Alchemist

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LBMA

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EDITORIAL

BY THOMAS KENDALL, CHAIR OF LBMA'S PUBLIC AFFAIRS COMMITTEE AND HEAD OF PRECIOUS METALS SALES, ICBC STANDARD BANK PLC

The basic numbers are impressive when it comes to China and gold: $90+ billion in official reserves; 400+ tonnes in mine production; 15+ million ounces traded onshore daily. There is no bigger market and no market that has evolved as rapidly over the past 15 years.

Innovation is continuing at pace at both the macro and micro level, and so it is appropriate that the 20th LBMA/LPPM Conference is returning to China.

The location of Shenzhen is also apposite. It is both a microcosm of China's economic development and the heart of the country's gold and platinum jewellery manufacturing sector.

INNOVATION IS CONTINUING AT PACE AT BOTH THE MACRO AND MICRO LEVEL AND SO IT IS APPROPRIATE THAT THE 20TH LBMA/LPPM CONFERENCE IS RETURNING TO CHINA

The timing appears to be right too. The liberalisation of China's financial markets is progressing, with restrictions on offshore investors' access to onshore equity, bond and commodity futures markets steadily being lifted. Recent product developments include the imminent launch of the SGE & CME Group's new futures contracts based on the Shanghai Gold Exchange benchmark, the SGE International Board's 'Gold Road' leasing project and plans for an ETF backed by China's famous Gold Panda coins.

All this activity comes, of course, against the helpful backdrop of a gold price that had returned 23% in US dollars by the beginning of September and surpassed Rmb 350 per gram for the first time in seven years. It's also been a fairly dramatic first nine months for the platinum group metals. So delegates at this year's Conference can expect to get some interesting insights into these global and regional trends.

The programme will be kick-started by a keynote speech from James Kynge, Emerging Markets Editor for the Financial Times.

James is one of the most-experienced Western journalists covering Asian affairs, having spent over two decades in the region for Reuters and, since 1998, for the FT. He's exceptionally well placed to put the current macroeconomic and geopolitical forces into context.

The session focusing on innovation in the Chinese gold market will cover developments on the exchanges, in the jewellery market, in clearing and vaulting, and in both retail and investor products. The speakers are all leading figures from the Chinese gold sector, representing the Shanghai Gold Exchange, Chow Tai Fook, Industrial and Commercial Bank of China, Ping An Bank and Bosera Asset Management.

Key trends in the platinum group metals will be addressed in the afternoon session, with the speakers delivering first-hand insights into trends in PGM use in automobile catalysts (Chery Automobile Co), the fibreglass sector (Owens Corning) and how platinum jewellery fabricators are responding to market challenges (Shenzhen Long Jia Jewellery Industry Co.). A longer-term perspective will be provided by Anglo American Platinum with the latest thoughts on how the developing hydrogen economy will affect platinum demand.

This year, we have two very strong keynote presentations to start the second day. The Central Bank of the Philippines has been actively involved in both the local gold mining sector and the international gold market over the past decade and the Assistant Governor will share some of her experiences and thoughts. Following that, Zijin Mining — one of the most active Chinese mining groups to invest offshore — will examine key challenges facing the global mining sector.

That will lead into a panel session for producers, which will be introduced and moderated by Investec's Gold Portfolio Manager, with contributions from Franco Nevada, Paxos and ABC Bullion.

It should prove a lively discussion as there is a lot to talk about – whether shareholder returns, use of technology, responsible sourcing, bar integrity or the changing refining landscape.

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Front cover – Victoria Cleland and Ruth Crowell in the gold vaults at the Bank of England.

We have also put together an eminent price forecasting panel, comprising experts from the Bank of China, Norilsk Nickel, Standard Chartered and Kingold Financial Services. Philip Klapwijk has stepped forward to take on the unenviable task of teasing out some key takeaways from what should be a lively debate.

The Conference will then be rounded out by the ever-popular delegate feedback session and Conference wrap-up, where those who were too busy to attend all the sessions they wanted to can get a pithy summary (of sorts). This year, we've released the previous incumbents from this duty and have passed it to the Stan Laurel and Oliver Hardy of the precious metals markets.

