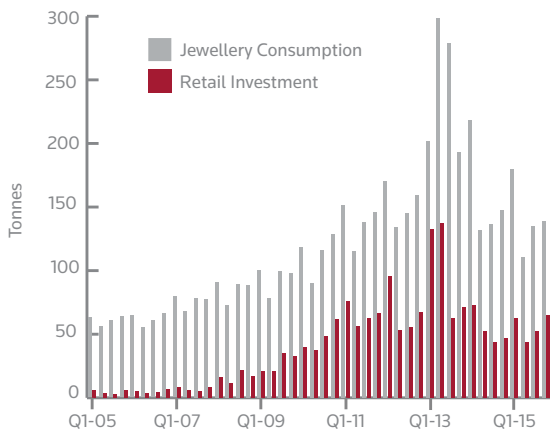
- *China's total gold demand (excluding central bank purchases) amounted to 867 tonnes in 2015, a seven percent year-on-year decline from the previous year.*
- *China's demand for gold bars posted a less than two percent year-on-year decline, or amounting to 199.0 tonnes for the full year, mostly due to the strength in the second half of the year.*
- *Jewellery fabrication, which accounts for approximately 67% of China's total gold demand, delivering a near 10% annual decline, to 579.7 tonnes in 2015, some 40% and 378 tonnes below the peak of 2013.*
- *A lack of viable investment options, along with the potential of further depreciation of the yuan, could be working favourably towards gold in 2016.*

While on the surface it may appear disappointing that China's demand for gold continued to retreat on an annual basis last year, we can see that in more recent months domestic sentiment has actually been working towards favouring gold. The biggest drag on China's annual gold demand last year mostly took place during the first half, when the strong performance of the domestic equities market, with the Shanghai Shenzhen CSI 300 index (CSI300) surging by 37% in the first five months, attracted much of the society's capital into the stock market. Gold thus became the neglected investment with this change in sentiment also impacting on jewellery offtake. We estimate that China's gold demand retreated by 15% year-on-year during the first half of 2015, with demand for gold bars and jewellery fabrication plunging 17% and 16% respectively.

However, market sentiment began to improve in mid-July, when the international gold price slid below the \$1,100/oz barrier. Bargain hunters again emerged at the retail front (though on a much smaller scale compared to 2013), mostly buying gold jewellery pieces (primarily 24-carat) as well as smaller gold bars. The meltdown of the domestic equities market (the CSI 300 retreated a total of 24.8% in June and July) saw many Chinese start questioning the country's economic prospects, and look for alternative assets as protection.

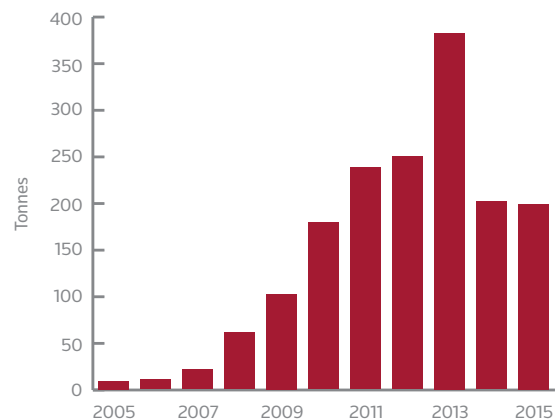
Many Chinese in 1st and 2nd tier cities rushed to the banks to purchase the United States dollar as a safe haven asset after the stock market meltdown, concerned that a weakening domestic economy could drag down the strength of the yuan. However, as there is strict capital control in China, every citizen was restricted to purchase of up to \$50,000 via the banks due to a set annual quota. The rush to the dollar in China was so overwhelming that authorities were forced to raise further constraints against dollar purchasing activities. Since August, banks have had to report to the authorities any individuals who have cumulatively purchased more than \$10,000; those who have purchased a large amount of dollars but still within the \$50,000 annual quota limit would still be put onto banks' blacklists. This increased scrutiny and additional red tape that purchasing dollars provided made gold an attractive option.

CHINESE JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

CHINESE DEMAND FOR GOLD BARS



Source: GFMS, Thomson Reuters

Based on our estimates, China's gold demand actually increased by 5% year-on-year in the second half of 2015, largely as a result of the lack of viable investment options due to the softening economy and the urge to diversify yuan assets domestically.

China's demand for gold bars took a severe hit as of the second half of 2013, when the government first started taking additional steps to curb corruption. This resulted in a significant decline in gold-related gifting activities, as gold bars were once one of the more popular choices as a gift. However, demand for gold bars rebounded in the second half of 2015, especially in the fourth quarter (when year-on-year demand surged by 28%), after struggling in the first six months of the year. The depreciating yuan and the lower gold price environment had encouraged China's older generations to purchase gold bars (especially 200 gramme bars) as gifts to their third generation in celebration of the Chinese New Year or of birthdays. The introduction of 'Year of the Monkey' gold bars (based on the Chinese zodiac symbol) into the market during the fourth quarter also stimulated market demand during the period. China's demand for gold bars actually reversed course and recorded a 19% year-on-year increase during the second half of 2015, resulting in a less than two percent year-on-year decline, or amounting to 199.0 tonnes for the full year.

Jewellery fabrication, which constitutes 67% of China's total gold demand, had also been on a roller-coaster ride last year. While the first quarter is traditionally a strong quarter, due to seasonal demand, an alarm was sounded immediately when, despite 23% growth compared to the fourth quarter of 2014, fabrication volume actually faced a 17% decline year-on-year. The market turned sour immediately after the Chinese spring festival, after the demand for weddings and gifting occasions dried up. Fabrication fees continued to fall, and the bankruptcies of the smaller, less financial-sound fabricators continued.

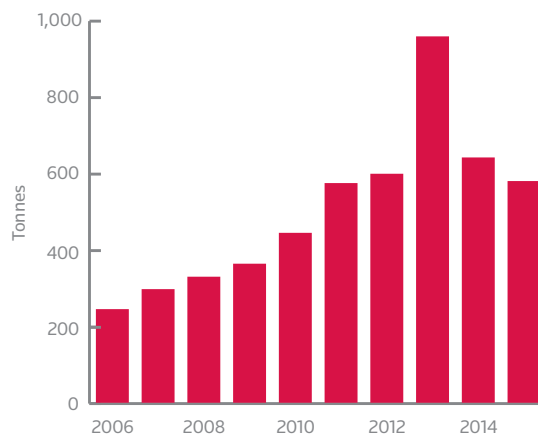
The drought continued into the second quarter, which is usually a relatively quiet period without the support of much seasonal demand. The continual upsurge in the domestic equities market drained most of the capital available, and people would have postponed any purchases so that they could put their last dime into the stock market. The continual bankruptcies within the jewellery fabrication industry raised alarms within the banking sectors, with several banks limiting or refraining entirely from lending to the companies in this sector, making it more difficult for fabricators to gain access to liquidity whether in the form of monetary or physical gold loans.

Sentiment began to pick up in mid-July for the jewellery sector, when the international gold price fell below \$1,100/oz and bargain hunters emerged. Queues of people began to resurface at retail shop fronts (having been largely absent since the demand surge of 2013). The strong momentum could not be carried into the initial weeks of the fourth quarter, however, as demand hit a snag in October. The unexpected disappointing sales during the one-week long Labour holiday forced retailers to curb their inventories, which resulted in fewer orders for fabricators. A late season demand surge as well as re-stocking activities ahead of the spring festival made up some of the lost ground, but the fourth quarter still recorded a modest year-on-year decline.

China's jewellery fabrication volumes recorded a less than two percent year-on-year decline during the second half of the year. However the weaker first half dragged down the full year total, delivering a near 10% annual contraction. Full year jewellery fabrication volumes amounted to 579.7 tonnes, some 40% and 378 tonnes below the peak of 2013.

Turning to trends within the gold jewellery sector, although the 24-carat (pure gold or "Chuk Kam") segment continued to dominate the market, 18-carat (K-gold) was expanding rapidly with sales continuing to grow at double digit figures. We estimate total tonnage involved in the K-gold sector reached close to 50 tonnes last year, or slightly over 8% of the whole gold jewellery industry in 2015, compared to approximately 35 tonnes the year before.

CHINESE JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

The growth in demand for K-gold can largely be attributed to the younger middle class, who are attracted by fashionable designs and looking to buy gold primarily for its adornment qualities rather than as a simple investment option. Another reason why 18-carat gold jewellery was so popular in 2015 was that industry participants amended their selling strategies. Margins were negligible when selling pure gold jewellery when demand was soft, so sellers allocated more shelf display to 18-carat gold pieces, which commanded better margins. In addition two of the largest palladium jewellery fabricators in China had also given up their palladium business and have turned their focus to the 18-carat gold sector last year.

Meanwhile, despite the economic growth slowdown, Chinese gold imports increased by at least 24.1% year-on-year in 2015 from 1,297 tonnes in 2014. Last year annual imports reached an estimated 1,610 tonnes, exceeding that of 2013, a year with unprecedented consumer demand for gold. Most of the growth last year was derived from the second half of the year, with 915 tonnes imported delivering a 41.1% year-on-year increase. Net imports of gold for the last month of 2015 via its main conduit Hong Kong surged to the highest level since October 2013 to 129 tonnes, an increase of 81% year-on-year; the combined imports (including imports from Hong Kong, Switzerland, the United Kingdom and Australia) recorded a historic monthly peak of 228 tonnes.

On a regional level, Hong Kong remained the primary conduit of Chinese gold imports, though its share has been contracting since 2013. In 2015, the average share of gold imports from Hong Kong dropped to 55%, slightly more than half of the total gold influx to China, compared to 73% in 2013 and 63% in 2014. Gold imports from this conduit was traditionally regarded as a simple proxy to estimate Chinese consumption as the country's gold trading data was not available to the public. However, we expect Hong Kong's market share as a hub, in terms of gold imports into China, will continue to decrease. In particular, China, for strategic reasons, has continued to increase the proportion of direct shipments into Shanghai by offering various monetary incentives, aiming in the long run, to lift Shanghai to the role of major player in the financial field. The declining dominance of Hong Kong and the increasing proportion directly routed into Beijing and Shanghai therefore points to the necessity of changes on methodology to calculate Chinese gold demand.

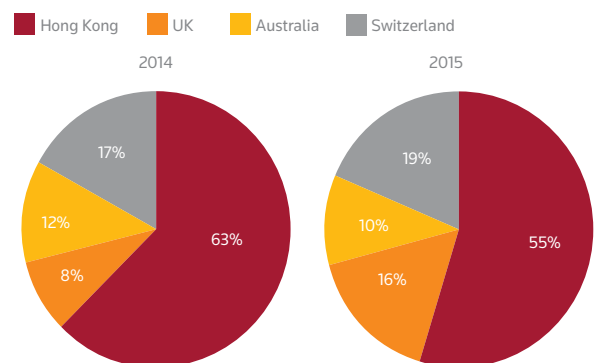
Gold imports from Hong Kong totalled 861 tonnes in 2015, with monthly imports averaging 71.8 tonnes over the year. The fourth quarter recorded the highest level at 279.8 tonnes due to seasonality and investors seeking safe haven assets, while the second quarter recorded the lowest at 160.2 tonnes as capital flooded into the domestic equity market as Chinese shares were excessively over-bought.

Another trend worth noting is the gold sourced from the United Kingdom. Monthly imports have picked up since 2014 stabilising at around the 30 tonnes level thereafter for most of 2015. Our research indicates that a substantial proportion of the UK imports this year have been in the form of 995 large bars (12.5kg or 400oz), typically a form associated with the official sector or for vaulting purposes, rather than demand from the supply chain and end-consumers. The latter often drives up the imports for 9999 purity kilo bars, which is the standard purity and size in China.

Gold imports from Switzerland steadied for the most of the year before an unexpected surge in tandem with the rise of imports from Hong Kong in December. Annual imports from this source totalled 291 tonnes, an increase of 33.1% year-on-year and even 14.4% higher than that of 2013, which drove it to a record high. Imports from Australia held firm, averaging 15.1 tonnes in 2015, compared with 13.0 tonnes the previous year.

Chinese gold imports, in general, were affected heavily by seasonality. Retailers stocked up inventories, anticipating strong sales in the lead up to the holidays such as Valentines' Day in February, Chinese New Year in the

CHINESE GOLD IMPORTS BREAKDOWN



Source: GFMS, Thomson Reuters

first quarter and “Golden Week” in October, which in turn drove up demand for fresh bullion weeks before the actual festival buying. However, previous observations highlight the fact that the months posting strong imports are often followed by a relatively weaker month as wholesalers and retailers had to work through their bloated inventories. As sales were largely disappointing and well below their expectation in most cases in 2015, wholesalers and retailers had to suspend further orders until inventory levels were drawn down, resulting in weak imports during these periods.

Apart from seasonality, gold leasing/financing activities in China also accounted for the country’s gold imports surge. Companies took advantage of this cheap financing, paying low interest rates on borrowed physical gold to generate much needed liquidity. According to our estimation and feedback from within the banking sector, this trend will continue in China in 2016, albeit at a reduced rate as several commercial banks have indicated they have reduced the size of their lease books in recent months. Despite this, gold imports will continue to benefit from these transactions.

The gold price premia between the Shanghai Gold Exchange (SGE) and the gold price in dollar terms also influenced bullion imports last year. Last year, five of the twelve months saw gold premia on the Shanghai Gold Exchange over \$5/oz, a level that provided a sufficient incentive for arbitrage trading, which in turn pushed gold imports higher over those months.

CHINA MARKET OUTLOOK

China’s economic strength continues to deteriorate. China’s official manufacturing PMI in February came in at 49.0, the weakest result since 2012 and marked the sixth straight month below the 50 level; meanwhile the Caixin manufacturing PMI, which tracks the operational activities of the country’s smaller companies, recorded a reading of 48.0, indicating contraction for the twelfth straight month.

This pessimistic outlook is likely to negatively impact consumer sentiment and impede consumer spending with gold a potential casualty. However, as it seems inevitable that the Chinese yuan will continue to depreciate, the Chinese population will be actively looking for alternative assets to preserve their wealth. Unlike purchasing other foreign currencies where there are quota limits, there is no regulation in China limiting one’s appetite for gold. If the gold price manages to continue its steady slow but upward moving trend it should only instill further public confidence into the yellow metal.

We are cautiously optimistic towards the country’s investment gold demand in 2016, but gold jewellery consumption, which ties more heavily to spending sentiment and makes up the lion’s share of the country’s gold demand, remains in the balance. China’s jewellery demand for the first two months of 2016 has been quite weak, as a combination of more cautious spending sentiment and the domestic gold price surging after the end of the Spring Festival holiday making consumers hesitate over gold consumption. Several larger jewellery fabricators believe that total usage of gold by the Chinese jewellery industry could possibly see at least a 30% year-on-year decline by the end of the first quarter. Demand for gold bars, on the other hand, has fared relatively better compared to jewellery consumption during the holiday period. However, it is important to note that bar fabricators have shifted their product mix with an emphasis on bars and gifting items carrying less gold per (0.1 grammes, 0.2 grammes and 0.5 grammes) to meet the market demand. These smaller items were popular gifts during the Spring Festival.

On the other hand, there are indications that the Chinese government has taken further steps to counter illegal transactions involving domestic physical gold trading, which could result in a slowdown in gold leasing activities. In addition there are rumours that some domestic banks have received non-written guidance from the Chinese government to put constraints on total gold import volume this year, as the latter has concerns about its own foreign reserves. If the surprisingly low import volumes in January from Hong Kong provide any indication, China’s total gold imports volume may possibly be taking a step back this year.

A REVIEW AND EXPLANATION OF HOW CHINA'S SGE'S WITHDRAWAL NUMBERS ARE IMPACTED BY OTHER TRADING ACTIVITIES

The GFMS team has previously explained in detail, via our regular market updates on Eikon, why the Shanghai Gold Exchange (SGE)'s withdrawal number does not simply equate to China's total gold demand as some market observers have claimed. Those withdrawing gold from the SGE vaults do so with a myriad of intentions, and as a result, we do not count all transactions as genuine on-the-ground demand. In this article we summarise withdrawal activities that do not relate to real physical demand but have made a substantial impact on SGE's withdrawal volumes.

1) TAX AVOIDANCE

The first and foremost factor behind why we believe the SGE's withdrawal number differs from the country's total gold demand estimate is related to China's current tax system, with some people exploiting this grey area.

While purchasing (and withdrawing) gold from the SGE is exempted from 17% Value Added Tax (VAT), those buyers would still receive a tax receipt. This is because any financial gain from selling that gold is still taxable. For example if a buyer purchases a gramme of gold from the SGE at 100 RMB, and sell this same gramme for 101 RMB, that 1 RMB profit is still VAT taxable.

We initially became aware of the scheme in 2013 when it first emerged, but based on information gathered from our contacts, the number of industry participants mushroomed in 2014 and 2015 as other traders became aware of the potential loophole. Basically these traders allegedly purchase gold from the SGE (take the gold out from the vault, and hence it will be counted into withdrawal volume statistics), and then sell the gold in the secondary market (or black market), but at a 1-1.5 RMB per gramme (equivalent to \$0.16 - \$0.24 per gramme) discount to the quoted SGE spot price. Buyers who purchase this gold at a discount do not receive any tax receipts from the sellers, unlike any normal business activity.

Hence these traders now have cash (received from the proceeds of selling the gold in the secondary market) and tax receipts originally given by the SGE.

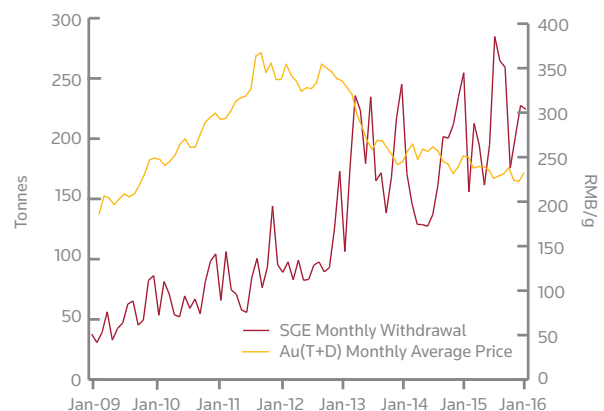
One may question why these traders might be willing to sell gold purchased from the SGE at a discount. First of all, selling gold at a discount to the SGE spot price does not necessarily mean they are losing money. If the gold price is trending upwards, they still make profits even when they are selling at discount to spot. However, making profits through trading physical gold is just the icing on the cake. The main intention has always been the tax receipts, which also have financial benefits.

Tax receipts can always be used to file for a tax refund, as China's VAT system is designed to target the end user (usually consumers), with upstream participants generally able to recoup most, if not all, of the VAT they have paid. One way those aforementioned traders can use the tax receipts they retained is to sell them to other companies at a discount.

While those tax receipts would be stated as for 'gold purchasing' activities, some of those traders alter the nature of the activities listed on the tax receipts, and sell them onto the other industries, including catering and other non-metals industries.

Those tax receipts buyers can sometimes pay 3-4% for the receipts, saving 13-14% (17% minus 3-4%) on tax payments.

SGE WITHDRAWALS



Source: GFMS, Thomson Reuters

Meanwhile, selling the tax receipts at 3-4% of the nominal amount is already more profitable than fabricating jewellery on their own, which the fabrication fee charged by the industry average currently is approximately 2.50 yuan per gramme.

Thus, at the end, by conducting such trading activities, the traders can still have money realised from selling gold (the amount could be more or less than the original 'investment'), plus any monetary value received from on selling those tax receipts.

The other purpose in which traders can put these tax receipts to good use is in the case of silver (and other metals as well). As China's silver trading price is VAT inclusive, the domestic silver price is thus at a premium compared to its international benchmark, but at a discount if excluding the VAT. Hence, it creates an arbitrage trading opportunity for the sharp minded.

People can first smuggle silver in the country from overseas (where the price is usually lower when compared to China's silver trading price). The business category of the tax receipts received after purchasing gold from the SGE is then amended from gold into 'silver purchasing' on the tax receipt. These people can then allocate these amended tax receipts onto the smuggled silver, and can sell the silver at China's prevailing price (which is usually higher when including VAT), pretending the metals are from official channels.

Of course, all of these activities are considered illegal by the Chinese government. How much would be detected by the authorities eventually, is another question.

One of our contacts with some understanding of this activity estimated that just from Shenzhen alone, such trading activities could have possibly impacted SGE's withdrawal volumes by a few tonnes per day. Approximately half of the gold being sold in the black market at discounts would eventually flow back to the SGE. While it is very difficult to quantify just how much of the SGE's withdrawal volume is being influenced by such trading activities, some industry participants have boldly estimated that at least 20% of SGE's withdrawal volume is being inflated thereby.

2) GOLD LEASING ACTIVITIES AND ARBITRAGE OPPORTUNITIES (IN CHINA, GOLD IS MONEY, AT LOWER COSTS)

Gold leasing activities are normal practices between banks and companies in the gold industry, such as miners and jewellery fabricators. However, it is well known that as liquidity in the banking sector has dried up since 2014 in China, companies from other industries have been scrambling for finance to fund projects, and gold leasing activities have become the safety net for many financial troubled companies across all industries. As the interest rate for a normal gold loan varies from 2-4% per annum, which is lower than a monetary loan, it has created various opportunities for those involved, including companies borrowing gold and then selling it in the market for liquidity (but taking on a lower burden compared to a monetary loan), and gold companies who can borrow gold under normal industry practice effectively becoming financiers and pocketing the difference in the interest rates.

While the SGE can trace all the gold leasing activities taking place on its board, any related data is not disclosed to the public. However, when leasing activity is tied in with immediate selling (borrowers looking for liquidity), it would generate and inflate higher withdrawal volumes.

It is important to note that in China the tighter the credit line (due to a softer economy and higher risks of bad debt), the higher demand for gold loans. For illustration purposes, assume a Chinese company used to have a \$30 million credit line with a domestic bank, but as credit tightens, the company now only has a \$20 million credit line. So how does the company fill the \$10 million gap? The bank lends the company physical gold to fill the void. From the perspective of the bank, lending physical gold is an off-balance sheet item, which in the worst case scenario, even if the company fails to repay the physical gold, would not affect the bank's liquidity ratio, bad debt ratio, or any other metrics. From the perspective of the borrower, the capital cost of a gold loan is lower than a monetary loan. Thus a win-win situation for both parties.

Of course, there are more benefits and arbitrage opportunities existing within the gold leasing activities. As mentioned above, the interest rate on gold loans is usually a very low 2-4% per annum. Various Chinese companies and funds have taken advantage of the low cost of capital, by first borrowing physical gold, selling into the market for cash, then investing the proceeds into other investments, usually wealth management products promoted by the banks at a guaranteed return of maybe 6% per annum.

The company can then use the wealth management product they purchased from banks as collateral to then take on more physical gold, then liquidate the gold again to buy more wealth management products...the cycle repeats again and again. From the perspective of the banks, not only have gold leasing activities brought monetary return on their gold holdings, it has also created substantial synergies to its other businesses, thus creating more revenue streams.

Meanwhile, companies and funds can also earn the return differential by taking advantage of these arbitrage opportunities. Another win-win situation for both parties. This is also a major reason why many Chinese gold miners are so eagerly expanding into the domestic financial industry, as their cost of capital is low and thus gives them a competitive edge.

China's gold financing activities grew by a large margin in 2014, and have continued to increase in 2015. In 2014, total gold holdings held by the four largest banks in China (ICBC, CCB, BOC and ABC) rose only 15%, to slightly more than 1,500 tonnes based on our analysis, while the major growth (in high multiples) was largely seen in the medium to smaller sized banks. By the end of September 2015, total gold holdings under the four largest banks increased by approximately 425 tonnes, or 28%, to approximately 1,900 tonnes, from the end of 2014.

On the other hand, our industry contacts indicate that a series of bankruptcies in the domestic jewellery fabrication industry in 2014 and 2015 has seriously hurt the banks' loan portfolio, and the whole jewellery industry is now being classified as high credit risk by the banking sector. It has become more difficult for jewellery fabricators to obtain loans from banks, even in the form of physical gold.

We believe the expansion of the domestic gold leasing market is one of the primary reasons for the strong Chinese gold imports in 2015, despite a weak physical market.

3) FINANCIAL STATEMENT WINDOW DRESSING

As the Chinese economy softened and liquidity tightened in 2015, companies scrambled for cash to pay and to generate cash flow. Some companies attempted to build up their revenues by merely trading and withdrawing physical gold from the SGE vault so it would appear they have a high level of business activity, while in reality there is no real genuine demand behind this. By dressing up their financial statements in such a way, it is easier for these companies to obtain a bank loan, and to receive more support (i.e. tax incentives) from the local government authorities.

It is important to point out that the SGE would not ask traders the purposes for trading and withdrawing physical gold from the SGE vault, and hence the above mentioned trading activities is not a violation of the SGE rules and regulations.

4) RETAILERS SELLING UNSOLD INVENTORIES DIRECTLY TO REFINERS

Retailers have been unwinding their retail inventories as market demand has waned. Indeed, slow moving jewellery that may have been on the shelf for a long time is often 'recycled'. Retailers often prefer to sell a portion of their working stock at a discount directly to refiners in order to maintain inventories at a desirable level. As an example, during a field research trip earlier this year, a local refiner indicated that one jewellery retailer has sold approximately 40 tonnes of unsold jewellery pieces to them in a single two month period.

One may question why retailers would choose to sell inventories at a discount rather than re-melting the original piece and fabricating it into another design. By selling to refiners, even if such a transaction may result in a financial loss, it still counts as revenue; but doing the latter only increases the expense category and provides no benefits to the

company’s revenue or asset value. It is a strategy that basically dresses the company’s financial statements to look sexier than it actually is.

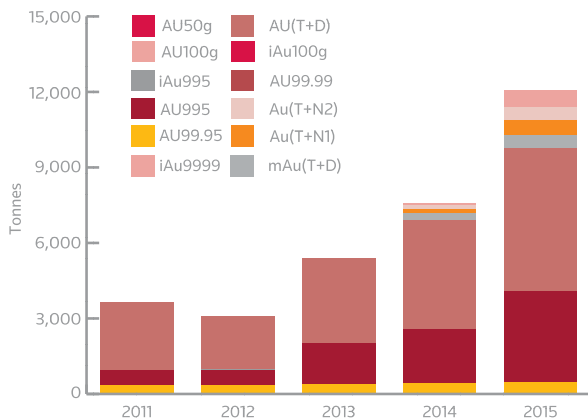
It is also worth noting that, if market observers try to estimate China’s total gold jewellery consumption based on data provided by the retailers, it is very likely that they would have overestimated the country’s consumption level, as retail sales would include direct sales to refiners, which should not be counted as genuine consumption - indeed, quite the reverse.

While direct selling to refiners will certainly increase the scrap supply, it is also important to point out the obvious – that such actions would also increase the delivery volume (withdrawals) on the Shanghai Gold Exchange (SGE):

- 1) Fabricators take delivery from the SGE to make jewellery pieces;
- 2) Retailers purchase jewellery from fabricators, but any excessive unsold inventories are sold to refiners;
- 3) Refiners in turn fabricate old scrap jewellery pieces back into investment grade bars, and then return the bars back through the SGE for sale;
- 4) Back to point 1.

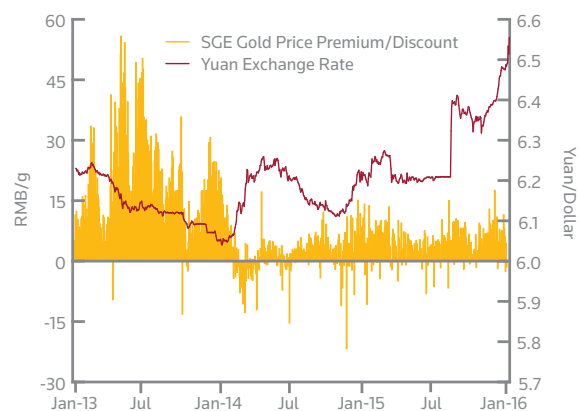
There is no denying that all the trading activities mentioned above would definitely have an impact on SGE’s withdrawal volume, even though it is almost impossible to identify the absolute volume involved. While withdrawal volumes published by the SGE are a reflection of daily trades, one has to understand that there are many trading activities and indeed a multitude of factors that contribute to the SGE withdrawal volumes, and, as such, should be viewed and interpreted as something more than just the country’s wholesale gold demand as some market commentators are prone to do.

SGE GOLD CONTRACTS TRADINGS IN TONNES EQUIVALENT



Source: GFMS, Thomson Reuters

SGE GOLD PRICE PREMIUM/DISCOUNT



Source: GFMS, Thomson Reuters

INDIA

- **Indian gold imports increased by 10% year on year to 904.5 tonnes, helped by a reduction in unofficial imports and a rise in doré imports.**
- **Retail investment increased by 6% and jewellery consumption by 4% year on year, taking consumption to 865 tonnes.**
- **Share of fine gold from doré for domestic consumption doubles to nearly 30%.**

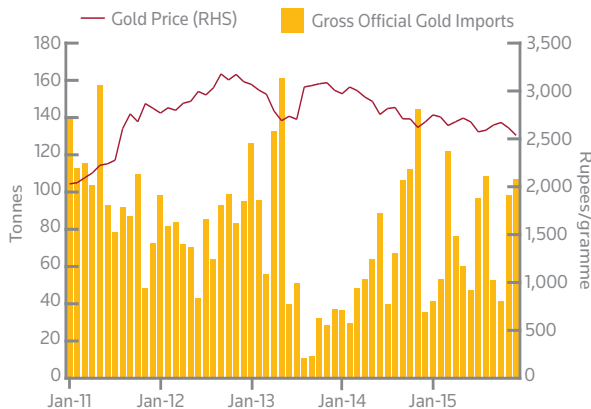
India imported 904.5 tonnes of gold last year, the highest in three years and up from 825.5 tonnes in 2014. Net imports after deducting the duty free imports that are in principle destined for the export market, were 708.5 tonnes; including fine gold content from doré. Evidently the balance of 196 tonnes was duty free imports. Discussion about bullion imports would be incomplete without mention of unofficial imports, which according to our estimate were 142 tonnes last year, a 24% drop from 2014 volumes. As a result, total imports for supplying to the domestic market through imports were 847.5 tonnes. The breakdown has been detailed further in the discussion below.

The imports were transacted by twelve banks, nine nominated agencies, and approximately 40 exporters. This was in contrast to 26 banks that were importing gold for their clients in 2012 and more than 20 star and premier trading houses and jewellers with licenses for direct import. However, the market dynamics have changed over the past three years following two years of tough import norms, coupled with the end of easy working capital lending for the gold and jewellery industry after some of the large jewellery exporters defaulted on loans.

OFFICIAL IMPORTS FOR DOMESTIC CONSUMPTION

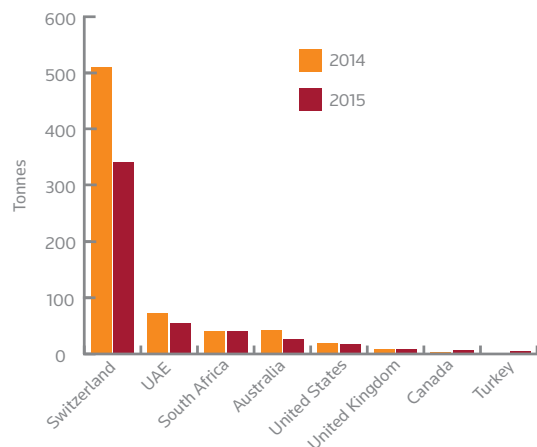
Official gold supplies for the domestic market had almost dried up completely from December 2014 to mid-February 2015 following the roll back of the 20:80 principle. Imports were dominated by the private trading houses in the first two months, contributing on average 48% of the total imports, and the rest shared between banks and government nominated agencies. The guidelines allowed banks to import gold on lease for sale to jewellers, as well as import on a consignment basis and sell it on outright. Adding to that it restricted star and premier trading houses to import gold only on document against payment basis. The new rules increased the banks' market share in refined bullion imports to an average of more than 70% for the rest of the year. The challenge was compounded further for the Star and Premier trading houses (STH or PTH) which were renamed as Four and Five Star export houses with higher threshold limits in the Foreign Trade Policy (2015-20) effective April. It was not until July that these agencies started supplying to the domestic market, to an extent that the share of trade conducted by banks jumped to between 85% to 92% during the second quarter, with the balance by state run agencies.

GROSS OFFICIAL GOLD IMPORTS (TONNES)



Source: GFMS, Thomson Reuters

TOP INDIAN SUPPLIERS FOR DOMESTIC DEMAND



Source: GFMS, Thomson Reuters; GTIS

GROSS INDIAN BULLION IMPORTS*

(tonnes)	2008	2009	2010	2011	2012	2013	2014	2015
Gross Imports*	760	779	1,123	1,211	969	783	826	904
Local Price (Rs./10g)	12,319	15,310	18,386	24,003	29,730	29,310	28,278	26,488

*Includes duty paid, duty free and fine gold from doré

Source: GFMS, Thomson Reuters

Meanwhile, imports of doré surged in the second quarter, rising by 23% from first quarter flows. This rise was attributed to higher volumes from refiners who had been, up until the first quarter, either a STH or PTH, and importing doré was seen as an immediate way to substitute the shortfall in refined bullion imports. Moreover, it was also the most economical option for sourcing gold to export, specifically when the domestic market was at a discount to the landed price. In such an event it made financial sense to get advance remittance for the exports and keep the overall group’s funding cost at a lower rate, which otherwise can be 11 to 13%. We have discussed the trend in gold doré imports in further detail later.

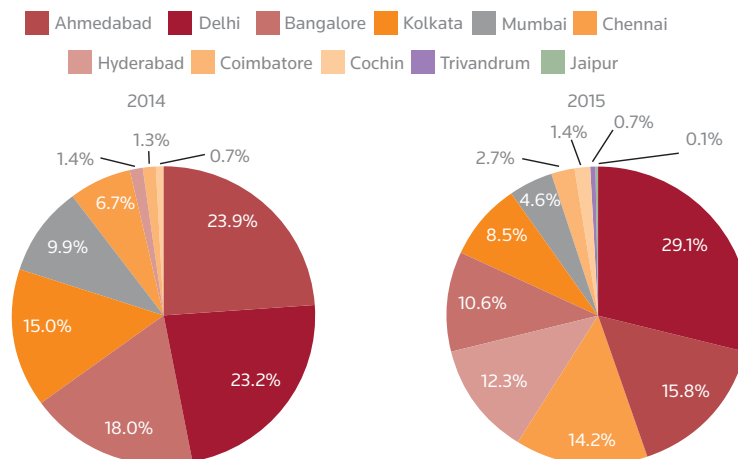
BULLION TRADE

The duty paid on refined bullion imports destined for domestic consumption was 501.3 tonnes, of which 374 tonnes were 995 purity kilo bars. This would include supplies from both LBMA accredited and Dubai Good Delivery refiners. Switzerland was the largest supplier with a market share of 68%, followed by the UAE at 11%, South Africa at 8% and rest of the eleven countries contributing to 13% of the total imports. The sharpest growth was from Turkey, increasing from 300 kilogrammes in 2014 to 4.4 tonnes last year.

Taking a look at the 100 gramme bar segment, 127 tonnes were imported last year with purity primarily of 3 9’s, taking its share to 26% of the refined bullion imports for domestic supply. Volumes were the highest to Hyderabad with a market share of 34%, followed by 30% to Ahmedabad, 23% to Bangalore and the rest to Delhi, Chennai and Mumbai regions. Approximately 45% of the imports occurred during and ahead of two major occasions- Akshaya Tritiya and Diwali. Part of these imports were designated for the investment market where the 100 gramme bars are re-sized to smaller denominations. Taking a look at the origin, on average 90% of the bars originated from Switzerland and the rest from Australia, UAE and South Africa.

At a regional level, and taking the combined volume of 995 and 999 bars, the highest supply was to Delhi, with a market share of 29% against 23% in 2014, thus pushing Ahmedabad to second spot and Kolkata to sixth spot. Key to note here is that volumes to Delhi have increased despite a huge inflow from fine gold refined from doré. This can be attributed to shipments of domestically refined gold to Kolkata and many of the fabrication centres in the state of Gujarat. Moving to southern India, overall volumes have increased only by 10 tonnes; however, the market share of individual ports has seen a major shift. For instance, volumes to Chennai increased by 53% last year, Coimbatore rose by 43% and Kerala enjoyed an annual rise of 117%, on the other hand flows through Bangalore declined by 57%.

REGIONAL DELIVERY CENTRES



Source: GFMS, Thomson Reuters

DORÉ IMPORTS TO INDIA: A STORY OF EXPONENTIAL GROWTH

In 2012, when doré imports to India were initially incentivised through a duty arbitrage opportunity, the global gold market was deeply concerned about the potential growth of the refining industry in India and what impact that might have on the wider industry, already struggling as result of over capacity. This fear was justified, with doré imports, which were just six tonnes in 2011, originating from just two countries, touched 316 tonnes in 2015 and in these years 24 countries have supplied gold doré to India. In the first year following the introduction of the duty differential imports surged to 51 tonnes. This trend has continued to gather momentum in successive years, driven by the commercially advantageous refining terms available on doré shipments to India, at a time when producers' margins have been aggressively squeezed by the falling gold price. However, the trend is being challenged after the new tax structure was introduced on 29th February 2016. Nevertheless, last year the volume of fine gold refined from doré was 207 tonnes, which makes it 29% of the total gold imported for domestic supply.

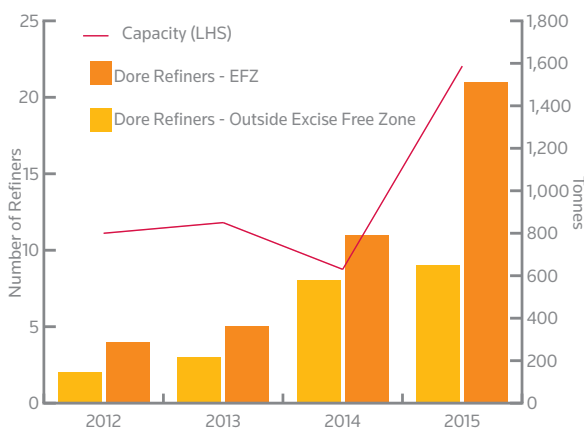
Currently a doré refiner operating at an Excise Free Zone (EFZ) and outside EFZ importing doré or gold concentrate directly from a mining company would incur the Countervailing Duty (CVD) of 8.75% as against customs duty on gold bullion of 10%. Additionally those outside EFZ are subject to 9.5% excise duty. Effectively the difference is 0.5% or 1.25% with the LBMA gold price depending where the refinery is located. Until 29th February this year, the differential was 1% and 2% - a benefit that no refiner in any other part of the world receives.

In 2012 there were six refineries with supplies emanating from Australia, Ghana, Colombia, Peru, Tanzania and United States. The list has since expanded and has seen supplies coming from 24 countries and the number of refineries who have utilised their import license at some point in time is 30, of which 21 are located in EFZ. The doré sourcing space has become so competitive that in any given month during 2015 the total number of refineries that had access to supplies ranged from 15 to 19. Most of this gold, previously being refined in UAE, South Africa and Europe, was being routed to India. Additionally with offers for selling doré at a premium over the LBMA price, the doré trade in Africa and Latin America with Indian refineries expanded rapidly. Generally, doré was being sold at discount to the LBMA price to refineries elsewhere in the world.

The annual capacity of Indian doré refineries that have been operational in the last four years is estimated at 1,587 tonnes, having doubled from 2012. Of this, only approximately 650 tonnes is located outside the EFZ. However, the average capacity utilisation of all the functional refineries as a whole is only 20%. Having said that, the top five importers, which accounted for more than 90% of total doré imports, have on average operated at 70% to 80% of capacity last year.