WE WISH ALL CONFERENCE ATTENDEES A PRODUCTIVE AND SUCCESSFUL EVENT

In this centenary year of the LBMA Gold Price, we don't underestimate the challenges that parts of the market are facing, but we also look forward with confidence and wish all Conference attendees a productive and successful event.

The Bank's Golden Evolution – A Question & Answer session with Victoria Cleland, Bank of England

For this issue of the Alchemist, Ruth Crowell interviewed Victoria Cleland, the Executive Director for Banking, Payments and Innovation at the Bank of England. Here is what we learned.

VICTORIA, BEFORE WE START DISCUSSING GOLD, IT WOULD BE INTERESTING TO KNOW A LITTLE BIT ABOUT YOUR BACKGROUND, SUCH AS YOUR CURRENT ROLE AT THE BANK AND THE POSITIONS YOU HAVE HELD IN THE PAST?

Thanks Ruth, as Executive Director for Banking, Payments and Innovation, I have responsibility for the operation and strategic development of our payment system services, including the UK's Real-Time Gross Settlement infrastructure, which settles over £650 billion of sterling payments and securities transactions daily. As well as having responsibility for our wholesale and retail banking operations, I also have oversight of the second-largest gold vault in the world by value of gold in custody.

I have spent my career at the Bank of England covering an exciting and varied selection of jobs. Most recently, I was Chief Cashier, responsible for banknotes and leading our work on digital currencies. I oversaw the launches of the £5 and £10 polymer notes, with each bearing my signature. Prior to this, I was Head of the Special Resolution Unit and Private Secretary to the Deputy Governor.

Alongside my day job at the Bank, I am also executive sponsor of our staff disAbility Network and Bicycle Users Group.

I HAVE OVERSIGHT OF THE SECOND-LARGEST GOLD VAULT IN THE WORLD BY VALUE OF GOLD IN CUSTODY

THE BANK HAS A LONG HISTORY AND A VERY IMPORTANT ROLE IN THE FINANCIAL SYSTEM. CAN YOU SAY A LITTLE MORE ABOUT ITS ROLE WITH REGARDS TO GOLD?

Gold has been an important aspect of the Bank's role since we were founded in 1694 (we are celebrating our 325th birthday this year, alongside the centenary of the first London Gold Price), reflecting gold's significance within official foreign exchange reserves. The Bank opened a purpose-built London vault in 1697 in response to the first significant gold rush. This saw an influx of gold from Brazil to London. The Bank's 'bullion warehouse' served the entire European market, and the subsequent gold rushes in California, Australia and South Africa led to the storage of even more gold in the Bank's vaults.

Today (a sunny day in early September 2019), we hold around 400,000 gold bars in our vaults, currently worth approximately £200 billion, making up 15% of official declared gold reserves globally. We are the largest gold custodian in the UK – we hold over 65% of the gold in London.

THE BANK'S ROLE IN THE GOLD MARKET HAS A RICH HISTORY, BUT CAN YOU TELL ME ABOUT THE SERVICES YOU CURRENTLY PROVIDE?

The Bank provides a gold custody service specifically designed for our central bank customers. We currently have around 70 such customers and this service supports their reserve management requirements in gold. Alongside monetary stability, a core part of the Bank's mission is to maintain financial stability. Our gold service contributes to this by providing central banks with access to the liquidity of the London gold market, the largest gold market in the world.

The Queen and the Duke of Edinburgh visiting the Bank's gold vaults in December 2012.

The Bank also provides safe custody for the UK's gold reserves, on behalf of Her Majesty's Treasury. We also provide services to a few commercial firms which facilitate access for central banks to the London gold market.

HOW ARE YOUR SERVICES IN THE BULLION MARKET UNIQUE?

The Bank's service is unique in several ways. We offer allocated accounts both to central banks and commercial banks for deep storage of London Good Delivery (LGD) gold bars. By offering allocated accounts to commercial banks, we allow central banks to access the liquidity of the London gold market and trade directly with the commercial banks.