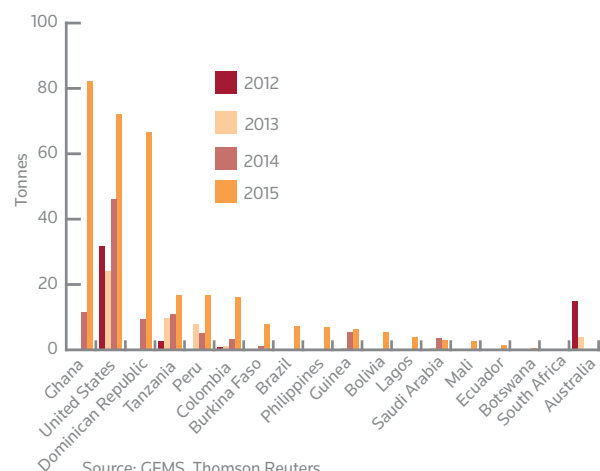
The arbitrage and lower refining costs (of 0.15% to 0.3%) have been a key reason driving the refining volumes. There have been a number of reasons why the Indian refining business has expanded so rapidly in the last few years:

DORÉ REFINERS AND REFINING CAPACITY



Source: GFMS, Thomson Reuters

COUNTRY OF ORIGIN OF DORÉ



Source: GFMS, Thomson Reuters

1. Indian traders have been involved in the global trading of minerals, precious stones and diamonds for generations. For these networks to expand into doré has been relatively easily achieved as strong relationships were in some cases already in place across Africa, Dubai and South & Central America. Thus building new relationships in the gold mining industry has proven achievable.
2. The list of top importers into the EFZ is dominated by the largest bullion dealers in country, who have been leaders in the domestic Indian market for decades. Their well established credit lines made them competitive on payment in a shorter time frame.
3. The dramatic fall in dollar gold prices has aggressively squeezed many miners' margins and in response to this aggressive reviews focusing on cost saving has been underway across the mining industry. Under these circumstances some mining companies have elected to partner with refiners in India as the doré fetched a higher price and improved cash liquidity through fast payment terms outlined above.
4. In many of the locations in South America and Africa mining is undertaken informally or illegally. In several cases the Indian arbitrage opportunity has incentivised doré collection infrastructure to expand with a growing number of agents sourcing doré from both official and unofficial miners. Indian refiners purchase from these 'aggregators' who produce the required mining certificates, which may or may not be genuine and it is often difficult to trace doré to the mine of origin.
5. Record premia that prevailed in the domestic market in 2014 offered further incentives for sourcing from the international mining industry. It is also important to mention that a percentage of the imported volumes documented as doré is likely to have been scrap gold.

With new rules in place, margins have been squeezed, refiners based in the EFZ who haven't utilised the capacity yet can no longer get the excise free benefit. Large refiners in the EFZ with long term supply contracts will pose a big challenge, not just to refiners outside the EFZ but also over the premia on imported refined bullion. That said these excise benefits will expire by 2020. Over this year and into 2017 we are likely to see consolidation in the refining industry as many look to exit the business and those with strong sourcing teams look to expand.

FTA'S FACILITATING JEWELLERY TRADE

In the first half of last year approximately nine tonnes of gold jewellery were imported from Indonesia, up from a tonne imported the previous year. These were largely plain jewellery of 24 carat and some volumes in 22 carat. Both of these were being melted down and sold as bullion in the local market. The trade was successful due to the ASEAN-India Free Trade Agreement, which allowed the import of jewellery at just 1% as against 10% for bullion and 15% for jewellery from other countries. However, the trade came to a grinding halt following the demand from Customs seeking bank guarantees before clearing the stock, as they wanted to investigate the country of origin. This was followed by litigation, and although the judgement was in favour of importers, such imports were further restricted by asking the supplying refiner to reveal information which was otherwise not public. As a result this window has shut for now. The traders have now hopped to South Korea, from where 24 carat bracelets are being imported with an import duty of 1.9% taking advantage of the Comprehensive Economic Partnership. The volume from November to end February is estimated to have been approximately 500 kilogrammes and will likely continue to expand until Customs authorities clamp down. Traditionally such reviews occur at higher volumes to make the case stronger for increased restriction.

UNOFFICIAL IMPORTS

Unofficial imports constitutes two parts, one of which is imported across the border illegally, and the other importing legally as duty free gold with the objective of exporting and diverting the same to the domestic market under the disguise of work in progress. Taking these two together, we estimate that 142 tonnes of unofficial gold were circulated in the market, down from 187 tonnes in 2014. This is less than 5% of the gold that was seized last year by Customs.

In other developments last year, ten tola bars were not as popular as they were in 2014. High volumes in the form of 24 carat and 22 carat jewellery, other than refined bars, were routed through Bangladesh, Myanmar and Nepal borders. More interesting is the development of the allied industries to manufacture electronic gadgets customised to conceal gold biscuits (minted bars in a range of 10 grammes to 100 grammes).

Last year the hawala premia for the dollar ranged between 2.3% to 3% as compared to 4.5% seen in 2014. This is attributed to a shift in choice of currency from the dollar to the country currency from where the gold is to be sourced. As a result, the unregistered money transfer agents have become very popular for selling forex at the lowest rate and are gaining trust amongst the Indian diaspora abroad. The syndicates involved in the gold trade are believed to work in a diversified business, which included currency and heroin smuggling, thus helping build a wider but closed network of agents and carriers.

The regions that were more popular for circulating unofficial gold were largely in southern and western India. To put this in perspective, we compare the imports to key ports in 2012 to that in 2015. For instance, in 2012 imports to the following ports in the states of Kerala and Tamilnadu-Karipur (Calicut), Cochin, Trivandrum, Coimbatore and Chennai was 203.5 tonnes, as against 95.2 tonnes in 2015. This decline occurred despite the mushrooming of new jewellery stores in these two states. The story is similar comparing import volumes to Karnataka, Maharashtra, Gujarat, and Andhra Pradesh (old name). These states together constitute approximately 75% of gold jewellery fabrication volumes.

EXPORTS

India imported 196 tonnes of duty free gold last year for exporting value added products. Last year was different from 2014, thanks to the end of the 20:80 principle before the start of the year. As the 20:80 era ended exports posted a sharp decline, as there was no compulsion to export. In the meantime part of the inward remittances were held back in offshore companies, until the new Foreign Trade Policy 2015-20 (FTP) came into effect from 1st April.

The policy increased the threshold levels to qualify and retain the status of a four and five star export house, also making them eligible to import and supply to the domestic market as a nominated agency. Following this, the inward remittances that were held offshore was remitted to India. This eventually resulted in increased exports from India during April to June in order to redress the shortfall in the three years' aggregated export value. This trend gathered pace during months when the domestic market was in a discount.

Exports last year were largely in the form of 24 carat medallions, destined primarily to the UAE, and were a result of the end of 20:80 regime and new FTP. The medallions were melted down and converted to ingots with this metal then re-exported to India or exported to Switzerland for reconversion to standard bars and imported directly from the refiner. In previous years this metal used to go into circulation in the UAE market, often denting the premia there due to the high rate of supply, which was not the case in the previous year. We estimate that 153.5 tonnes were exported in the form of medallions and coins, more than twice the volumes recorded in 2014. That said, in 2013 and 2014 under the 20:80 regime, exports were popular in the form of rough jewellery as against medallions due to the scrutiny from Customs. Last year net foreign exchange earnings from the exports of gold products were lower than 2014 despite higher volumes, because of the lower value addition that medallions have over jewellery. Also important to note are the exports of jewellery and medallions by nominated agencies who also ran doré refining facilities, thus contributing to higher net foreign exchange earnings for these firms.

The overall volume of genuine jewellery exports declined following competition from other fabricating regions and the demand decline from Middle East countries due to macroeconomic factors. Some of the nations to which India exported the most were UAE, North America and Singapore. To the UAE it was primarily 22 carat and 21 carat plain gold jewellery. Sharp declines were noticed in the export of diamond jewellery, with 22 carat diamond set jewellery the bulk of this. Additionally, demand was noted for meenakari, bali and dokiya designs and handmade jewellery. To North America, other than 22 carat plain gold jewellery, volumes were highest in 20 and 18 carat, which included designs like garden and milestone necklaces, sojourning bangles and various tribal designs.

DOMESTIC JEWELLERY CONSUMPTION

Jewellery consumption last year grew at a snail's pace, rising just 2%, although volumes were the highest on record. Despite the local price falling 6% last year and retailers enjoying improved margins, higher marketing overheads, reduced the profitability for many jewellers, despite recording an increase in sales volumes. Taking a look at consumption on a quarter on quarter basis, Q4 registered the highest rise, increasing 4% year-on-year to 186.7 tonnes, also the highest since Q2 2013. This marks a downwards revision from our estimate published in the Gold Survey 2015 Q4 update following fresh information.

Discussions with retailers indicate that sales growth was largely in the plain jewellery segment. There was an increased push for items of higher mark up, but this failed to attract larger consumer interest, eventually resulting in increased marketing overheads and lower profitability. The competition from small and medium sized stores in generic designs stifled growth of the large retailers, as the former, with access to unofficial gold, were willing to offer purity as promised and at a more competitive price, which wasn't the case until the unofficial trade flourished. As a result many of the small and medium sized jewellers are expanding their network of stores, leading to increased fabrication volumes, which last year touched a record high.

One of the important developments last year was the re-issue of gold metal loans (GML) to jewellers, thereby reviving retailers' store expansion plans. That said, GML constituted not more than 20% of the working capital portfolio of most jewellers. This was despite the fact that lease rates offered by supplier banks last year were the lowest on record. However, there was a notable increase in volumes towards the end of the year as the fall in price increased speculative interest, on expectation for a price reversal.

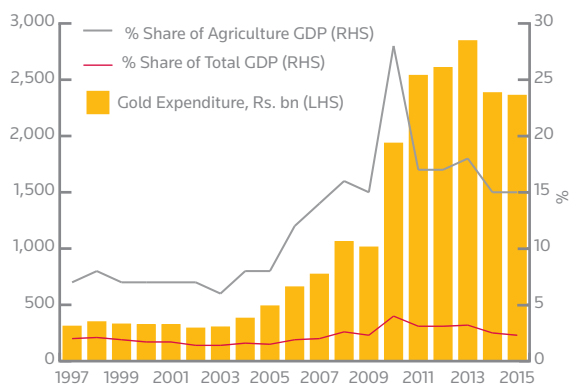
SCRAP JEWELLERY SALES

Scrap jewellery sales last year increased by 18%, largely triggered by net selling from marginal farmers following a second consecutive season of crop losses. Additionally, there have been increased incidences of default of loans against collateralised gold jewellery, specifically following the sharp fall in prices. Tight credit conditions were yet another reason contributing to higher scrapping.

STATISTICAL RELATIONSHIP BETWEEN MONSOON AND INDIAN DEMAND

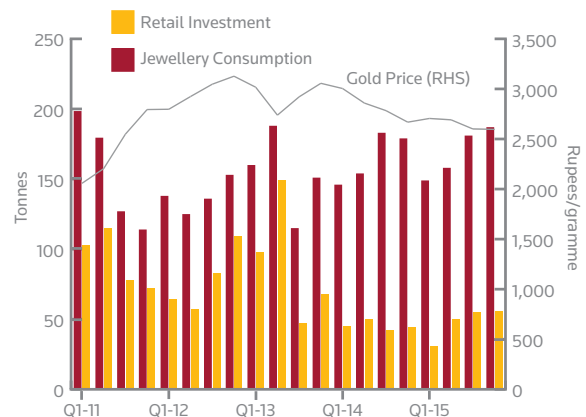
Growth in gold demand is heavily driven by the amount of rainfall received during the Indian monsoon season due to buyers' reliance on income derived from crop output. We estimate the Indian households dependent on income from agricultural activity contribute to roughly 35% of annual gold demand, and are highly sensitive to monsoon conditions. To statistically explain this relationship the GFMS and Lanworth (agricultural and meteorological experts) teams at Thomson Reuters have combined forces to glean insight about gold demand from developments in monsoon weather.

GOLD EXPENDITURE AS A SHARE OF GDP



* Sharp decline from 2011 partly attributed to change in GDP calculation
Source: RBI; GFMS, Thomson Reuters

JEWELLERY CONSUMPTION AND RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

The India monsoon is critical to crop production as it brings in approximately 80% of the country’s annual precipitation during the period. Last year, the weak monsoon (which followed a weak monsoon a year prior) substantially lowered Kharif crop production (e.g. rice, soybean, and corn) and rabi crop production (e.g. wheat). As a result there has been a notable decline in demand from households solely dependent on farm income, to the extent that marginal farmers were net sellers in the market.

For the upcoming season we see a brighter picture, with a forecast for near or above normal monsoon rainfall. If this materialises, crop production will likely recover to near normal levels or above, as occurred in the past. After two consecutive weak monsoons due to the strong El Nino, above normal monsoon precipitation developed in 1988 and 1998. This led to near or record high yields for both kharif and rabi crops, such as corn, soybean, rice, and wheat.

This upcoming crop year (crop years run from September to August) is forecast to be encouraging for farmers, basis the forecasts for a better monsoon as detailed above. Based on expectations for monsoon rainfall and its impact on crop production, we expect crop revenues to rise by approximately 3%. This forecast assumes crop production will average levels realised in 2012 and 2013 and that the Minimum Support Prices for crops remain unchanged from last year.

To estimate the potential impact of good monsoon on gold demand, we run the regression analysis on the raw data of crop revenue (x) and gold expenditure (y) for the series starting 1985-86 to 2015-16. Important to note is that 2015-16 data is still limited to first advance estimates of last year’s crop production released by the Ministry of Agriculture in September. Basis these crop estimates, we have estimated that gold expenditure following the Khariff and Rabi harvest during 2015-16 declined to the lowest level in five years. This forecast is reinforced by our primary ground-level research, which has concluded there was underwhelming growth in fourth quarter demand in 2015, despite the gold price falling to the lowest quarterly average in rupee terms since Q3 2011.

The chart below shows the linear relationship between these two variables and suggests that in 94.8% of the change in y can be explained by the change in x. The line of best fit shows the high positive correlation that exists between the two variables. We used the derived equation: $y=3.9189 \cdot \text{crop revenue} - 291.08$, to arrive at the possible change in expenditure on gold (y) this upcoming crop year. Given the forecast for a near or above normal level monsoon this crop year, we estimate that, in nominal terms, demand from households dependent on rain-fed crops will increase by 10% in the 2016-17 crop year. This increase will boost consumption volumes to the highest level in three years. With 40 to 60 tonnes of additional buying emerging from agricultural households, which accounted for 315 tonnes of Indian demand last year, demand is expected to improve on the back of an improvement in monsoon conditions.

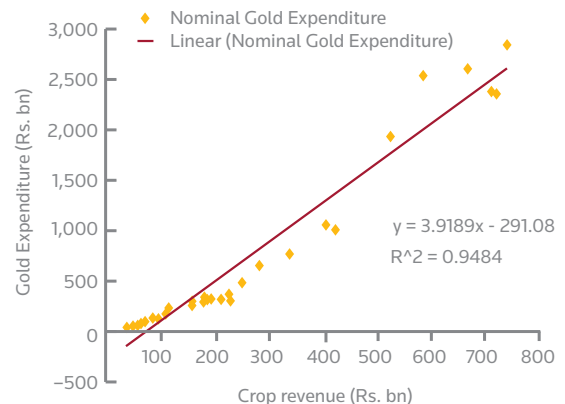
FACTORS TO WATCH IN 2016

This year is turning out to be an eventful year for policies regarding gold, which could potentially have a visible impact on gold imports. We list the key factors that will potentially shape these sales to India.

1. Doré supplies:

Imports of gold doré to India are expected to rise by approximately 45% this year compared to 2015. This is going to be driven by the inclusion of another large refiner, which is expected to begin refining gold from doré this year. A duty differential of 1.25 percent for excise free zones (EFZ) remains a main factor here that would still benefit refiners with strong sourcing contracts. Refining outside an EFZ will be a challenge due to the competitive pricing.

CROP REVENUE VS GOLD EXPENDITURE



Source: GFMS, Thomson Reuters; Lanworth; and RBI

2. Privately owned nominated agencies:

A few of these agencies are also refiners and among the top five doré refiners. Their market share of imports for supplying to the domestic market has ranged between 15% and 20%. The increase in Countervailing Duty (CVD) has placed pressure on margins as the differential with the landed price of gold has declined from 2% to 1.25%, and this may see their share in import volumes potentially increase to 30%, as they prefer a quicker return on capital employed rather than risk getting capital blocked.

3. Gold Metal Loan:

If the gold metal loan (GML) in the current form is not amended, we are likely to see an increased allocation by jewellers to source gold through this vehicle. This is due to a likely increase in trading activity as gold prices are expected to be in an uptrend.

4. Free Trade Agreements:

The Free Trade Agreements (FTA) and the Comprehensive Economic Partnership treaties might have a lesser relevance this year due to tighter checks at customs. On the other hand, if the Special Economic Zones (SEZ) are allowed to export gold and jewellery to domestic tariff areas (DTA) at FTA rates (a proposal underway), the chances are that it could destroy the market for banks and government nominated agencies. As such there have been heavy pilferages which are going undetected due to the duty differential; it is feared that such a move would increase unofficial supplies as trading between SEZ and DTA returns.

5. Unofficial imports:

Smuggling will remain strong as neighbouring countries have reduced their duty, while India continues to keep it at elevated levels. As a result we are likely to see an increase in cross border smuggling. That said, should the excise duty of 1% remain in force, it may challenge the existence of unofficial trade.

6. Window for disclosing undisclosed income:

The window to disclose undisclosed income (as detailed in Annual Federal Budget speech 2016-17) can make the gold monetisation scheme (GMS) successful. Tax payers with gold holdings may take two approaches; either liquidate gold (this is possible, as the price is only 10% down from its record level in rupee terms and 50% higher than the average price of the last decade) and declare the cash in hand, or declare the gold holdings and use that for depositing in the Gold Monetisation Scheme (GMS).

7. Capital gains tax exemption on sovereign gold bonds:

This is definitely a very attractive incentive for investors preferring to hold gold in paper form. The lure of tax exemption is sure to add more volumes, naturally taking the glitter away from physical gold.

8. Gold Monetisation Scheme and India Gold Coin (IGC):

The GMS has yet to see sizeable flows from households and is still reliant on supply from temple trusts. Further tweaking of the scheme to mobilise household gold could have an impact on import volumes. Additionally with the increase in the network to distribute IGC (minted from gold mobilised through GMS), this can result in increased sales.

NORTH AMERICA

- **Total North American fabrication demand increased to 239.4 tonnes last year, up 11.7% from the previous year. Increased fabrication was largely driven by higher retail investment.**
- **Retail investment rose 27.6% to 95.8 tonnes in 2015 in the region, largely driven by a 40.4% increase in official mint sales of bullion coins and numismatics.**
- **Jewellery consumption rose for the second consecutive year, totalling 164.1 tonnes. While consumption increased 6.1%, fabrication rose by slightly less, 5.5%, as domestic manufacturers struggled against price-competitive foreign sources.**
- **Scrap sales dropped 15.1% to total 98.8 tonnes, its lowest level since 2005 and down 54.7% from the 2011 peak of 218.3 tonnes.**

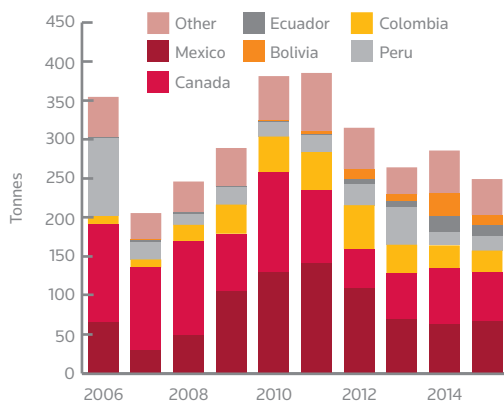
Total fabrication demand for gold in the United States increased to 192.1 tonnes last year, which was 8.4% higher than in 2014. Contrary to this increase, gold bullion imports contracted 12.8%, totalling 249.3 tonnes. The majority of this contraction is due to the 10.8% decrease in imports from Latin American countries, which accounted for 66.9% of imports last year. Imports from Canada dropped 11.0%, likely due to increased demand for gold from domestic coin and bar manufacturers, thereby reducing the need to sell into the United States market.

The U.S. Mint sold 33.6 tonnes of gold coins last year, a 41.2% increase over the previous year. This was the strongest growth rate since 2009, when sales surged 59.9%. The growth in coin sales occurred almost entirely within the third quarter, when sales surged 209.8% from the same period in 2014. This was the strongest rate of growth in quarterly sales since the fourth quarter of 2008. The initial uptick in demand was largely due to the decline in gold prices to multi-year lows, but demand remained elevated when shortages of coins in the market became apparent. Strong demand for U.S. Mint coins and limited availability led investors to boost their purchases of small bars and rounds as well as coins produced by other national mints. As a result, bar demand rose 10.1% to total 27.3 tonnes.

Physical gold stocks in U.S. depositories have been increasing in recent years in part due to growth in allocations to Individual Retirement Accounts (IRAs). Since the Taxpayer Relief Act of 1997, IRA holders have been allowed to allocate a portion of their investments in physical bullion coins and bars minted by recognised national mints or bullion products made by COMEX and NYMEX approved refiners. Consequently, as of end 2015, an estimated 0.04%, or \$3.1 billion, of total IRA assets were denominated in gold and silver bullion. IRA allocations to precious metals vary, from as low as 2% of total portfolio value to as high as 30% and tending to average around the recommended 10% level. Physical precious metals assets serve mainly as a hedge against U.S. dollar assets and a portfolio diversifier.

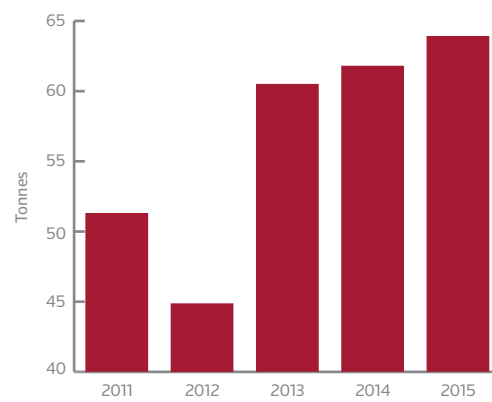
At present, there are around 100,000 active physical precious metals IRAs, with an average account value of \$30,000. As of the end of 2015, GFMS estimates a total of 63.8 tonnes of gold are allocated to these IRAs. Holdings are up

UNITED STATES BULLION IMPORTS



Source: GTIS; GFMS, Thomson Reuters

PHYSICAL GOLD HOLDINGS ALLOCATED TO IRAS



Source: GFMS, Thomson Reuters

from 51.2 tonnes in 2011, which suggests a 5.7% compounded annual rate of growth in the four year period. The bulk of these holdings are U.S. Mint coins because they are considered the most liquid and the denominations meet distribution needs. In 2015, 2.1 tonnes of gold were added to IRA accounts, which amounted to 3.5% of annual retail investment.

Gold jewellery consumption in the United States rose 7.2% to 140.5 tonnes last year. Imports of gold jewellery rose a hefty 14% while domestic fabrication increased 4.7% to total 66.8 tonnes. Adjusting for exports of domestically produced jewellery, imports accounted for 47.0% of domestic gold jewellery consumption in 2015, an increase from 44.2% in the previous year. With the decline in gold prices and a stronger U.S. dollar, domestic manufacturers faced increased difficulty in terms of cost competition. Nonetheless, retail sales of domestically produced jewellery expanded as the growth in overall sales benefited demand from both domestic and foreign sources. Jewellery store sales rose 0.2% to total \$30.57 billion in 2015, according to US Census Bureau data. This was a slower rate of growth than the 0.7% increase in 2014, however, but is mostly due to lower retail prices per unit of jewellery sold.

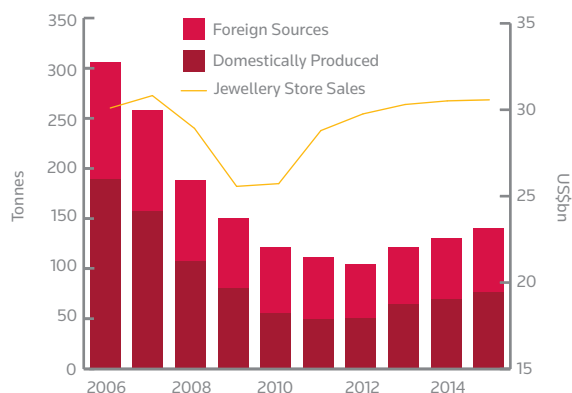
Strength in the domestic economy boosted overall demand for jewellery. The United States economy expanded by 2.4%, the unemployment rate fell from 6.2% in 2014 to 5.3% in 2015, consumer confidence rose throughout last year, and disposable incomes rose by a healthy 3.8%. Positive momentum in the economy drove spending on discretionary items higher.

Fashion trends also contributed to demand growth in 2015. The drop in gold prices has pushed retail prices of gold jewellery back into price ranges deemed affordable by consumers. In part because of these lower retail prices, consumers have shifted preferences back toward yellow coloured jewellery. White gold's share of gold jewellery sales decreased across all jewellery types last year. White gold accounts for between 45% and 55% of total gold jewellery sales in the United States. Particularly within the wedding segment, where white gold accounts for a higher share of the total, yellow gold has regained popularity, a trend that hasn't been seen since the early 1990s. Increased preference for yellow coloured jewellery has resulted in shifts away from white coloured jewellery made of silver and to a lesser extent platinum.

Industrial fabrication was the only segment of gold fabrication demand to decline last year, albeit that the drop was a modest 0.6% to total 64.3 tonnes. Most of the decline came from the 6.6% fall in demand from the dental industry. Dentists have continued to move away from gold crowns and toward more modern materials that are cheaper, can be made onsite, and have the preferred natural-looking aesthetic. Dental demand, which stood at 5.7 tonnes in 2015, is only 40% the volume of 2001 when demand from this sector was at its highest. Electronics accounted for 87% of industrial demand last year. Demand from this sector continued to weaken due to declining computer sales and reductions to gold content through minimisation of devices and enhancements to gold components.

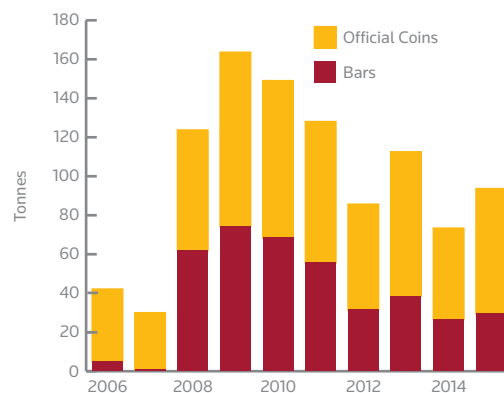
United States scrap dropped to 69.1 tonnes last year, down 17.3% from the previous year. This decline marked the fourth consecutive drop on an annual basis. Scrap in 2015 is down 57% from its 2011 peak of 159.9 tonnes. The

US GOLD JEWELLERY CONSUMPTION BY SOURCE



Source: GFMS, Thomson Reuters; US Census Bureau

NORTH AMERICAN RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

improving economy and low gold prices continue to weigh on scrap sales. With diminishing need to liquidate assets for immediate access to cash, near to market stocks continue to dwindle.

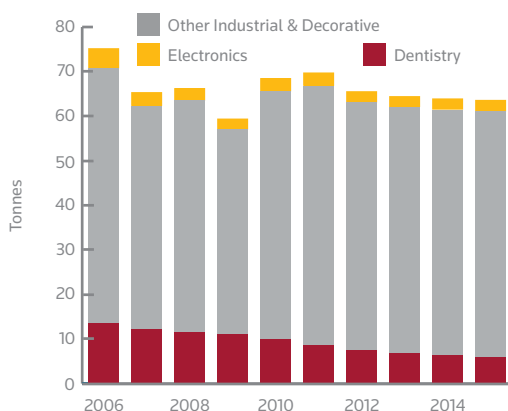
Fabrication demand in **Canada** increased by 26.4% to total 42.0 tonnes last year. Canada is a large mine producer and refiner of precious metals, while its biggest contribution to North American fabrication demand is its coin minting. The Royal Canadian Mint produced and sold 29.5 tonnes of gold coins last year, up 33.8% from a year ago. Similar to the United States, most of the growth in sales occurred in the third quarter of the year. Demand from United States investors for these coins boosted sales growth in the fourth quarter as well, particularly as the US Mint ran out of coins to sell by December. Bar demand in Canada surged 28.8% to total 2.0 tonnes. Shortages of coins led investors to buy small bars and rounds in the period. Scrap volumes in Canada fell 10.3% to total 5.1 tonnes, which was a slower rate of decline compared to 15.2% in 2014 and 32.0% in 2013.

Fabrication demand in **Mexico** rose by 7.5% to total 9.2 tonnes in 2015. This was a slower rate of increase from the previous year's 11.0% growth. Demand growth was curbed by an increase in gold prices in local terms. Gold prices averaged 571 peso/gram last year, 9.2% higher than in 2014. The bulk of the increase came from higher jewellery fabrication, which amounted to 6.5 tonnes, or 4.5% over 2014 volumes.

The US Mint sold 8.1 tonnes of gold coins in the first two months of 2016, up 78.4% from the corresponding period in 2015. While annual growth could remain buoyant in the first half of the year, it is possible that growth will decline in the second half given the high base in the July to September period in 2015. Investor interest in physical gold coins and bars in North America quietened down in the first few weeks of this year relative to the fourth quarter of 2015, aside from demand for US Mint coins. That said retail investment may be on a par with 2015 levels or moderately lower.

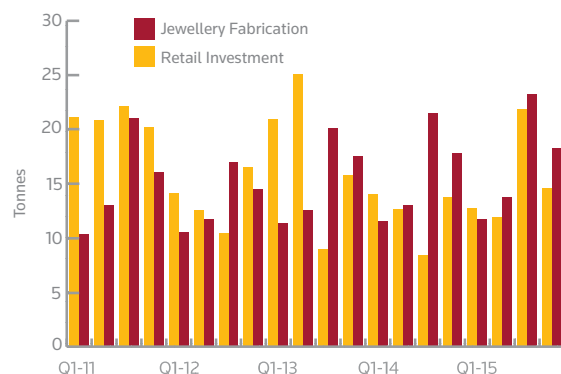
While domestic jewellery manufacturers in the region are expected to lose share of retail sales due to a strong dollar environment and price competition with foreign manufacturers, gold consumption is slated to rise in 2016. This increase is expected to marginally boost fabrication volumes. Wearables are becoming increasingly targeted among manufacturers and retailers alike within the precious metals jewellery segment as a growth opportunity. Over the long term, jewellery has lost share of discretionary spending to mobile electronics like tablets and smartphones, especially with regards to holiday spending. In recent years, as mobile devices have become more wearable, however, what once was a substitute is now becoming a complement. According to International Data Corporation (IDC), worldwide shipments of wearable units are expected to surge 44.4% to 111.1 million in 2016. IDC forecasts shipments to expand at a 28% compound annual rate through 2019, with smartwatches dominating growth. Apple's watchOS is expected to hold the largest market share within the smartwatch market. Last year, Apple launched its smartwatch product, including a gold option.

UNITED STATES INDUSTRIAL FABRICATION



Source: GFMS, Thomson Reuters

US RETAIL INVESTMENT & JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

TURKEY

- *As a notoriously price sensitive market, Turkey experienced some violent swings down in the majority of its fabrication components in 2015 driven by a strong rise in the Turkish lira denominated gold price.*
- *Jewellery fabrication, which accounted for approximately 82% of Turkey's total gold fabrication last year, declined by a fifth to 91 tonnes. The country is struggling with a challenging macro economic environment and strong competition.*
- *Demand for gold investment more than halved in 2015, with the drop in bar demand more significant compared to coins.*

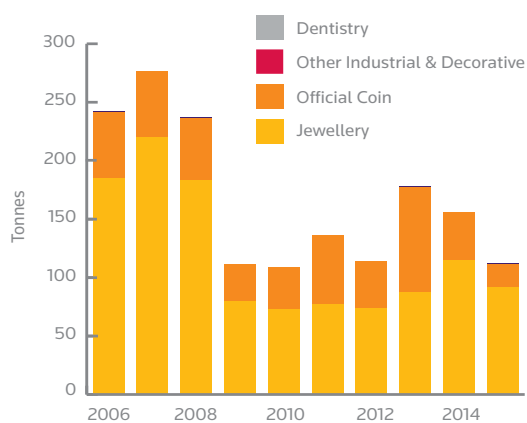
Turkey went through quite a turbulent year in 2015 with a continued challenging economic environment and a much weaker local currency compared to the dollar. Some companies were able to benefit more than others from the opportunities and challenges that presented themselves. Looking at the country from a geographical standpoint it is situated in a region of the world that is encroached by civil, political and military unrest. Particularly its southern neighbours Iran, Iraq and Syria have cause for increased tensions not only at the border, but also in the country itself. Various violent attacks orchestrated by ISIS struck the country last year and left their mark on Turkish society. Increased disputes with Russia over presumably repeated violation of its airspace and the gunning down of a Russian fighter jet intensified the turmoil. Political relations have suffered as a consequence and sanctions back and forth have hampered business in both countries.

From an economic standpoint the country is not in bad shape. However, not great either. Government debt as a percentage of GDP is on a long term decline, industrial production expanded for the majority of last year and nonperforming loans are at historical lows. However, challenges persist with unemployment relatively high at 10% and rising, inflation at around 8% and interest rates at 7.25%. All considerably higher compared to some Western European countries.

It is important to take this general background into consideration when looking at the gold market. Turkey has traditionally a strong connection with gold and its popularity remained in place last year. However, factors such as economic progress or the ability of its population to spend excess income on gold jewellery or investment bars, high local gold prices and political stability, did affect consumer and investor ability and willingness to buy gold as an investment or adornment last year. Traditionally, Turkey is what we consider a price sensitive market and the average 20% drop in the Turkish lira rate against the dollar pushed local gold prices up by an average of 14% to new all time high of approximately 101 lira/gramme, constraining demand for bars, coins and jewellery in the process.

High and rising prices are great if you own the asset, like gold jewellery or bars, but are a thorn in your side if the product you fabricate mainly consists of that raw material. **Jewellery fabricators** therefore had a particularly tough time last year and we estimate that jewellery fabrication declined by 20% to around 91 tonnes.

TURKISH FABRICATION DEMAND



Source: GFMS, Thomson Reuters

TURKISH LIRA GOLD PRICE/GRAMME



Source: GFMS, Thomson Reuters

For the vast majority of the year the Turkish lira gold price/gramme hovered above the psychological 100 Lira/gram with three brief dips below it. The 100 lira/gramme price turned out to be a point of strong resistance in 2011 and 2013 following an impressive bull run from 2006. But last year it managed to clear that level continuing its upward trajectory.

As indicated before, domestic consumption has waned as a result and fabricators have been looking towards the export markets. The weakening currency offered some opportunities abroad but not so much in comparison with other countries that have also seen their currency devalue on the back of a stronger U.S. dollar. Unsurprisingly, the market witnessed some consolidation in recent years with some of the bigger brands struggling to make a decent living. Some jewellery fabricators used these challenging times to reinvent themselves and tap into the government backed support scheme that takes on up to half of their costs when they set up stores in foreign countries. This programme is known as Turquality and aimed at helping Turkish firms create world-class brands by supporting them building their businesses.

Although a small part of the market, diamond jewellery has been hit even harder with reports of prices rising by 30% year-on-year putting some jewellers at the risk of going out of business. As a result, some compromised on clarity of the stones to attract sales. Other strategies included offering low priced items to lure customers in and to then try to sell them higher margin products. Consumers still purchase jewellery but are simply not able to afford as much gold as before due to the high prices. This has shifted some business towards 8-carat jewellery. Across the board, however, margins have remained stable. It seems that fabricators are not willing to make huge compromises on that, which thus contributed towards lower volumes last year.

Time will tell if that strategy turns out to be sustainable as further competition is expected from its neighbour Iran, which last year for the first time in a decade saw its sanctions lifted. One of the major concerns amongst various participants in the gold industry in Turkey is that the market will be flooded with gold jewellery fabricated by Iranians eager to make significant progress in their prosperity. Although Iran might not be up to speed with the latest technology and will have some issues in regards to productivity due to its relatively low capital stock, the major worry for Turkish fabricators is that they will undercut their prices based on cheaper labour costs.

The political unrest combined with the terrorist attacks also impacted inbound tourism, which suffered as a consequence. Due to the competitive market various jewellery fabricators branched out into the tourism industry either in order to increase the brand awareness among foreign visitors or to simply diversify from their traditional business. But considerable discounts of up to 50% by the national aircraft carrier may lure some international tourists to disregard the perceived danger and lift the number of foreigners visiting the country this year.

That will be a welcome development for **physical bar** demand which witnessed a whopping 57% decline last year compared to 2014. The same high price argument holds for bars demand, even more so in fact then for jewellery fabrication. Culturally gold demand will always exist in Turkey, some people add amounts to their portfolio irrespective of the price but the majority does look at what the sticker indicates. Support for physical gold demand has come from a somewhat unexpected side of the market, namely the central bank, which allowed commercial banks not only to trade gold for their own clients but also hold it as part of their reserve requirements. That metal in turn preferably is held domestically as vaulting costs in the United Kingdom and the United States are considerably higher compared to those in Turkey.

Official coin fabrication suffered a similar fate to that of physical bar investment and halved year on year to 20 tonnes. Until recently, the official state mint was the only source for gold coin sales in Turkey but those rules have been relaxed of late and some of the refiners are now also offering coins in their repertoire. However, considering its history, demand from alternative coin sources has been tepid mainly driven by low liquidity.

The only element that saw significant increases last year was **gold scrap** returning from the market in all shapes, sizes and forms. We estimate a stunning 75% increase for both jewellery scrap and other scrap returning from the market reaching 46 and 26 tonnes respectively. Unsurprisingly, many consumers went through their stock of valuables and returned whatever gold containing items they could get their hands on. Various refiners in the country had no issues with sourcing material and sources on the ground even reported material being sold at a respectable discount to spot.

JAPAN

- **Stiff competition from platinum designs, coupled with a moribund economy, helped drive gold jewellery fabrication volumes down in 2015, retreating to a four-year low.**
- **Japanese investment demand swung back to net investment in 2015, surging to a ten-year high as investors took advantage of the low price environment to rebuild inventory.**
- **Substitution to cheaper alternatives and weak domestic demand accounted for the sizeable fall in industrial demand in 2015. The 18% year-on-year decline was led primarily by a significant drop in gold used in bonding wire production.**

Gold used in Japanese jewellery fabrication is understood to have declined by 3% in 2015 to an estimated 12.9 tonnes. This marks the second consecutive annual reduction and saw fabrication volumes retreat to a four-year low. Japan's economy contracted further in the final three months of 2015 as the nation struggled to break free of a cycle of expansion and contraction despite more than three years of the Abenomics program. Since 2013, Japan's economy has grown in seven quarters and contracted in four. This underwhelming economic performance has filtered through to weak consumer sentiment, and in turn, a drop in retail spending. While there were brief periods of bargain hunting during price dips last year, most notably in the third quarter when the domestic price dipped below 4,300 yen per gramme, these pockets of retail activity were not enough to offset losses in other periods.

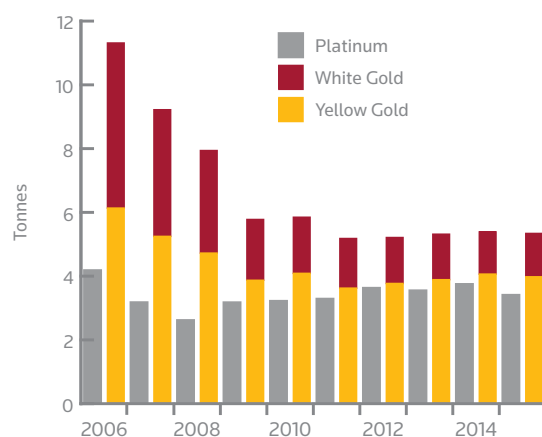
Weakness in private consumption was the biggest contributor to the contraction at the end of last year, undermining Prime Minister Shinzo Abe's policies to spur inflation and growth in the world's third-largest economy. Since then, the yen has appreciated over 5% against the dollar, hurting exporters and eroding some of the benefits of record monetary stimulus. For the full calendar year 2015, Japan's economy expanded 0.4%, as a 2.7% increase in exports helped offset a 1.2% drop in private consumption. The main cause of the slowdown in the fourth quarter was a decline in consumer spending, according to the government. Private consumption fell 3.8% on an annualised basis. Unseasonably warm weather likely caused people to buy less winter clothing, while sluggish wage growth also kept wallets closed.

In addition to these economic pressures gold jewellery demand was also being impacted by a stronger platinum market as lower prices for the white metal eroded gold's market share of the 18-carat segment. This was mainly a second half phenomenon, as platinum prices reached their nadir, but it still had a significant impact according to those in the supply chain. Demand for gold jewellery did pick up in the final quarter - as did demand for platinum items, aided by the drop in the gold price in December to the lowest level of the year, slipping to almost 4,100 yen per gramme by year's end. The year started with a whimper, with consumption slumping 14% in the first quarter, although thereafter offtake did manage to expand - albeit at moderate levels for the remainder of the year.

Over the last decade the Japanese gold bar market has been dominated by sellers with more years of net disinvestment than net investment as investors liquidated long held gold assets as the yellow metal tracked higher. During the 2006-2012 period net-dishoarding volumes averaged almost 39 tonnes per year. In 2013, the market swung back to net investment (albeit modest at just 2.7 tonnes) for the first time in seven years as lower prices encouraged renewed buy-side activity. However, this reversal in trend was short lived as the market again returned to net disinvestment in 2014 following sizeable liquidation in the second half of the year.