WE ARE CELEBRATING OUR 325TH BIRTHDAY THIS YEAR ALONGSIDE THE CENTENARY OF THE FIRST LONDON GOLD PRICE

The deep storage nature of gold held here means that some bars in our vaults date back in age to the First World War. The Bank's allocated service means that customers own specific bars.

Gold that the Bank holds on behalf of customers does not appear on our balance sheet. This means that the gold balance does not entail a credit risk exposure to the Bank. In contrast, the rest of the gold held in the London gold market relies primarily on unallocated gold accounts with the clearering banks that jointly operate Aurum, the market's settlement system.

400,000 gold bars in our vaults worth £200 billion

The Bank also offers settlement of gold transfers by Book Entry Transfer (BET) on its Gold Bar Management (GBM) system. Central bank reserve managers can transfer gold to and from any other Bank of England gold account holder by BET across the gold custody accounts without the need for the physical movement of gold.

The ability to do BETs is particularly useful for our central bank customers since multiple commercial banks active in the London gold market also have accounts at the Bank of England. BETs can be undertaken on the same day, so reserve managers are therefore able to generate cash from gold holdings quickly, through undertaking gold swaps or sales.

Specimen Florae Britanniae, A delicate botanical sculpture using genuine Bank of England £50 series E notes, created by Justine Smith in 2019, to celebrate 325 years of the Bank of England.

The Bank's display gold vault.

65% WE HOLD OVER 65% OF THE GOLD IN LONDON

WHAT ELSE ARE YOU DOING TO MAKE YOUR SERVICES AS EFFICIENT AS POSSIBLE FOR YOUR CUSTOMERS?

We have also taken steps to make it easier for customers to monitor their holdings here. We have shifted from paper-based gold bar lists to bar codes and electronic scanning of bars. We also provide a gold inspection service for all our central bank customers in which they are able to visit to visually inspect a sample of gold bars from their holdings, which they select themselves.

Earlier this year, we removed the requirement for gold commercial customers to use a London Precious Metals Clearing Limited (LPMCL) clearer to deliver gold into the Bank. By allowing all customers to deliver gold directly into the Bank, we are taking an inclusive approach, as well as being open and transparent.

HOW DO YOU MANAGE THE VARIOUS RISKS OF HOLDING ALL THAT GOLD?

The Bank takes risk management very seriously in all aspects of what we do. And this is doubly important for gold.

In all our operations, the Bank observes the highest standards of risk management and abides by all relevant legislation.

Before undertaking any transaction, we need to be satisfied that the counterparty has the authorisations necessary to request the transaction, that all relevant sanctions are complied with and that there is no evidence that the transaction will involve criminal activity.

We also have a very strong focus on physical security, including using lots of state-of-the-art technology. No gold has ever been stolen from the Bank in our 325-year history.

THE BANK SITS AS AN OBSERVER ON VARIOUS LBMA COMMITTEES INCLUDING ITS BOARD

However, in 1836, the Bank is said to have had a lucky escape. Directors at the Bank agreed to meet one night in the gold vault at the request of an anonymous writer claiming to have access to gold held at the Bank. The anonymous writer, a sewer man, appeared through some of the floorboards following his discovery of an old drain that ran immediately under the gold vault.

After a stocktake revealed that he had stolen no gold, the Bank rewarded him with a gift of £800, which is approximately £80,000 in today's money.

DO YOU HAVE A REGULATORY ROLE IN THE BULLION MARKET?

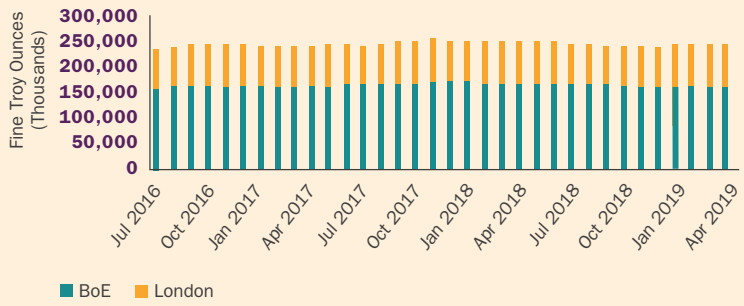
No. Many of your readers and members might remember that before LBMA was established in 1987, the Bank acted as the gold market regulator.