It looked like this trend would continue into 2015 as the first quarter was dominated by consumers taking

JAPANESE JEWELLERY FABRICATION



Source: Japan Chain Makers Association

advantage of a multi-year high domestic gold price to take profits. The wave of selling in January offsetting limited buy-side activity in both February and March, driving first quarter demand again into net disinvestment territory. The investment market remained in net disinvestment in the second quarter (if only just), following a tug of war between buyers and sellers that left the market basically in a neutral balance for the period. Buyers had the upper hand in the second half of 2015 as lower gold prices and a weakening yen encouraged increased investment in gold, with volumes surging in July and again in November as sudden drops in the gold price provided a brief window of opportunity for investors to rebuild inventory. This recovery drove Japanese investment bar demand for the full year to a ten-year high of 13.4 tonnes.

The largest component of Japanese demand remains the use of gold in industrial applications. Last year, gold in Japanese electronics fabrication declined 18% from the previous year, slipping to an estimated 67.5 tonnes. This represents the lowest level since 1993. Thrifting continued to severely impact the use of gold in several key applications with bonding wire perhaps the most pronounced. Gold used to dominate this market segment, and Japan was a clear leader in this field. However, cheaper alternatives have within just a few short years, seen gold's use in this segment retreat to below 40% (from well above 90% just a decade ago), with bare copper and palladium coated copper now dominating this space, approaching 50% market share. Moreover, domestic demand was impacted by the fragile Japanese economy which struggled to maintain growth, while weaker export demand from neighbouring industrial markets also dragged down fabrication volumes. According to Semiconductor Industry Association statistics, Japanese semiconductor sales fell by 11% in 2015, the fifth annual fall in succession.

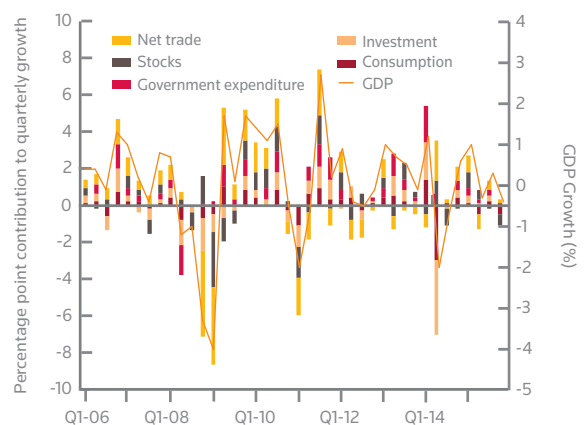
Scrap volumes in Japan recorded a 10% increase in 2015, with the weakness in the domestic currency pushing the gold price in local terms to levels not seen since April 2013. The average local gold price last year rose 5% to 4,513 yen per gramme. The bulk of the scrap flows were seen in the first quarter when gold fell just short of the 5,000 yen per gramme level in January. Thereafter, consumer and supply chain liquidations were rather spasmodic, closely aligned to gold price movements during the year.

Japanese bullion exports enjoyed a significant rise in 2015, largely as a result of poor domestic demand for fresh metal. Based on available customs data bullion exports jumped by more than a third last year to a four year high of 107 tonnes. Outward flows were dominated by shipments to Hong Kong (34% of the total) though shipments to this key markets were down slightly year on year. Deliveries to the South East Asian markets of Thailand and Singapore saw material gains last year, the latter for mainly large bars which were then converted to 4 9's kilobars for the regional market. Large bar shipments to the United Kingdom also rose sharply, increasing 65% year-on-year to over eleven tonnes. Bullion imports contracted sharply in 2015, retreating by over 60% to just below five tonnes.

Looking to this year, the economic performance of the Asian giant will again play a central role in the outcome of both jewellery and industrial demand, while the gold price profile is likely to shape the investment market. Higher prices in February this year have already generated high levels of consumer selling though a stronger yen has limited these gains to some degree. This follows strong buy-side activity in January as gold in local terms was trading at the lowest level since February 2014.

Jewellery consumption is likely to be tempered by both a rising price environment and weak consumer sentiment in 2016 as a poor economic performance will drag heavily on consumer spending. Meanwhile, industrial demand is also likely to experience further contraction in 2016 due to further migration away from gold but also due to weaker export demand. The slowdown in China - Japan's largest trading partner, and the sudden appreciation of the currency are concerns for companies involved in this segment.

CONTRIBUTIONS TO JAPANESE GDP



Source: GFMS, Thomson Reuters

ITALY

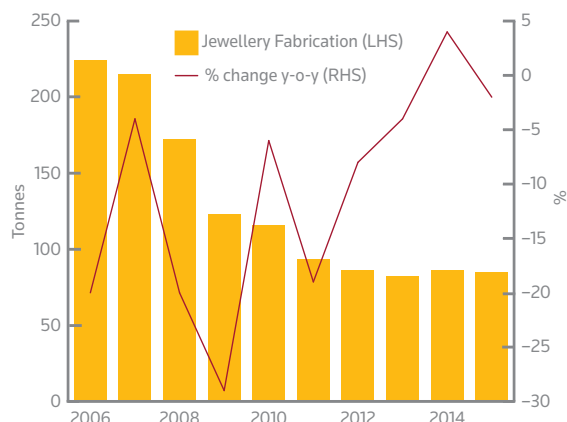
- **Gold jewellery fabrication eased by 2%, to an estimated 85 tonnes, in 2015. This was largely driven by lower-than-expected demand from the country's key export destinations, along with continued weakness at home.**
- **Jewellery exports posted a 1% drop over the January to November period. Last year's decline was mainly on the back of disappointing demand from Dubai and the Middle East, Italy's main export destination, although this was partially offset by a recovery from Europe and the United States.**
- **Scrap supply continued to decline last year, falling by 9% year-on-year, due to a continued low price relative to previous years and reduced stocks available for selling.**

Gold **jewellery** fabrication in Italy dropped by 2% year-on-year, to an estimated 85 tonnes, in 2015, reversing gains that were recorded over the course of 2014. It had been largely expected that the positive trend would continue through to last year, with Italy's jewellery sector betting on exports to counter domestic weakness. However, recently released trade statistics for the period from January to November 2015 showed disappointing demand from the country's key export destinations, while our recent research trip confirmed the continuation of the deep-rooted weak demand at home.

Starting with exports, our calculations based on trade data and jewellery mark-up estimates suggest that Italian gold jewellery exports recorded a 1% year-on-year drop over the period between January and November. A close analysis of trade flows during this period indicates that demand for Italian made jewellery varied significantly across different regions. Shipments to Dubai, Italy's single largest market accounting for roughly a quarter of overall jewellery exports, recorded an estimated 21% drop over the January to November period. Given the importance of the UAE as a trading hub for the Middle East and North Africa, lower exports were largely a reflection of poor demand from some of the key countries in these regions, as well as lower jewellery consumption in the UAE. Demand was battered by worsening economic conditions and the ongoing geopolitical uncertainty. This resulted in poor consumer sentiment and a lower number of tourists, thereby hitting retail sales of jewellery, particularly at the lower 18-carat segment. Total exports to the Middle East plunged by 15% in the eleven months of 2015. While this was largely due to losses in Dubai, direct shipments to some other markets such as Saudi Arabia, Iran and Iraq among others also recorded declines.

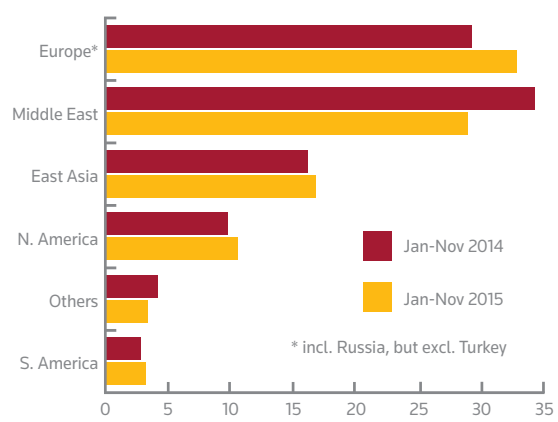
In sharp contrast to the performance in the Middle East, Europe enjoyed 12% growth in the volume of shipments from Italy over the eleven month period, with most of the key countries recording gains. Exports to Switzerland, which is the largest market within this region and a distribution centre for international top-end brands, rose by 2% over this period. The slowing growth rate compared to previous years reflects softer demand for high-end jewellery from consumers in the Middle East and Russia, rather than a loss in Italy's competitiveness as a manufacturer of luxury jewellery. This is supported by the recent trade data by major producing regions in Italy, which suggests that the

ITALIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

ITALIAN JEWELLERY EXPORTS BY REGION



Source: GFMS, Thomson Reuters

regions focusing on upmarket and diamond jewellery recorded an impressive 43% rise in the first three quarters. That said, exports to France surged strongly, again highlighting Italy's continued dominance in the higher-end segment. Shipments to Spain and the United Kingdom saw a modest increase, thanks to a recovery in local consumption on the back of improving economic conditions. Russia was one of the major markets where the story was not positive last year, as the economic downturn and record high gold prices in rouble terms hit local jewellery consumption, resulting in a 13% drop in Italian exports to that destination.

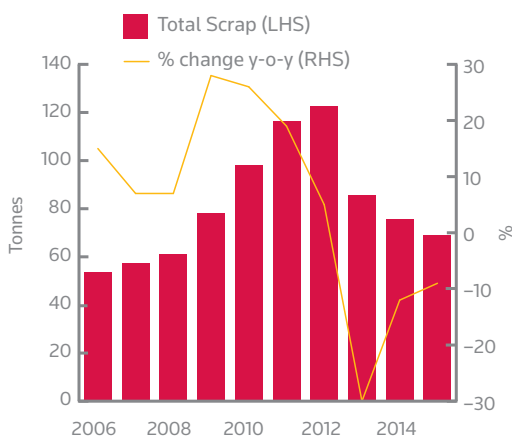
North and South America were among other regions that recorded an increase in jewellery shipments from Italy, growing by 8% and 12% respectively in the January to November period. Interestingly, the positive performance from North America was primarily driven by a surge in shipments to Mexico, while direct volumes to the United States remained broadly flat. While some portion of shipments to Mexico could have remained for the local market, it is likely that the majority was destined for the U.S. market as such a triangular trade pattern provides import tax advantage. Meanwhile, the 12% rise in exports to Latin America underscores our view that the high-end segment remained solid there despite economic difficulties and currencies weakness, and this has also been supported by findings from our recent research trip.

Jewellery exports to East Asia rose by some 4% over the eleven month period. Shipments to Hong Kong, the largest export market in the "East Asia" category, grew by just 2%, considerably lower than the growth rate recorded in 2014. This was largely attributable to weak jewellery consumption from China during 2015. Elsewhere, volumes to other countries dropped significantly last year, by an estimated 18%, as struggling economies and geopolitical tensions undermined jewellery demand. Interestingly, shipments to Algeria, which had become Italy's fifth largest destination in 2013, had declined substantially over the past two years and this market completely disappeared in 2015.

Meanwhile, Italy's own jewellery consumption remained weak, falling by another 4% in 2015, to an estimated 18 tonnes. While economic woes have continued to weigh on consumer sentiment and affordability has remained an issue, Italy's jewellery sector has also been plagued by structural challenges for many years. The struggling economy, high gold prices, political uncertainty and growing competition from other consumer goods have contributed to a shift in consumers' habits. This has been particularly the case among younger consumers who seem to have given preference to technology, branded accessories and similar goods.

Scrap supply in Italy continued to suffer in 2015, with volumes falling by 9% year-on-year to an estimated 69 tonnes. The lower gold price remained one of the key drivers behind declines over the past few years. This was evidenced by a sizeable increase in scrap volumes, particularly from the more price sensitive jewellery segment, in the first quarter of 2015 as the local gold price rose above €37/g, from the €30/g level at the end of 2014. However, as the gold price in euro terms remained broadly on a downtrend for the remainder of the year, scrap volumes continued to decline at double-digit rates in the following quarters. As illustrated on the chart below, the annual rate of decline slowed somewhat, which was mainly thanks to a higher annual average gold price when compared to 2014.

ITALIAN SCRAP SUPPLY



Source: GFMS, Thomson Reuters

That said, the gold price was, by far, not the only factor driving scrap volumes lower in recent years. Record amounts of scrap coming back to the market were recorded during the years of financial crisis and elevated gold prices. This has contributed to reduced stocks of material available for selling and hence lower scrap volumes in recent years. Moreover, a slowly improving economic backdrop saw a drop in distress selling, which was a prominent feature of past years.

Looking ahead, we expect scrap supply to stabilise in 2016, although we are unlikely to see growth rates posted in earlier years. Jewellery fabrication is likely to return to a recovery, primarily driven by improving exports demand from the country's major consuming markets.

SWITZERLAND

- **Last year undoubtedly presented difficulties and obstacles throughout the Swiss precious metals industry, from the impact of rising doré flows to India, regulatory pressures, weak domestic Swiss investment demand and a strong Swiss franc. However, recent trips there have highlighted that while all in the garden is not rosy, doom and gloom was far from the pervading backdrop.**

Since at least 15th January, 2015 was a tricky year for the various participants in the Swiss precious metals industry, as they continued to be buffeted by a host of headwinds. On that day the Swiss authorities dropped the peg between the Swiss franc and the dollar, and as a result the Swiss franc soared, causing an immediate crash in the local gold price. Indeed, unlike in many local currencies, gold in Swiss franc terms hit its lowest level since mid-2009 in December.

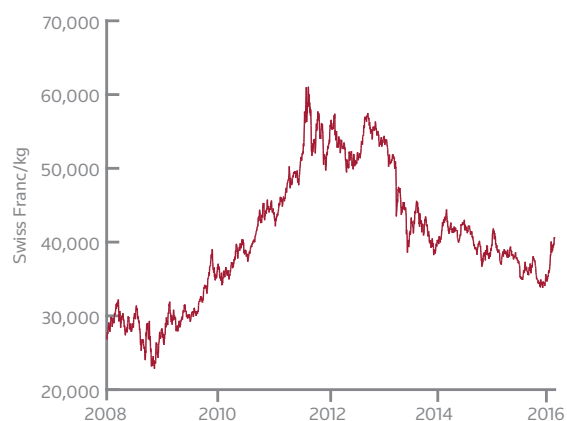
In terms of Swiss demand, it is important to differentiate between the demand that the Swiss refineries experience and that which is coming from the Swiss investment community. This difference is particularly worth highlighting with respect to the closing months of 2015. This had been due to the lacklustre state of demand from Swiss investors, especially on a net basis as there continued to be a drip-feed of private clients who are moving out of physical gold positions, a situation that had not been aided by the near six-year low in the gold price in franc terms. Indeed, after a relatively strong start to last year, Swiss bar hoarding for 2015 as a whole ended the year almost identical to the level in 2014, which had been a seven-year low. Moreover, Swiss bar hoarding is estimated to have fallen 11% year-on-year in the final three months of 2015, hindered by both price weakness and concerns over the turning of the U.S. monetary cycle. Interestingly, one feature which has not, at least yet, had an influence on gold demand is the negative interest rates that were introduced in Switzerland by the Swiss National Bank in January 2015. However, this was designed for commercial banks' holdings with the central bank and it was only in late November that the first Swiss bank, and that a small boutique, started charging negative rates that might attract retail customers to gold.

In contrast to the lacklustre demand from Swiss investors, field research indicates that this did not translate into 2015 ending in a whimper for the local refiners. In fact, refineries had been very busy since late October and even at the start of December were taking orders that they would only be able to fulfil in January. This was particularly the case for 4 9's kilobars; naturally this was primarily for China. Another interesting feature is that 2015 saw markedly more stop/start activity with bursts of demand, sometimes only lasting a few days, especially from India. This hectic pattern continued until February 2016 before hitting the buffers that month as demand from both China and India slowed markedly.

Unlike the refiners, the watch industry in Switzerland ended 2015 struggling desperately against the combined headwinds of a continued crackdown on corruption in China and, more importantly this year, the stronger Swiss franc, especially against Asian currencies. As a result, gold used by the Swiss watch industry was down 11% for 2015. While underlying demand clearly softened from Asia, in general, and China, in particular, and this was only partially offset by an improvement in demand from the United States, there has also been marked destocking by watch manufacturers.

Three factors prevent us from being too gloomy about Swiss gold demand in 2016. First, markedly higher Swiss franc gold prices so far this year have spurred investors. That said, recent discussions throughout the country did note that the upturn was disappointing given the pace of the price increase. Second, if there were further cuts in Swiss interest rates this would put immense pressure on major Swiss banks to cut rates to clients and could spark renewed investor interest in gold. It is worth pointing out though that the Swiss National Bank chief Thomas Jordan, made a speech on 23rd February 2016 which highlighted the limitations of a policy of cutting interest rates further below zero. Third, a potential turnaround in the stocking cycle by the watch industry.

SWISS FRANC GOLD PRICE



Source: GFMS, Thomson Reuters



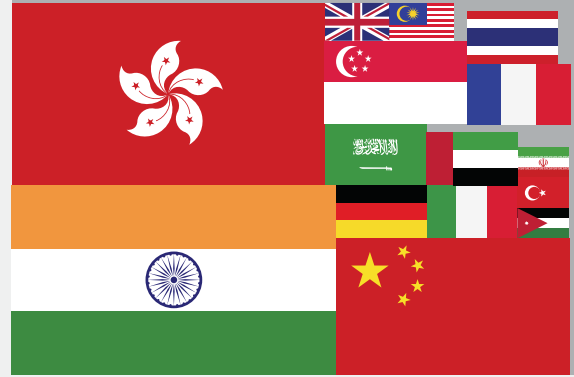
SWISS GOLD BULLION TRADE

2015 Imports



1,842 tonnes

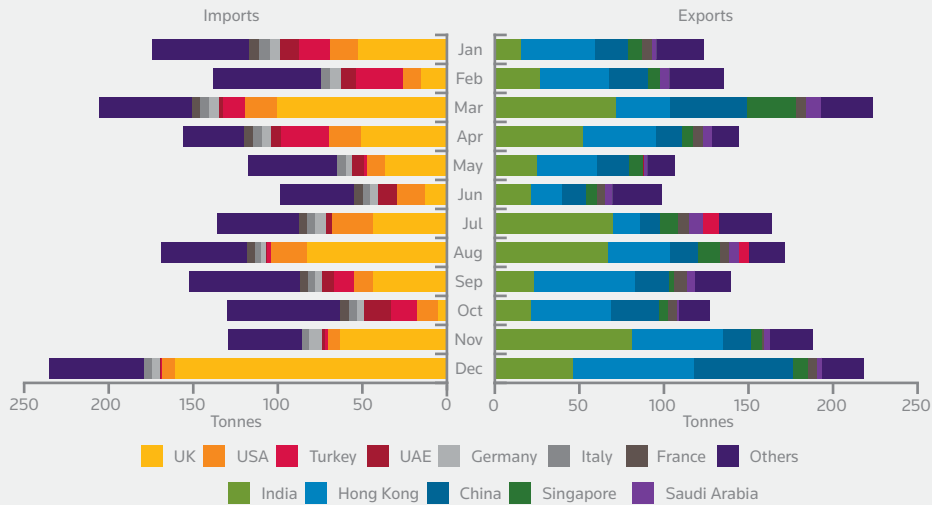
2015 Exports



1,839 tonnes

Each country's flag is proportional to its trade. The whole rectangle for imports and exports is equal to the total trade and the grey area denotes trade with a country not represented by a flag.

2015 MONTHLY TRADE



Source: GFMS, Thomson Reuters; Swiss Impex

"I always found in myself a dread of west and love of east". While John Steinbeck was writing about the Salinas valley in California, perhaps it is also the story of gold bullion and its movement from west to east in the last couple of years. Swiss gold trade statistics certainly back up that view, with 88% of exports going to Asia in 2015 compared to 59% in 2012, before the deluge started.

In 2015 imports were up 11%, while exports rose by 6%. India has remained the top destination for a second year in a row, receiving 10% more Swiss gold than last year. There was increased demand for bars minted in Switzerland to fabricate medallions and coins, which were then exported to UAE. Flows to China, to both the mainland and Hong Kong were up strongly, each by 32% year-on-year, though the tonnage going to Hong Kong is still far below the peak in 2013 of 966 tonnes. Interestingly the proportion of Swiss exports to greater China going to the mainland was 37%, exactly the same as the previous year. Historically the vast bulk of gold going into the mainland has gone through Hong Kong, but in the last few years the government has been keen for more bullion to go directly to the mainland. While exports to France nearly doubled, to 55 tonnes, this didn't represent an increase in French demand; instead these flows were likely to reflect the upgrading process of gold stock held in France to Good Delivery standards. Flows to Singapore fell by 22 tonnes in 2015 as a result of both dishoarding in Thailand, bringing more metal into the market locally, and weaker demand across the region. Indeed the price weakness in Thailand that led to that dishoarding meant that Swiss imports from Thailand were up by 84% to 42 tonnes. Turning to imports to Switzerland in general, there was little change at the top, with the UK and U.S. remaining the top sources of bullion, up 7% and down 5% respectively. There was a particularly large outflow from the UK in December of 160 tonnes, partially as a result of significant outflows from the vaults in London from declines in ETF holdings but also to meet the upturn in demand from Asia. The weakness of the Turkish lira and the consequent all time high price of gold in that currency resulted in the largest annual movement of gold from Turkey to Switzerland since at least 1982.

* All tonnages calculated from trade values in Swiss francs.

RUSSIA

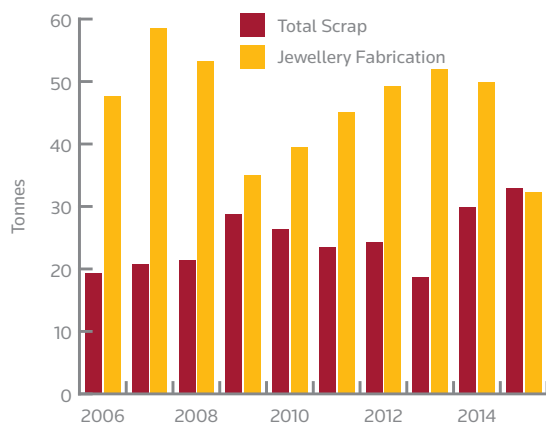
- Last year marked the worst for the Russian gold jewellery industry since the 2008/09 crisis, with jewellery consumption plunging by 40% year-on-year, hit by the economic turmoil and historically high gold prices in rouble terms.
- Scrap supply rose by 10% year-on-year in 2015, to an all-time high of 33 tonnes, driven by a record high gold price in rouble terms and the introduction of more competitive terms and transparent solutions by refining facilities.

Our recent field research in Russia, which used to be one of the world's fastest growing **jewellery** markets before the 2008/09 financial crisis, indicated that gold jewellery fabrication plunged by 35% in 2015. This was primarily due to a 40% contraction in domestic consumption, battered by the worsening economic situation in the country, which hit consumers' purchasing power badly. Meanwhile, the rising inflation rate, fuelled by the weakness of the rouble, had translated into higher prices of basic necessities such as food, medicine and utility bills, thereby slashing a big portion of disposable incomes and hitting retail sales of gold jewellery. Another major driver behind last year's marked decline in gold jewellery consumption was record high gold prices in rouble terms. Continued rouble depreciation saw the local gold price on an annual average basis soar by 46% year-on-year in 2015, as opposed to an 8% year-on-year drop in the dollar-denominated price. Moreover, the rouble gold price hit an all-time high several times over the course of the year, soaring above RUB2,800/g in January and almost returning to this level again in August. It is interesting to note that the Russian jewellery market had not been particularly price sensitive in the past; quality and design were the two major features that consumers had been normally looking for. This has recently changed and, under current circumstances, price has become the most important factor above all other criteria.

After an impressive 60% increase in 2014, **scrap** volumes continued to rise in 2015, to a new high of 33 tonnes, up by 10% year-on-year. The notable increase in secondary gold production over the past two years was largely attributed to a reduction in corrupt and opaque collection practices through small individual pawnbrokers and the introduction of more transparent and efficient solutions. Customers can now bring scrap materials directly to refining facilities, which started to offer more favourable conditions to customers, including extended collection hours, more transparency for sampling and analysis of scrap materials, and, more importantly, more competitive prices. This helped not just to boost scrap volumes significantly, but also bring some opaque activities out of the shadows, thus explaining the stellar growth in recent years. Another important factor that helped to boost scrap volumes last year was renewed weakness in the rouble, which saw the local gold price rise to an all-time high RUB2,849/g in January and close to that value in July/August. Moreover, while it is uncommon for Russians to sell old jewellery pieces for cash, difficult economic conditions and rising prices saw some customers bringing their old scrap materials in exchange for money.

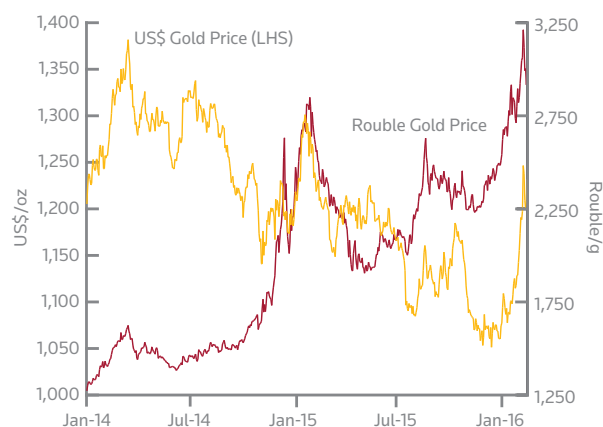
Looking ahead, jewellery market is likely to remain stagnant in 2016 as difficult economic conditions persist, while we believe that the ongoing weakness of the rouble will keep domestic gold prices elevated. Meanwhile, we expect to see scrap supply rising again, although at a slower rate than that seen in the previous years.

RUSSIAN JEWELLERY FABRICATION AND SCRAP



Source: GFMS, Thomson Reuters

GOLD PRICE IN US DOLLAR AND ROUBLE TERMS



Source: GFMS, Thomson Reuters

GERMANY

- **Gold investment in Germany delivered an impressive improvement last year whereas jewellery fabrication continued to struggle. The more competitive landscape will force all players to redefine their strategy and focus on what they do best.**

The largest gold **investment** market in Europe, Germany, representing over half of the total demand for gold investment in the region, staged a considerable improvement last year compared to 2014. Physical bar demand gained an impressive 19% on the back of macro economic woes and bargain hunting. Indeed, the migrant influx towards the end of the year raised concerns about Germany's ability to absorb so many extra people on the basis that it could supposedly hamper Germany's moderate economic progress and further constraint its financial obligations. A slowing economy coupled with China's inability to refrain from spooking the markets motivated some people to buy physical gold in an effort to mitigate volatility. QE and negative interest rates also played their part.

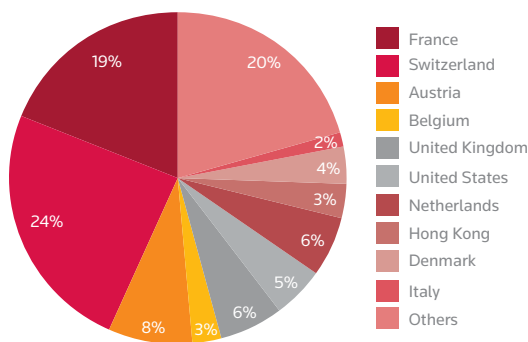
The other driver of Germany's sudden interest in gold related investment products has been the repeated dip of Euro denominated gold below the €1,000/ounce threshold, which stimulated buyers to get involved. Increased price volatility also fared well with various participants in the market who reported increased trading activity as a result.

Contrary to the improved sentiment in investment, **jewellery** demand was fairly weak pushing fabrication last year down by approximately 5%. The continued weakness in the market has significantly increased the competitiveness among the various players in the industry and forced many of them to rethink their strategy. As the pond shrinks and the fish population remains stable, every player will have to identify its comparative advantage and focus on that. Some will have good scrap feed which allows them to offer competitive prices whereas others benefit from substantial marketing efforts, a strong historical brand, a wide variety of products or a strong relationship with other areas in which precious metals are utilised.

On the **industrial** side, demand is ticking along. No major changes have been observed. Without going into too much detail in this widely diversified technical segment of the precious metals industry, we do want to briefly touch upon two general trends that we witnessed last year. The first is with regard to continued thrifting efforts in spite of the decrease in raw material costs. Margins remain thin and incentives persist with respect to reducing the use of precious metals or substituting them for lower value materials, such as base metals and plastics.

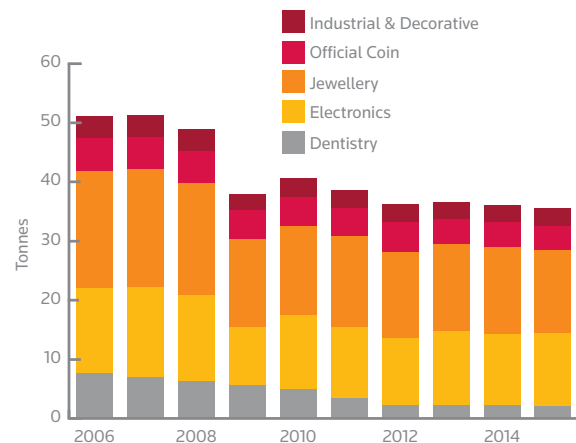
The opposing force to that development, however, is that the products in which precious metals are used, particularly in electronics in vehicles, continues to expand, partially offsetting the downward pressure through thrifting on demand from this segment. The second observation is with regard to companies' strategic decisions over new areas for expansion and the respective capital allocation. Among many niche developments, two main areas within the precious metals spectrum seem to be gaining increased interest in the industry motivating some of the larger players to increase their involvement. This surrounds the area of fuel cells and additive manufacturing, also known as 3D.

GERMANY GOLD JEWELLERY EXPORTS



Source: GFMS, Thomson Reuters

GERMAN FABRICATION DEMAND



Source: GFMS, Thomson Reuters

UNITED KINGDOM

- *The tentative signs of recovery in gold jewellery fabrication in 2014 met headwinds in 2015, including that of a slowing economy and overstocking. However, early signs of a renaissance in yellow gold at least ensured that there was not a retrenchment in this area from already traditionally low levels.*
- *Investment demand was healthy overall, buoyed by strong coin demand, especially in the final quarter of 2015, aided by sales to North American investors.*

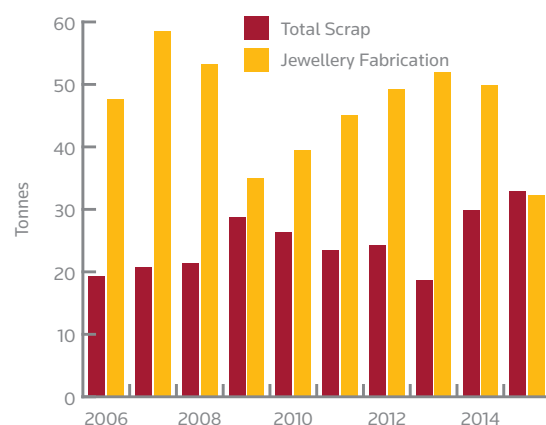
Since the turn of the century, and as shown in the chart below, the UK gold industry has been anything but stable, with massive if largely cyclical trends in many of the major components such as jewellery fabrication or scrap supply. In contrast, 2015 was a year of more stability in the aggregate totals but this did not prevent some fascinating trends below the overall headline numbers.

Gold **jewellery** fabrication, for example, was effectively unchanged in 2015 for the UK as a whole, rising marginally from 8.9 to 9.0 tonnes, a little weaker than the hallmarking numbers, which were up 2% year-on-year. A key factor behind this is that half of the growth in the hallmarking numbers in 2015 was in the 22-carat segment, which is particularly popular in the British Asian community, and even after the 39% growth over the past two years it is still only 10% of the overall number of pieces. We believe this increase was partly a function of pressure to bring this market fully into the open rather than solely reflecting a sharp uptake in fabrication levels. It was also a year of two halves with the first six months seeing increased demand from the trade. However, from July onwards it became increasingly clear that the industry had overstocked on the back of beliefs in a sharper underlying uptrend, and this was somewhat compounded by the slowing in the economy as the year progressed. One positive sign is that there are signs of yellow gold becoming more fashionable for the first time since the 1990s but while this is getting a lot of media coverage we think that thus far that the scale is limited. Our recent research meetings suggest that it has gained more market share from white gold while any gains from silver have arguably been overestimated by some. Finally in the jewellery sector, it is interesting to note that there has been a marked upturn in sales of second hand pieces, albeit from very low levels, buoyed by a desire for unique pieces and sustained austerity which has ensured that the economic growth has been far from evenly spread across the country.

Investment in the UK meanwhile ebbed and flowed in 2015, with the final quarter seeing the strongest demand, with this being most noticeable in the form of coin sales, with a considerable portion of this heading to North America. Switching to **scrap**, there has been a marginal decline of just under 3% last year, and as indicated on the chart below this is the most stable performance since 2004 and shows the cyclical decline has largely stopped as the price has found a floor. This small drop occurred despite many industry participants actually seeing volumes increase. However, there has been a reduction in the number of players and a scaling back of operations by some others meaning significant changes in market share.

Turning to the prospects for 2016, over the first couple of months of this year the rally in the dollar gold price combined with the weakness of the pound means local prices have rallied by approximately 25% so far this year. This near 3-year high has helped to spark a surge in investment demand and scrap supply. One other factor that has aided British investment is the possibility of Brexit and this may cause even more dramatic surges over the coming months ahead of a referendum on 23rd June as the market uncertainty and weak pound buoy investment. At the same time, the combination of higher local gold prices and elevated stock levels will be a drag on gold uptake by the jewellery sector, at least for much of the first half of 2016.

UK JEWELLERY FABRICATION AND SCRAP



Source: GFMS, Thomson Reuters

REST OF EUROPE

- ***In the rest of Europe retail investment demand rose by 20% in 2015 to reach 76 tonnes, its highest level since 2011. Interestingly, the surge in retail investment demand was almost solely driven by Eastern and Central European countries, which include for our definition Austria, Bulgaria, Croatia, Czech Republic, Poland, Romania, Slovakia, and Slovenia.***

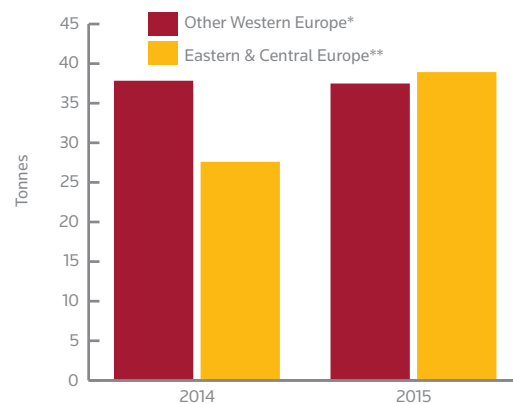
Retail Investment demand in the rest of Europe rebounded in 2015, rising by 20% to reach 76 tonnes, its highest levels in four years. The revival in demand for investment purposes can largely be credited to two individual factors. Firstly, the announcement by the ECB of quantitative easing and secondly the recovery in the euro denominated gold price, which recorded a 10% increase year-on-year. However, the recovery in demand was far from an across-the-board development, indeed, if we compare performance between other Western European countries (comprising Belgium, France, Luxembourg, Netherlands, Norway and Spain), against Eastern & Central European countries, a clear divide is evident, (see chart below).

The stagnation in performance from other Western European countries in comparison to the 41% increase in demand from the Eastern and Central European countries can largely be explained by three factors. Firstly, it strikes us as more than a coincidence that many of the countries where gold demand is strongest are those with the highest percentage of migrants coming from the Middle East. Indeed, a number of contacts mentioned that the uncertainty and costs that this is bringing mean that even for those who support the immigrants are worried about stability and the economy and that this is driving demand for gold. Second; many of these countries have seen better economic performance than other parts of Europe and this leads to greater disposable income, which with the right conditions can be available for precious metals. Third, many of these countries have been concerned by the instability and uncertainty generated events in Ukraine and again this is driving purchases. This can effectively be summed up by sales currently being driven by fear not love.

Demand for gold in jewellery fabrication, recorded a modest 2% rise year-on-year, bringing total demand back to the levels recorded in 2012. Spain, which is the second largest contributor to total fabrication, recorded a marginal 2% growth last year, making it the first increase in demand in more than a decade. This was driven by a slight improvement in the domestic market, which started to slowly recover in the second half of 2015, particularly in the fourth quarter, after many years of decline. Further positive news that the economy had been slowly returning to growth helped fuel consumers' confidence and boosted retail sales of gold jewellery. However, offsetting this growth was France, the largest contributor to Other Western European jewellery demand, in which demand contracted by 5% over the year. The French gold jewellery industry continues to be in structural decline due to a lack of investment in marketing and communication. As a consequence overall tonnage continued to shrink in 2015, with a reduction in hypermarkets, while plain gold jewellery was substituted for diamond jewellery pieces, which are considered more attractive for symbolic occasions. Furthermore, terrorist incidents in the country led to a reduction in high end sales, particular in the final months of the year.

Gold scrap levels recorded declines for the fourth consecutive year, falling by 4% in 2015, to reach 88 tonnes, its lowest level since 2008. While scrap flows showed marginal upticks across the majority of these countries, buoyed by the 10% rise in euro denominated gold prices, a 16% decline in scrap flows in Spain more the offset the modest gains felt elsewhere. The fall in Spanish scrap last year was the third consecutive year of declines, and comes in part as a consequence of lower available stocks overall due to large volumes being sold pre-2013, while less attractive business and lower margins continue to erode levels. A pick up at last in the Spanish economy led to less distressed selling.

REST OF EUROPE RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

* Belgium, France, Luxembourg, Netherlands, Norway, Spain

** Austria, Bulgaria, Croatia, Czech Republic, Poland, Romania, Slovakia, Slovenia.

SOUTH AMERICA

- **Short term threats and long term opportunities in the South American jewellery market.**

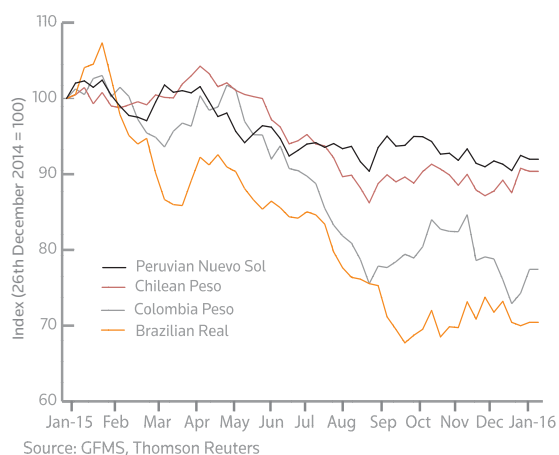
The South American economy has been hit by a double whammy of weak commodity exports to China exacerbated by sharp declines in commodity prices, which have resulted in recessionary conditions at home. The strengthening U.S. dollar against their currencies worsened the situation with imported inflation. These events jointly contribute to stagflation. The Brazilian real, for example, depreciated by almost 50% against the dollar over 2015. The government responded by raising interest rates to 14.25%, which although stemming massive capital outflows to an extent, otherwise shrank the domestic economy further. Similar trends are echoed in other South American countries to a lesser extent and this dented consumer confidence and retail spending in the region. The weaker domestic currencies mean a higher gold price in local currency terms – another impediment to jewellery purchases; it was a generally tough year for fine jewellery sales in the region. Indeed, we estimate a drop in jewellery fabrication for the region as a whole of 24% last year.

It is interesting to note that the decline in sales was not uniform throughout the region. Central America, which are more directly linked to the United States and had less exposure to the commodities market, saw fairly stable jewellery spending. South American countries, which are more directly affected by China's slowdown and the drop in commodity prices, saw a more pronounced decline in jewellery sales, with Brazil and Venezuela commonly cited as the weakest link in the region. As for purchasing behaviour, buyers mainly reduced the number of pieces purchased, instead of moving to lower caratage. While fine jewellery sales were visibly weakened on an aggregate level, performances across different market segments vary. The high-end segment of the market remains solid. The low end of the market also did fairly well, benefitting from buyers shifting to more affordable pieces in response to the higher price and lower purchasing power. The middle segment of the market, however, is being squeezed, with many traders operating in this segment lamenting smaller orders. Weak demand and depreciating currencies at home have encouraged enterprising jewellery fabricators to look further afield; this trend is observed in their growing presence in jewellery trade shows outside South America. A glance at the footprint of major jewellery brands from the region indicates that many of these brands not only have a presence across South American countries, but are also venturing overseas, partly to diversify their market base and capitalise on the cheaper currency, but also indicative of growing interest for jewellery pieces from the South American region.

Although the South American economies are saddled with challenges in the interim, the jewellery market is not short of growth opportunities in the future. While many South American enterprises are currently exploring markets further afield, there are also initiatives to set up jewellery hubs to promote jewellery trade within the region with the goal of bringing jewellers outside the region to closer geographical proximity to end consumers. These initiatives, should they be implemented successfully, will help catalyse trade in the jewellery industry. The mushrooming of regional airlines in recent years has improved the ease of travel within the region, which may help promote intra-region jewellery trade, as many jewellery buyers have traditionally sought to travel to North America or Europe for new purchases.