Today, our role is much more narrowly focused. While the Bank sits as an observer on various LBMA committees, including its Board, our role is simply one of custodian, where our focus continues to be on providing a high-quality service to each of our customers and supporting the Bank's objective of maintaining financial stability.

YOU MENTION THAT THE BANK IS AN OBSERVER ON VARIOUS LBMA COMMITTEES. DO YOU ALSO ADHERE TO LBMA STANDARDS?

Absolutely. We only accept gold bars that meet exacting LGD standards, covering fine ounce weight, purity and physical appearance.

THE BANK OF ENGLAND HOLDS AROUND TWO THIRDS OF ALL THE GOLD HELD IN LONDON



We are supportive of these standards and I believe that it is very important that we adhere to them strictly.

Alongside LBMA, we recognise the importance of transparency in the over-the-counter (OTC) precious metals market. And to coin a phrase, 'we are walking the walk' and, since January 2017, we have been publishing data on our website on the amount of gold held at the Bank. LBMA uses this information to publish vault holdings data for the London market as a whole. We also now have our gold account policy on our website.

LBMA HAS TAKEN THE LEAD IN PRODUCING A GLOBAL PRECIOUS METALS CODE WHICH WAS PUBLISHED IN MAY 2017

In the precious metals market, LBMA has taken the lead in producing a Global Precious Metals Code, which was published in May 2017. This set out the standards and best practice expected from market participants in the global OTC wholesale precious metals market. In February 2018, we published our Statement of Commitment, demonstrating our support for the principles contained in the Code and confirming that our internal procedures are aligned with those principles.

THAT SOUNDS GREAT. IS THERE ANYTHING ELSE YOU WANT TO ADD?

Having responsibility for the gold is one of the really exciting elements of my role. The gold market is constantly evolving and we pay close attention to the latest trends in both the market and our customers' requirements. During times of financial stress, we see an increased demand for gold within our own holdings, and the sales when more liquid assets are required. Just as gold has been an important part of the history of the Bank, it will be an important part of its future as we continue to innovate our service to meet the demands of our customers and the changing landscape within the gold market.

The Bank of England.

After the War is Over, The London Gold Market Reopens: 1954–1968

BY DR MICHELE BLAGG AND DR FERGAL O'CONNOR

Fergal is joined by Michele Blagg to deliver the fourth and final instalment of his series of articles on the academic analysis of the 100 year old gold price. This instalment focuses on the period following the reopening of the London gold market in 1954 until 1968.

For 14 years after the outbreak of World War II, the sterling gold price changed only twice, moving to 172s/3d in 1945 and 248s in 1949. These were official revaluations as the market remained closed until 22 March 1954.

In early 1954, the Bank gathered the members of the old Gold Fixing together and proposed that plans should be made for a grand reopening of the London gold market in March. News of the impending event was reported by The Times. In announcing the Government's decision to allow this, the UK Treasury laid out that the market would work on a restricted basis, under the general supervision of the Bank of England, and that it would afford no additional element of convertibility for sterling.

A working committee was formed and suggestions were made on how the daily meeting might be updated. After a lapse of almost 15 years, one of the members suggested that it was an opportune time for a revamp of the post-war pricing mechanism and a possible move of the daily meeting to neutral ground, with all members jointly contributing to the cost of renting suitable premises. Another suggested a rotation of the Chair, which thus far had been the sole preserve of N M Rothschild & Sons.

The decision on the future vision was overtaken by events when the Bank announced that it was keen to bring forward the date of reopening. It was decided that the format of the previous daily meeting was to be replicated. Of course, those members that continued to raise objections received a gentle reminder from the Bank that if they were not interested in taking part, the market would manage without them.

The reopening in the United Kingdom of internal markets provided growing opportunities for traders, merchants and bankers, so that they could make the fullest contribution towards the increased overseas earnings, which the UK and settling areas needed. This marked the return of London as the international market for gold trading again and The Times said that "from Monday the price for gold… will be the current London market price".[1] However, citizens of the sterling area and UK were still not allowed to buy gold, though they were allowed to sell it.

IN EARLY 1954 THE BANK GATHERED THE MEMBERS OF THE OLD GOLD FIXING TOGETHER AND PROPOSED THAT PLANS SHOULD BE MADE FOR A **GRAND REOPENING** OF THE LONDON GOLD MARKET IN MARCH

Buying was to be allowed, firstly, by those who could pay for the gold on 'American Account' or Canadian sterling – that is, residents of the dollar area – and, secondly, by those who could pay for it with 'registered sterling', a special brand of sterling acquired by people outside the sterling area against the sale of dollars or gold. Anybody was at liberty to sell gold. All dealings were still to be in terms of sterling. It was also decided to unify all sterling belonging to residents of countries outside the sterling and dollar areas.

THE RETURN OF THE FIXING

At New Court, the home of N M Rothschild & Sons, at 10:30 am in the traditional wooden panelled room set aside for the daily meeting since 1919, the representatives from the six leading bullion firms gathered.

100 GOLD PRICE CENTENARY

Alongside Rothschild, which retained the position as a broker to the Bank, gold dealers from Johnson Matthey, Mocatta & Goldsmid, Pixley & Able and Sharps & Wilkins, together with Samuel Montagu & Co, each took up their places for the continuance of the daily pricing ritual.

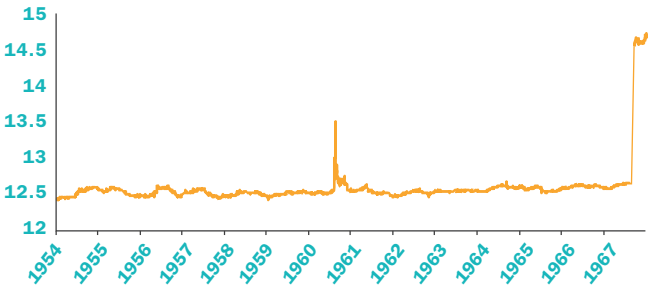
Harvey suggests that the resumption of the daily meeting was an almost stately scene:

"Bullion dealers, bankers, and refiners in striped trousers and black jackets this morning gathered in the market's traditional home, a richly panelled board room, in [New Court] the premises of the 150 year old private banking company of N M Rothschild & Sons… The room was newly decorated with eighteenth-century paintings of the German princes who originally sponsored the Rothschild family."[2]

THE BANK OF ENGLAND HAD BEEN APPOINTED THE SALES AGENT OF THE SOUTH AFRICAN RESERVE BANK WHO HAD TAKEN THE DECISION TO SELL ALL 'INDUSTRIAL' GOLD THROUGH LONDON

The first meeting went without a hitch. The six men proceeded to negotiate the price of gold based on their buy and sell orders. It took just 10 minutes before a price of 248s/6d (£12.425 modern), a little over $35, was agreed, which compared to the last price returned in 1939 of 160s (£8.00 modern) showed an increase. The spread between the buyers was only 1d and a "reasonable turnover" was reported. To the relief of the Bank and the Treasury, despite a few small adjustments made by the working committee, the mechanism worked "quietly and efficiently".[3]

FIGURE 1: LONDON FIXING GOLD PRICE: 1954-1968, £s MODERN



Commenting on the reopening, Tim Green, in *Precious Heritage*, noted that the reopening was set to succeed for:

"The prestige of the market as the international clearing centre for gold was assured from the start, for the Bank of England had been appointed the sales agent of the South African Reserve Bank, who had taken the decision to sell all 'industrial' gold through London. The Bank of England was the prime seller through Rothschild, in their capacity as chairman. Rothschild had the responsibility of picking up the gold from the Bank and distributing it to the other members of the market."[4]

In addition to the sale of South African gold, large volumes of Russian gold found its way into the market. This, together with smaller offerings from Rhodesia, Ghana and the Philippines, whose gold continued to be sent to London to be refined, ensured London's pre-war eminence was restored, albeit if only temporarily.