There are also socio-demographic factors which may benefit jewellery consumption in the longer term. Structural factors such as longer term economic growth may translate into increased incomes, and hence higher purchasing power for luxury items. Population growth is also another structural driver from which the jewellery market can benefit, as children's jewellery is a burgeoning source of demand in the region. Collectively, these factors offer a myriad of opportunities for the jewellery market to flourish in the future, and we believe, on a per capita basis, jewellery consumption in South American region will catch up with the rest of the world.

SOUTH AMERICAN CURRENCY PERFORMANCE INDEXED



SOUTH KOREA

- *South Korea's total demand in 2015 totalled 76.3 tonnes, a modest 1% year-on-year decrease from 77.2 tonnes in 2014.*
- *Last year, the domestic market turned to gold as a safe haven asset to hedge against uncertainties and instability, including an expectation that the Korean won will continue to depreciate. As a result, demand for gold bars rose 29% year-on-year, to 20.6 tonnes.*
- *Softer industrial demand for gold, however, fell by approximately 15% year-on-year to 23.5 tonnes, which dragged down the country's requirements for the yellow metal as a whole.*
- *Gold jewellery demand declined by slightly less than 3% year-on-year to 27.9 tonnes, with demand for both 14 and 18-carat declined but 24 carat increased.*

It is worth highlighting that our Korean data has undergone a major upward revision since the previous GFMS Gold Survey was published. This is due to new information gathered during extensive field research over the last year, which has necessitated a thorough review of previous estimates. Specifically, a large portion of Korea's jewellery market as well as the scrap market are made up of black market trading activities, which makes the research more complicated.

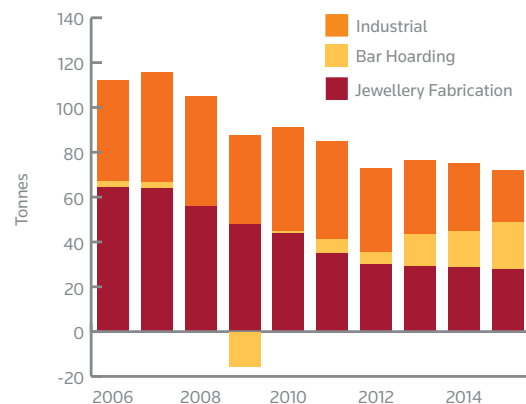
For 2015 as a whole, South Korea's demand for gold bars rose 29% year-on-year, to 20.6 tonnes. However, most of the increase from this segment was off-set by a decline in demand for industrial uses (primarily for electronics) as well as from the jewellery fabrication sector.

The weakening domestic economy certainly did not infuse the public with much confidence in the equities market. The threat of instability, both in terms of the economy as well as on the political and the social fronts, prompted many locals to turn into gold as a safe haven asset. As a result of the higher domestic demand, Korean banks and financial institutions expanded their gold businesses, including bringing in new investment vehicles that were tied to the gold price. Gold bar sales advertisements were also spotted on the domestic TV sales channels, something that had never happened in the past. The most popular forms of gold investment was 37.5 gramme and 100 gramme bars.

Industrial demand for gold from the country last year fell by approximately 15% year-on-year to 23.5 tonnes, as the on-going substitution by palladium-coated-copper wires continued to take market share away from gold. Gold bonding wires previously dominated the electronics segment, commanding almost 90% global market share six years ago; however, the market share has shrunk to approximately 40% currently. As consumers are now less concerned about product live spans in electronics, and any new electronics products will be initially tested using the cheaper palladium-coated-copper wires, it is difficult to see how the use of gold in this sector can reverse its current downtrend. Weaker demand from China, as well as competition from the weaker Japanese yen, has also dragged down the industrial activities of Korea in general, which was more noticeable during the final quarter of 2015.

As global industrial activities are likely to contract, in conjunction with the market share of gold used in bonding wires continuing to decline, demand from this sector is likely to fall further. In an indication the market faces an uphill battle, the country's PMI reading in February was 48.7, suggesting its manufacturing activities are shrinking due to a decrease in new export orders. A worsening economy in 2016 will have a negative impact on the country's jewellery and industrial demand, which makes up the two largest sectors demand for gold. As a result we expect Korea's demand for the yellow metal in 2016 will continue to fall.

SOUTH KOREA GOLD DEMAND



Source: GFMS, Thomson Reuters

INDONESIA

- *Indonesian jewellery demand struggles as a weaker rupiah drives gold prices higher.*

A stronger rupiah gold price coupled with an economy that has struggled in the current global environment saw domestic gold demand in **Indonesia** retreat by almost 20% in 2015. The Indonesian jewellery fabrication industry was looking for a solid rebound last year after retreating an estimated 14% in 2014. However, our field research clearly indicates that the domestic market continued to face stiff headwinds in 2015 and looks set for another difficult year in 2016. Jewellery fabrication slipped 12% year-on-year to an estimated 42.2 tonnes in 2015 while investment demand slumped 37% to 11.4 tonnes.

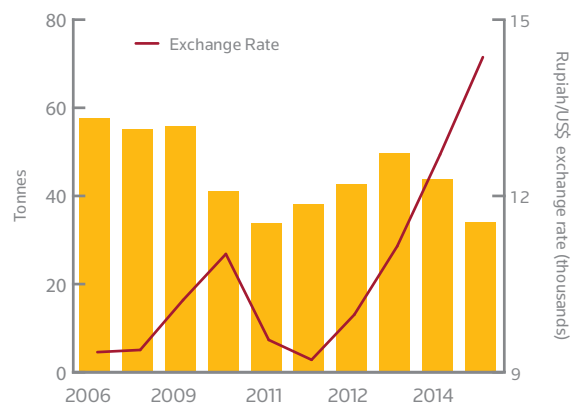
Last year started poorly for retailers with a sharp jump in the rupiah gold price in January (to a six-month high) weighing heavily on consumption volumes across the archipelago. The gold price retreated below 500,000 rupiah per gramme in February (from a peak of 523,000 in late January), but monsoon 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 areas 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 last year), which is typically the most robust trading period of the year, was very brief. The accumulation of 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 fall 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. This finally came in the fourth quarter with the price dropping back below 470,000 rupiah in November and remaining at this level until year's end, boosting domestic consumption and also benefitting those involved in the export trade.

One important fillip for Indonesian fabrication last year was the sudden rise in jewellery exports under the ASEAN-India Free Trade Agreement. This trade, which attracted a duty of just 1.1% in India, compared to 16.6% for jewellery for non FTA countries, exploded last year as Indian traders attempted to take advantage of this loophole. To qualify for the FTA import tariff discount the gold used in fabrication must be mined and refined in the country of origin. The jewellery being shipped to India was, for the most part, being melted and recast into bars on arrival and then resold into the local market, delivering a healthy windfall for those who were involved in this trade. Indonesia's economy grew at the slowest pace in six years as President Joko Widodo struggled to deliver on plans to revitalise growth. The full year GDP data released recently suggested growth had increased only 4.8% for the period. In addition, the weakest currency 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.

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.

INDONESIAN JEWELLERY CONSUMPTION



Source: GFMS, Thomson Reuters

MALAYSIA

- *Malaysian gold consumption slides 19% in 2015 following the introduction of a new taxation regime.*
- *Investment demand retreated 25% due mainly to a lack of price expectation and investors looking to other asset classes.*

Domestic gold consumption in **Malaysia** was hit hard in 2015 following the introduction of a 6% goods and service tax (GST) that was introduced on the 1st April last year. Prior to the implementation of the new tax consumers rushed to purchase all types of luxury goods and household appliances ahead of the tax change. This last minute rush help boost gold jewellery consumption initially although the higher gold price during the period still dragged sales marginally lower in the first quarter of 2015. However, thereafter the market slumped, declining in each preceding quarter, dragging down full year jewellery fabrication by 12% to an estimated 35.9 tonnes.

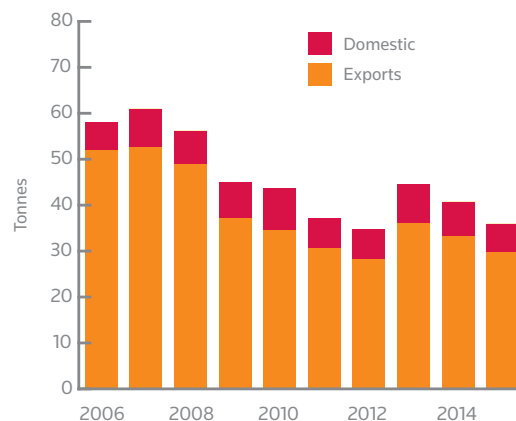
As many retailers had feared, demand largely evaporated following the implementation of the new tax system with consumers balking at the sudden jump in price for their favourite jewellery designs. Domestic consumption slumped 25% in the second quarter and never really recovered in 2015 though there were pockets of solid demand during price dips in the third and final quarters of the year. This was mainly in higher purity designs (chiefly 22- carat) where investment motives were central to the purchases.

While the introduction of the GST in Malaysia has had a significant response across most segments of industry it is not the only reason for the softer demand in 2015. Consumer sentiment remained poor with Malaysia's economic performance deteriorating significantly in 2015 following three years of robust growth. The global economic malaise has hit Malaysia's trade, especially with the slowdown in demand for commodities in China, Malaysia's biggest single trade partner. The dramatic decline in crude prices in the last twelve months has noticeably hurt Malaysia, where petroleum products and liquefied natural gas account for 14% of exports. Southeast Asia's third-largest economy grew 5% in 2015, slowing from 6% in 2014. A sharp currency depreciation (Malaysia's ringgit currency was Asia's worst performer in 2015, battered by the global crude oil price) combined with the introduction of a goods and services tax remained the main pillars of the economic doldrums last year. The weaker currency drove gold in local terms higher by 9% in 2015 and this too had bearing on consumer sentiment.

The Penang based jewellery fabricators, whose exports make up the bulk of the country's fabrication volumes, also had a tough time of it. With the weakness on the home front they are looking to increase their export volumes, though this too comes at a cost as margins in the competitive Dubai market are less than half what they might obtain in the domestic market. Following an estimated 18% year-on-year drop in first quarter consumption, demand in the UAE and broadly across the entire GCC and surroundings regions remained weak. The ISIS crisis in Iraq and Syria continues to have a significant impact on the level of demand seen in Dubai, with the Saudi market perhaps the best performer in the region (aside from India) though demand there is far from buoyant with a drop in local premia reducing the incentive to hand carry gold into the country. In the last few months of the year, and with gold prices retreating, exports to Dubai (and to Hong Kong) did pick up, providing some support to the industry but it was not sufficient to offset earlier falls. Demand was primarily for 22-carat items with the supply chain restocking at the lower price level.

Investment demand in Malaysia was also markedly weaker in 2015, retreating 25% to an estimated 4.3 tonnes. This was due to a lack of price expectation and competition from other asset classes offering higher yields, eroding gold's appeal for many investors.

MALAYSIAN JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

THE MIDDLE EAST

- **Jewellery fabrication across the Middle East as a bloc recorded a 6% decline in 2015, the first drop since 2012. Meanwhile, investment demand retreated by 18% across the region as a whole.**

The drop in demand may surprise given that the dollar gold price retreated 8% last year, but it comes off the back of some healthy gains in both 2013 and 2014. The region was far from uniform with several markets stronger than the previous year but, as a group, demand was generally weaker.

Saudi Arabia was one market that moved against trend to record a healthy 10% rise in 2015 to an estimated 40.8 tonnes. Demand was boosted by the lower price environment with strong demand during the price dips for investment grade jewellery (primarily 21-carat). The important hajj season, which supports consumption on the west coast of the country, coincided with such a dip in price and this lifted sales volumes at a crucial point when the country is awash with millions of visitors.

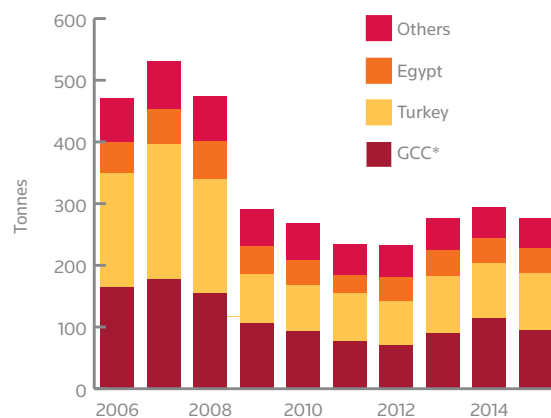
Demand for 18-carat jewellery has been a feature of the Saudi market for a number of years now and 2015 was no exception. Fabricators and retailers alike have turned to this market segment in order to benefit from the higher markup structure in a bid to offset the decline (in volume terms) of traditional plain items, which have been a casualty of the elevated price environment over the last decade. Younger consumers, who are often more brand aware than older generations, have been willing to look to these largely gemset designs, which often contain a high stone content, with fashion playing a greater role in their purchasing decision. Indeed, with higher margins in mind, fabricators have been adding new technology to their arsenal, delivering intricate designs that were previously largely serviced via imported product from Dubai.

Despite the growth in the market last year jewellery consumption was thwarted by a softer economic environment with the plunge in the oil price flowing through to weaker sentiment and a drop in consumer spending. This was most notable in the final quarter last year and early in 2016 when talks of increased taxes across the kingdom, in a bid to offset the losses of oil revenues, began to emerge. Added to this were the tensions with Yemen and Iran that also may have dampened discretionary spending during those clashes.

Jewellery demand in the **UAE** is estimated to have declined by 8% in 2015 to an estimated 55.3 tonnes. It was a year of two distinct halves with demand in the first half slipping by 16% year-on-year before increasing by 11% in the second half. Declines were largely noted in the 21-carat, 18-carat and luxury jewellery segments, which meant jewellers focusing on the 22-carat jewellery business were able to outperform their peers. Demand for investment bars is estimated to have declined by 16%, which was largely attributed to lower demand from Indians and syndicates involved in the unofficial trade. Bullion imports, compiled by aggregating the published export numbers from various countries, are estimated at 118 tonnes, down by 16% from 2014. The sizeable fall in bullion imports can be attributed to reduced offtake from India, to an extent that UAE's share to India's bullion imports declined to less than 10% during the second half of last year.

Doré supplies to refiners in the region during 2015 are estimated to have declined by as much as 30%; this is primarily attributed to the routing of doré to India from the UAE. Also the round tripping volumes from India which otherwise used to add significant supply to the domestic UAE market was reduced considerably, not because the round tripping from India has reduced but due to the re-export of the same gold. More detail on Middle East markets can be found on page 88.

MIDDLE EASTERN JEWELLERY FABRICATION



*GCC: Saudi Arabia, UAE, Oman, Bahrain, Kuwait, Qatar
Source: GFMS, Thomson Reuters

THAILAND

- *Thai investment demand retreats 18% in 2015 while jewellery fabrication was marginally stronger due largely to an improved export sector.*

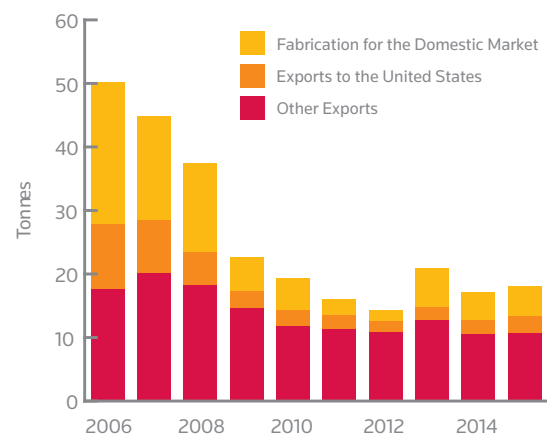
Thailand's investment market experienced a difficult year in 2015 recording a considerable contraction on 2014 volumes. Our field research shows that bar hoarding volumes at close to 70 tonnes last year were 18% weaker year-on-year and more than 50% below the record level of almost 150 tonnes reached in 2013. Meanwhile a stronger export sector helped lift jewellery fabrication by 5% year-on-year to an estimated 18 tonnes.

There were several drivers for the weaker demand last year. Key among them was the lack of price expectation by investors. Where previously anticipation of a return to higher prices drove speculative investment among those looking for short to medium returns many investors have stepped away from the gold market as prices have tracked lower with many anticipating further declines. With this view in mind many consumers have delayed purchases or shifted away from gold as an investment source altogether. As is the case in most emerging markets there is an increasing range of new investment and financial products being offered to consumers. Where once the banking sector was viewed with some scepticism, especially in the wake of the Asian financial crisis of the late 1990s, younger and often highly educated generations are now adopting these products and turning to the equities markets with more confidence. This trend, and the declining returns from holding gold in recent years, has seen younger consumers in urban centres direct funds away from gold in the search for higher yields. In rural areas where access to banking is still limited gold is still being purchased following harvests but in lesser volumes according to our contacts.

Demand for gold bars, either four 9's or the locally traded 965 purity, fell away sharply in the middle of the year after a promising start to 2015. In March when the local price dipped below 18,500 baht per baht bar (15.16 grammes) demand was solid though this evaporated as prices started to track higher. According to industry contacts, the market thereafter was treading water for several months as investors waited for the much anticipated announcement by the United States Federal Reserve board that they would be beginning the first hike in interest rates in nearly a decade. The announcement was initially expected to take place in July but soft economic data from the United States and the Eurozone delayed the Fed intervention for a further five months, with many Thai speculators not willing to risk holding gold while there remained so much uncertainty.

The jewellery market was hamstrung for large parts of the year by poor consumer sentiment as an uncertain political environment (the country remains under the control of a junta) and poor economic performance (Thailand's economy grew at just 2.8% last year) limited discretionary spending. There were periods of increased demand as dips in price motivated bargain hunting but these were at best spasmodic. A sizeable fall in the gold price in early November reinvigorated the market, breathing life back into the investment scene, while the 965 purity retail jewellery segments also benefited from a lower price environment. The export sector, which contributes significantly to Thailand's total fabrication demand, was moderately stronger in 2015 with gross exports stronger by over 10%. The United States remains the largest market for Thai fabricators, taking a fifth off all exports. This critical market was marginally stronger in 2015 with our analysis suggesting imports (on a calculated basis) were stronger by close to 4% last year.

THAI JEWELLERY FABRICATION



Source: GFMS, Thomson Reuters

VIETNAM

- *Vietnam investment demand slumps 37% in 2015 to a multi-year low, while jewellery offtake edges 5% higher.*

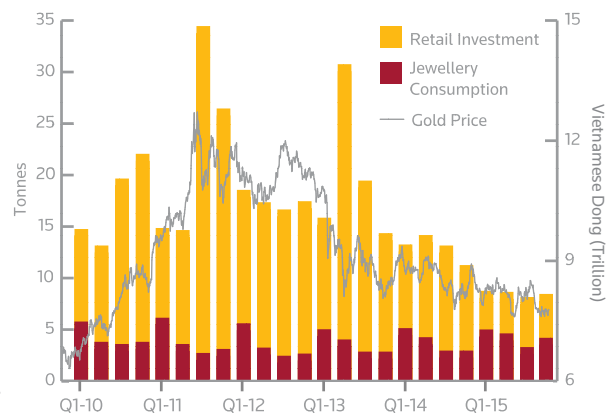
It was only a few years ago that **Vietnam** had a booming gold investment trade. Investment in gold has been around for generations, often regarded by many of the older citizens as the only trustworthy investment source in uncertain times with many having lived through several currency devaluations over the last few decades. Demand peaked in 2008 at over 96 tonnes but remained at elevated levels for a number of years as a rising price profile encouraged further price speculation. In May 2012, concerned that the sharp rise in bullion imports were impacting the current-account deficit the government of Vietnam introduced new legislation (Decree No.24) on the management of gold trading activities which essentially placed production, import and export of gold, and trading of gold bars/bullion in the hands of state-appointed organisations.

The government intervention has certainly reshaped the industry in the last few years. The retail investment market in particular has been dealt a heavy blow, dropping sharply last year, as the lack of available investment bars has meant that banks and traders can only trade what is circulating within the domestic market. The State Bank of Vietnam (SBV), in a bid to further reduce liquidity, chose not to produce any new investment bars in 2015 via the Saigon Jewellery Company (SJC) – the only company now permitted to mint bars and also state controlled. Based on our analysis Vietnamese retail investment slumped by more than 35% in 2015 to 31.4 tonnes, a level not seen for more than a decade. Those still wishing to invest in gold still have several options. Locals can purchase 24-carat rings, which was the vehicle of choice in 2014 and 2015, as these capsulated products attract a lower mark-up than that of the ten tael bar (375 grammes or 12.1 ounces) and are in greater supply and is far more accessible than the official bars. The other major source of investment that has emerged as a result of the government intervention has been the significant volumes of gold entering the country illegally from neighbouring countries. Vietnamese consumers can purchase foreign branded kilo bars on the black market, or for those with a tighter budget, especially in the rural areas, can purchase a wafer of gold cut from a larger bar. This type of product has replaced the official SJC bars in many rural gold outlets as they no longer qualify to sell such products under the strict policy.