The 1954 Mocatta & Goldsmid annual circular captured the mood of the successful reopening when it reported:

"London is the centre of gravity of the European free market… The re-establishment has brought here much of the business hitherto carried on abroad and the official London price has provided a much-needed register of its fluctuations."[5]

The general improvements in the newly reformed gold market continued into 1955; however, a general downward trend and slump ensued for the remainder of the decade and into the 1960s, mainly due to increased competition from the US and European markets, together with the effects of decolonisation and the independence of African states, which impacted performance.

1968, THE YEAR IT ALL CHANGED

1967 saw the London markets' largest-ever turnover since reopening in 1954.[6] The brewing international monetary crisis led to sterling revaluing in November, with the gold pricing rising 15% to 290s/10 ¾d (£14.55 modern).

The liquidation of the Gold Pool in March 1968 spelt the end of the sterling-denominated London Gold Fixing. The London market was closed on 14 March 1968 with the final price fixed at 294s/6 ¼d (£14.726 modern), but London dealers continued to execute orders for foreign principles.[7] The London market began the recognisable twice daily Fixing on 1 April 1968 and was quoted in US dollars from then on. The market reopened to a Gold Fixing price of $38.00 (£15.806 modern).

1. The Times, p.6 Mar 20, 1954. **2.** Harvey, R, *'Duty to the Firm'*, p.83 [extract from, *The New York Times*, "London Gold Market reopened for the First Day's trading Since '39", Mar 23, 1954]. **3.** Harvey, *'Duty to the firm'*, pp113-117. **4.** T Green, *'Precious Heritage'*, p. 553-4. **5.** Mocatta & Goldsmid, Annual Circular, 1954. **6.** Samuel Montagu Annual Bullion Review, 1967. **7.** Samuel Montagu Annual Bullion Review, 1968.

Dr Michele Blagg (BA, MA, PhD). In 2013 Michele completed her PhD thesis 'The Royal Mint Refinery, A Business Adapting to Change' at King's College, London, charting the history of the London Bullion Market through the operation of the Royal Mint Refinery, owned and operated by N M Rothschild & Sons between 1852 and 1968. In 2014 she was engaged as a Research Consultant for the London Bullion Market Association, heading the oral history project 'Voices of the London Bullion Market'. Returning to the Rothschild Archive in 2015 she worked as a Consultant and Researcher across a variety of projects. Currently she is a Business Analyst for the NATO Communications and Information Agency, Mons, Belgium.

Her areas of interest are in financial and business history, with special regard for the actors and networks located in the London Market.

Fergal O'Connor is a lecturer in Finance at Cork University Business School and was previously a lecturer at the University of York. His research on Precious Metals began when he was awarded the 2011 LBMA PhD Bursary for the study of the London Gold Market and he has gone on to publish a range of research on the topic. Currently, his research focuses on building a clear picture of the operation of London Bullion Market from its inception in 1919, as well as a daily price series for gold and silver.

ABC BULLION

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LBMA MEMBER

LBMA GOOD DELIVERY REFINER

SBMA

SGE

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THE INTERNATIONAL DEVELOPMENT OF THE SHANGHAI GOLD EXCHANGE

BY WANG ZHENYING, PRESIDENT, SHANGHAI GOLD EXCHANGE

SGE's new head office in Shanghai, due to open in 2021.

As a super-sovereign currency, the gold market has become the most unified financial market in the world. During the internationalisation of the global financial market, the gold market has played an incomparably important role and has become the pioneer in the integrated development of the financial market.

The Shanghai Gold Exchange (SGE) took the lead in the opening-up of China's financial market. In September 2014, SGE established Shanghai Gold Exchange International (SGEI) and launched the International Board, becoming China's first factor market open to global investors and the benchmark for the internationalisation of the Chinese market.

TURNOVER OF 1.84 TRILLION YUAN

GOLD TRADING VOLUME WAS 6,500 METRIC TONS

SILVER TRADING VOLUME WAS 21,800 METRIC TONS

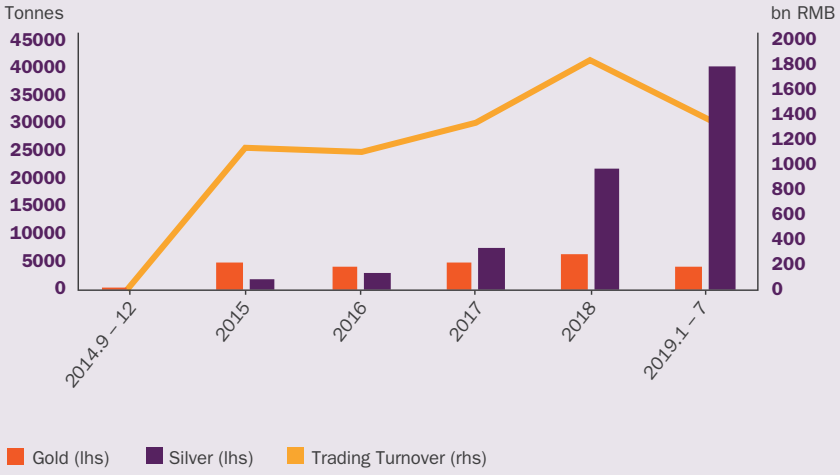
ACCOMPLISHMENTS OF THE INTERNATIONAL DEVELOPMENT OF SGE

1. The trading scale of the International Board has been growing steadily. Since the launch of the International Board, the trading scale has been growing rapidly. In 2018, the International Board recorded a turnover of 1.84 trillion yuan, an increase of 37.77%; gold trading volume was 6,500 metric tons, a rise of 37.09%; and silver trading volume was 21,800 metric tons, representing growth of 195.31%. By the end of July 2019, the turnover of the International Board had reached 1.37 trillion yuan (with still five months of the year to go).

2. Market participants of the International Board have become increasingly diverse. As of August 2019, the International Board has attracted 79 international members and 81 international customers, including large domestic and foreign banks, securities firms and other financial institutions, world-renowned refiners, leading global dealers, and other upstream and downstream customers of the precious metals industry.

3. International co-operation has been comprehensively promoted to seek common development on multiple levels. Taking the International Board as the platform, SGE has actively explored the international market and co-operates with many international exchanges in cross-market business. SGE has signed a Memorandum of Understanding with Hong Kong Exchanges and Clearing Limited (HKEX), Moscow Exchange (MOEX), Budapest Stock Exchange (BSE), among others, and has established communication and exchange channels with Southeast Asia, the Middle East and other markets, seeking all-round co-operation in product development, technological innovation and business expansion. In August 2019, SGE launched the 'Gold Road' project, aiming to efficiently bridge the gap between the manufacturing and processing demand of the international gold market and the processing supply capacity of the Chinese gold market, so as to better realise the effective allocation of supply and demand of physical gold globally.

SGEI TRADING VOLUME



4. The global influence of Shanghai Gold has increased steadily. In April 2016, SGE launched Shanghai Gold, the first RMB-denominated benchmark price for commodities in China.

In the same year, the launch of the Shanghai Gold Futures Contract at DGCX marked the first time that Shanghai Gold was licensed to be used in the international financial market. In October 2019, the Shanghai Gold Futures Contract will be listed on CME, marking its entry into the mainstream international financial market.

The International Board has attracted 79 international members and 81 international customers

THE LAUNCH OF THE SHANGHAI GOLD FUTURES CONTRACT AT DGCX MARKED THE FIRST TIME THAT SHANGHAI GOLD WAS LICENSED TO BE USED IN THE INTERNATIONAL FINANCIAL MARKET

This also indicates the continuous improvement of the global competitiveness of the Shanghai Gold Benchmark Price in recent years.