While consumers do still have access to gold products via this secondary parallel system, recent field research has revealed that the appetite for gold investment products eased significantly in 2015. This, in our view, is not entirely linked to the restrictive SBV policy, which should be acknowledged as being successful in its initial aim of encouraging consumers away from the yellow metal, but there are other factors at play which are also dragging down consumption volumes. A common thread from discussions with Vietnamese banks and traders was the lack of price expectation from consumers last year. Given the view of the local market was that prices would likely trend lower there was little appetite to invest. Instead of trying to bargain hunt, or pick the low, Vietnamese investors preferred to wait for gold to trend higher over a sustained period.

Jewellery fabrication in Vietnam was also hampered by a lack of positive price expectation and an uncertain economic environment although demand for pure gold jewellery designs (as a quasi investment) helped lift offtake over 2014 volumes. The country’s GDP expanded at a healthy 6.7% according to data released by the General Statistics Office (GSO) of Vietnam but almost all our trade contacts pointed to weak consumer sentiment resulting from a lack of confidence in the economy to lift wages growth. Based on our analysis, jewellery fabrication edged 5% higher year- on-year to an estimated 13 tonnes.

VIETNAM JEWELLERY CONSUMPTION & RETAIL INVESTMENT



Source: GFMS, Thomson Reuters

REST OF ASIA

- *A general theme of a weak economic environment, coupled with a lack of positive price expectation, saw jewellery fabrication broadly weaker across several key markets in 2015.*

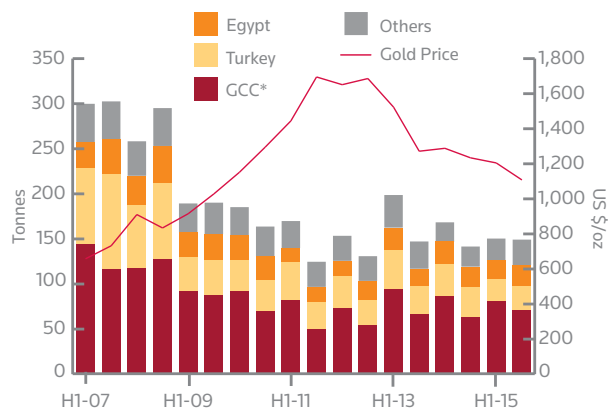
Jewellery consumption in **Jordan** enjoyed a solid rise in 2015, increasing 13% to an estimated 15.4 tonnes with the migration of Syrian refugees to the country (estimated to be over 600,000) contributing to demand for gold. Indeed, gold has been used as a quasi currency in the camps and this has led to the introduction of new fabrication and retail outlets opening in the northern parts of the country to service this new demand. Elsewhere, jewellery demand in **Kuwait** slipped 9% last year as fear of increased taxation, a weaker economic environment, and expectation of lower prices reduced consumer interest in the yellow metal. Moreover, offtake from **Lebanon** retreated 15%, but a stronger export segment helped arrest the slide in fabrication to just 4%. **Bahrain** jewellery demand rose 13% on the back of ongoing penetration of Indian retailers, while **Qatari** offtake was unchanged year-on-year with a final quarter rebound not sufficient to offset earlier losses during the year.

Iran's gold market benefited from the thawing of relations with the West with a strong finish to the year as the market absorbed the news and impact of the lifting of sanctions. The first half saw jewellery consumption struggle as weak economic conditions (hampered by the low energy prices) and 9% VAT drove offtake lower. However, sentiment improved markedly in the second half with jewellery consumption jumping 12% for the period. The full year delivered a drop of just 1% while investment demand was a casualty of lower prices, falling 27% to a six-year low. Elsewhere in the region, **Egyptian** jewellery demand continued to wrestle with economic, political and regional disruption and further weakness in the tourist market over much of 2015. A weaker Egyptian pound provided no relief in terms of a lower domestic gold price with gold in local terms little changed year-on-year. Jewellery consumption declined 13% to an estimated 40.9 tonnes while investment demand retreated 22% to a three-year low.

Hong Kong's jewellery consumption recorded another decline in 2015, slipping by 17% year-on-year to an estimated 34 tonnes. As the latest government data reveals, Hong Kong's total retail sales on a yearly basis, shrank by 3.7% year-on-year to 475.2 billion HKD (\$61.3 billion) in 2015, an even larger fall than the 2.3% registered in 2003 when the city was hit by an outbreak of Severe Acute Respiratory Syndrome (SARS). Hong Kong's tourism is also under pressure with government data showing that tourist arrivals to Hong Kong fell 2.5% year-on-year in 2015 to 59.32 million, the first decline since SARS affected 2003. China accounts for almost three-quarters of all visitors to Hong Kong, which relies on tourism for about 5% of its GDP. As the hostile protests against Chinese mainland tourists has dissipated, we now believe it is the depreciation of Chinese yuan that is likely impacting tourist arrivals from the mainland.

Taiwan's total gold demand in 2015 reached 30.0 tonnes, a modest 2% decrease year-on-year. Last year, the lacklustre economy and substitution to more affordable materials continued to weigh on industrial demand for gold, which accounts for the bulk of the total demand in the country. A softer Chinese economy impacted on exports of electronics components to this key market with shipments of semiconductors retreating in the second half of 2015 while domestic demand was also moribund due to a struggling economy. Taiwan's economy grew at its slowest pace in 2015 since the global financial crisis battered the country in 2009, with GDP rising by only 0.85% last year. Fabrication demand from the jewellery market dropped by 9% to just over four tonnes. Looking forward, the uncertainty of the region's political and economic environment is likely to affect every aspect in the domestic market this year, including industrial development, jewellery consumption and investment sentiment.

MIDDLE EAST CONSUMPTION



*GCC: Saudi Arabia, UAE, Oman, Bahrain, Kuwait, Qatar
Source: GFMS, Thomson Reuters

REST OF THE WORLD

- A surge in Chinese bullion imports last year helped lift gold flows from Australia, with shipments to the Asian giant jumping 17% in 2015.
- A weaker domestic currency helped lift jewellery consumption in Pakistan by an estimated 20% in 2015.

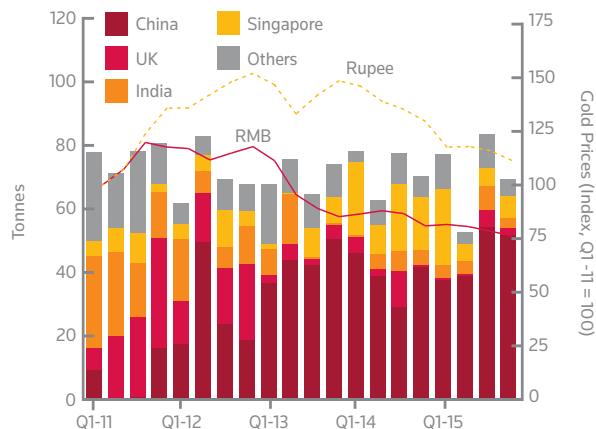
Analysing **Australia's** bullion export statistics often provides a reliable indication of demand in China, India, and the South East Asian region, with a significant proportion of exports typically destined for these markets. In recent years there has been a material shift in the markets to which Australian bullion is now being exported. Australian bullion deliveries overall were largely on a par with the volumes exported in the equivalent period in 2014, dipping only marginally. Exports for the full year, according to available customs data, were just 3% lower year-on-year at 302 tonnes. Shipments to China, at over 187 tonnes, were 17% higher than seen in 2014, with deliveries gathering pace from July to average almost 18 tonnes a month.

China has become easily the largest market for Australian bullion, receiving over 60% of total exports this year. This, however, is a relatively new phenomenon having only emerged in significant volumes in just the last four years. Prior to that, it was India that was the engine room for Australian exports. Indeed, back in 2005 flows to India contributed well over 50% of total exports. Since then, this key market has declined in significance, falling from 43% of total exports in 2010, to just 6% last year. This marked change has been a function of two main factors. Firstly, the emergence of China as a potential market following the acceptance of foreign banks to import and trade on the SGE, and secondly, the sharp drop in flows to India as a result of the increase in import tariffs. The rise in tariffs in 2014, from 4% at the start of the year to eventually reach 10% by August, coupled with the introduction of the 80:20 rule that year, had a significant impact on official flows to India, with orders slowing to a trickle after the changes in legislation.

Jewellery fabrication in **Pakistan** increased 8% year-on-year to an estimated 22.6 tonnes. The gains were relatively small given that the gold price had declined by more than 15% from the annual high. This is attributed to increased scrutiny by customs following fraud detection in some of the export consignments. At the domestic front, a falling Pakistani currency, which depreciated by more than 5% last year, helped revive demand, thereby driving consumption higher by 7% year-on-year.

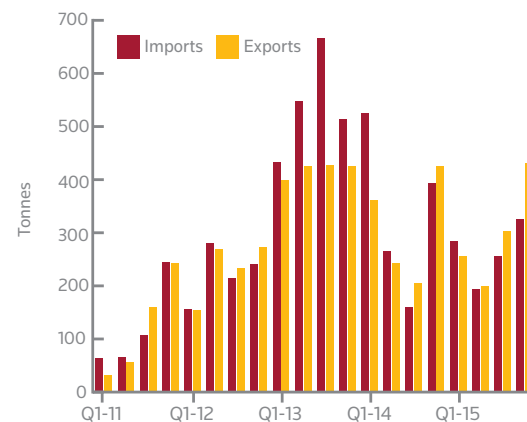
Elsewhere, jewellery demand from South Asian countries, which includes **Sri Lanka, Bangladesh and Nepal**, is estimated to have been broadly steady last year compared to 2014. Most of the activity from these nations were centred around building the unofficial route to India for smuggling gold. In the case of Nepal, it is estimated that approximately four tonnes were imported last year up from less than a tonne in 2014. The majority of this originated from the UAE and is likely to have been hand carried to India.

AUSTRALIAN EXPORTS



Source: GFMS, Thomson Reuters

HONG KONG BULLION IMPORTS EXPORTS



Source: GFMS, Thomson Reuters
*Calculated quantities based on reported export and import values.

APPENDIX 1 - GOLD FUTURES AND OPTIONS TURNOVER

	Gold Contracts on COMEX			Gold Contracts on SHFE		Gold Contracts on TOCOM	
	Futures		Options	Futures		Futures	
	Turnover ¹ (100 oz)	Open Interest ² (100 oz)	Turnover ¹ (100 oz)	Turnover ¹ (1kg)	Open Interest ² (1kg)	Turnover ¹ (1kg)	Open Interest ² (1kg)
2006	15,917,524	344,915	3,708,573			22,228,198	242,743
2007	25,060,440	541,854	3,555,038			18,202,949	177,089
2008	38,373,367	306,651	4,392,637	3,890,447	46,212	14,960,381	72,439
2009	35,136,388	489,779	4,850,111	3,406,232	101,316	11,913,502	134,163
2010	44,730,345	585,114	7,673,165	3,272,646	78,768	12,198,340	117,657
2011	49,171,091	419,154	9,477,081	7,221,758	102,312	15,193,602	123,688
2012	43,893,380	427,991	9,106,807	5,916,745	111,424	11,895,357	145,738
2013	47,291,629	379,550	10,247,306	20,087,824	170,992	12,224,661	90,135
2014	40,518,804	371,646	8,415,139	23,858,066	194,812	8,744,990	73,137
2015	41,847,338	415,636	7,534,527	25,317,200	259,068	7,927,825	90,146
2014							
Jan	3,754,843	375,065	688,445	1,841,336	155,174	541,515	92,038
Feb	2,607,548	388,163	713,979	1,659,041	203,574	680,718	78,739
Mar	4,200,321	369,564	676,671	2,782,670	211,928	702,569	81,700
Apr	2,692,897	381,634	716,616	2,000,586	202,452	590,702	85,695
May	3,631,134	380,825	692,487	1,585,457	233,646	553,903	98,669
Jun	2,508,081	404,291	685,459	1,494,263	199,788	562,274	85,901
Jul	3,848,342	370,703	622,981	1,590,619	199,448	606,190	91,847
Aug	2,381,778	366,161	453,242	1,407,683	202,926	577,285	94,153
Sep	3,205,752	381,370	741,601	1,545,915	196,216	792,410	99,730
Oct	3,703,708	421,970	954,326	1,535,052	259,266	1,000,120	94,140
Nov	4,676,740	376,407	842,549	3,274,720	248,892	1,220,210	78,747
Dec	3,307,660	371,646	626,783	3,140,724	194,812	917,094	73,137
2015							
Jan	4,507,939	425,314	734,256	2,529,455	228,246	880,821	83,145
Feb	2,558,834	403,315	475,542	1,427,054	238,858	657,908	99,218
Mar	4,403,380	385,692	718,735	2,264,062	219,532	758,658	99,311
Apr	3,056,952	412,396	583,808	1,976,430	203,072	628,643	101,285
May	3,721,479	398,883	534,537	1,495,737	179,398	564,050	96,506
Jun	2,856,007	443,851	600,156	1,164,947	177,328	630,645	96,562
Jul	4,554,785	437,014	845,923	2,387,356	241,276	700,401	85,031
Aug	3,431,565	414,364	656,096	3,610,778	244,264	777,910	83,737
Sep	2,917,063	420,038	564,068	1,792,933	224,880	598,859	85,903
Oct	3,070,120	454,571	708,498	1,767,028	229,390	609,836	89,950
Nov	4,033,977	395,654	601,123	2,224,374	281,290	547,012	98,259
Dec	2,735,237	415,636	511,785	2,677,046	259,068	573,082	90,146

¹ Turnover refers to period total. ² Open Interest refers to end-period.

Source: Thomson Reuters and respective exchange websites

APPENDIX 2 - OFFICIAL SECTOR GOLD HOLDINGS AND OTHER RESERVES

	end-2005 Gold				Share of Reserve Assets	end-2015 Gold				Share of Reserve Assets
	million oz	tonnes	\$ billion			million oz	tonnes	\$ billion		
United States	261.55	8,135	130.78	70.7%	261.50	8,134	277.42	72.3%		
Germany	110.21	3,428	55.10	55.0%	108.70	3,381	115.32	66.3%		
Italy	78.83	2,452	39.41	60.7%	78.83	2,452	83.63	64.0%		
France	90.85	2,826	45.43	62.1%	78.31	2,436	83.08	60.1%		
China, P.R.: Mainland	19.29	600	9.65	1.2%	56.65	1,762	60.10	1.8%		
Russian Federation	12.44	387	6.22	3.4%	45.48	1,415	48.25	13.1%		
Switzerland	41.48	1,290	20.74	36.4%	33.44	1,040	35.58 ²	5.9%		
Japan	24.60	765	12.30	1.5%	24.60	765	26.10	2.1%		
Netherlands	22.34	695	11.17	55.4%	19.69	612	20.89	54.7%		
India	11.50	358	5.75	4.2%	17.93	558	19.08 ²	5.4%		
Turkey	3.73	116	1.87	3.6%	16.57	516	17.58	15.7%		
Portugal	13.42	417	6.71	65.9%	12.30	383	13.05	67.1%		
Venezuela	11.47	357	5.74	19.3%	11.61	361	14.03 ³	68.7%		
Saudi Arabia	4.60	143	2.30	1.5%	10.38	323	11.05 ²	1.8%		
United Kingdom	9.99	311	5.00	11.5%	9.98	310	10.58	8.2%		
Lebanon	9.22	287	4.61	27.9%	9.22	287	9.81 ²	20.2%		
Spain	14.72	458	7.36	43.2%	9.05	282	9.60	17.8%		
Austria	9.73	302	4.86	41.6%	9.00	280	9.55	42.9%		
Belgium	7.32	228	3.66	30.8%	7.31	227	7.76	32.1%		
Kazakhstan	1.92	60	0.96	13.6%	7.13	222	7.57	27.0%		
Philippines	4.97	155	2.48	13.5%	6.29	196	6.70 ²	8.3%		
Algeria	5.58	174	2.79	4.7%	5.58	174	6.54 ¹	4.3%		
Thailand	2.70	84	1.35	2.6%	4.90	152	5.20	3.3%		
Singapore	4.10	127	2.05	1.7%	4.10	127	4.36 ²	1.7%		
Sweden	5.41	168	2.71	10.9%	4.04	126	4.29	7.4%		
South Africa	3.99	124	1.99	9.7%	4.03	125	4.27	9.3%		
Mexico	0.11	3	0.05	0.1%	3.90	121	4.14	2.3%		
Libya	4.62	144	2.31	5.5%	3.75	117	3.99 ²	5.1%		
Greece	3.47	108	1.74	77.4%	3.62	113	3.84	63.6%		
Korea, Republic of	0.46	14	0.23	0.1%	3.36	104	3.57 ²	1.0%		
ECB	23.15	720			16.20	504				
IMF	103.44	3,217			90.50	2,815				
BIS	5.97	186			8.58	267				
World	991.30	30,833			1,054.97	32,813				

Market valuation based on end-year gold prices, except ¹June 2015 ²November 2015 ³September 2014

Source: IMF and central bank websites

APPENDIX 3 - GOLD PRICES IN 2015

	LBMA AM US\$/oz	LBMA PM US\$/oz	High PM US\$/oz	Low PM US\$/oz	euro/kg	CHF/kg	yen/g	A\$/oz	rand/kg	£/oz	rupees/ 10g
Annual Average	1,159.82	1,160.06			33,600	35,838	4,512.90	1,543.14	473,944	758.91	26,484
Maximum	1,298.00	1,295.75			37,144	40,441	4,935.80	1,657.91	547,466	863.92	28,185
Minimum	1,050.60	1,049.40			31,024	33,439	4,106.27	1,438.53	434,149	695.58	24,710
Range:Average	21.3%	21.2%			18.2%	19.5%	18.4%	14.2%	23.9%	22.2%	13.1%
Monthly Average											
Jan	1,249.33	1,251.85	1,295.75	1,172.00	34,714	37,789	4,758.66	1,554.33	465,281	827.059	27,535
Feb	1,231.10	1,227.19	1,272.50	1,192.50	34,758	36,923	4,685.11	1,574.90	456,656	800.542	27,285
Mar	1,180.64	1,178.63	1,212.75	1,147.25	34,999	37,103	4,560.25	1,525.45	457,463	787.528	26,392
Apr	1,198.25	1,197.91	1,211.00	1,180.25	35,657	36,992	4,603.54	1,547.31	462,246	800.719	26,784
May	1,197.68	1,199.05	1,225.00	1,175.95	34,526	35,912	4,657.66	1,520.25	461,104	775.152	27,185
Jun	1,182.25	1,181.50	1,203.40	1,164.60	33,816	35,355	4,697.49	1,530.59	466,484	758.248	26,766
Jul	1,131.58	1,130.04	1,168.00	1,080.80	33,034	34,659	4,479.38	1,526.00	452,300	726.415	25,730
Aug	1,117.53	1,117.48	1,166.50	1,085.10	32,251	34,778	4,422.86	1,531.01	463,383	716.835	25,871
Sep	1,124.90	1,124.53	1,154.50	1,100.25	32,180	35,129	4,341.06	1,594.82	493,618	733.599	26,444
Oct	1,157.12	1,159.25	1,184.25	1,119.00	33,230	36,124	4,477.74	1,609.42	502,715	756.216	26,707
Nov	1,091.09	1,085.70	1,134.00	1,057.40	32,535	35,235	4,279.76	1,518.93	493,524	714.671	25,730
Dec	1,068.32	1,068.25	1,081.00	1,049.40	31,544	34,128	4,184.01	1,474.50	514,176	712.086	25,345
Quarterly Average											
Q1	1,219.56	1,218.45			34,828	37,274	4,666.03	1,550.78	459,812	804.84	27,060
Q2	1,192.30	1,192.35			34,641	36,065	4,654.28	1,532.85	463,419	777.44	26,904
Q3	1,125.00	1,124.31			32,504	34,854	4,415.17	1,550.84	469,695	725.90	25,995
Q4	1,105.43	1,106.45			32,478	35,211	4,320.67	1,537.43	503,114	728.62	25,964

Source: LBMA; GFMS, Thomson Reuters



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