5. The import and re-export function of the International Board has become increasingly prominent. Since the launch of the International Board, SGE has been committed to optimising the Customs declaration process, improving logistics efficiency, and enhancing the import and re-export function of the International Board. At present, nearly half of the gold has been imported into China through the International Board.

Jeremy East speaking at the launch of the SGEI in 2014.

At the same time, the International Board Certified Vault can also provide convenient storage services for the re-export and processing of gold jewellery. As a result, the International Board has opened up channels for import and re-export for the development of China's gold industry, and has built an integrated market with ample opportunities for international market participants about to enter the Chinese gold market.

KEY POINTS OF THE INTERNATIONAL DEVELOPMENT OF SGE IN THE FUTURE

1. To further develop the 'Gold Road' project and strengthen co-operation among international gold industry chains. Through the storage and logistics services of the International Board trading platform, SGE will continue to serve the co-operation among entities in the international gold industry, facilitate business promotion, optimise business models, and promote the upgrading and transformation of the global gold industry as well as the optimal allocation of capacity.

IN OCTOBER 2019 SGE WILL LAUNCH ANOTHER BENCHMARK PRICE PRODUCT SHANGHAI SILVER

2. To foster business innovation and build well-known brands of precious metals products such as Shanghai Gold Benchmark Price. SGE will continue to steadily foster business innovation, conduct product research and development, and further enrich the product system so as to meet the diversified demands from international investors. In October 2019, SGE will launch another benchmark price product, Shanghai Silver, and develop derivatives centred on existing RMB-denominated benchmark prices such as the Shanghai Gold Benchmark Price and the Shanghai Silver Benchmark Price, so as to give full play to the price discovery function of the RMB gold market and increase the global influence of the RMB gold market.

3. To explore multilevel international co-operation to jointly promote the prosperity and development of the global gold market. Based on existing international co-operation, SGE will actively carry out research on policies, laws and products related to cross-border co-operation; explore multilevel international co-operation through technical support, product design, standard formulation, personnel exchange, etc.; support the building and development of the overseas gold market, and work with international market participants to promote the prosperity of the global gold market.

Wang Zhenying, Ph. D in Law, Research Fellow, President of the Shanghai Gold Exchange (SGE), Vice Chairman of China Gold Association. Before being appointed as the President of the SGE, Mr Wang Zhenying had been working with different departments in China's central bank - People's Bank of China (PBoC), and successively served as the Deputy Director of the Financial Market Management Department and Director of the Financial Survey & Statistics Department of the Shanghai Head Office of PBoC.

In 2016, Mr Wang Zhenying published the *Principles of Trading Economics*, in which he systematically proposed the principles of trading economics, making creative amendments to the mainstream theories of economics. The book is considered to have provided Chinese wisdom and solutions to the evolution of economic theories.

JEREMY EAST: Shining a Light on Asia

Aelred Connelly catches up with Jeremy East, LBMA Senior Advisor for Asia, and asks him about his role and the importance of China in the global precious metals market.

IN EARLIER EDITIONS OF THE *ALCHEMIST* WE'VE HIGHLIGHTED THAT YOU ARE HEADING UP LBMA ASIA FROM YOUR BASE IN HONG KONG. COULD YOU TELL OUR READERS A LITTLE BIT MORE IN TERMS OF YOUR ROLE THERE?

LBMA Asia was set up in response of the growing importance of Asia, especially China, in the global OTC and physical gold markets. China is fast becoming the most represented nation in LBMA in terms of membership and the Good Delivery List (GDL) accredited refiners. In fact, to serve these members better, we now have representation in Beijing and are distributing information in the Chinese language, through our website, brochures and videos, and soon to arrive, our WeChat account.

TO SERVE THESE MEMBERS BETTER WE NOW HAVE REPRESENTATION IN BEIJING AND ARE DISTRIBUTING INFORMATION IN THE CHINESE LANGUAGE

I see the role in Asia as having two main parts: the first is membership and accreditation; the second is engagement, branding and information.

LBMA Asia is the primary point of contact for new and existing members and GDL refiners in the region. We are in contact with more than 300 regional partners and have a strong pipeline of new applicants. There is interest from all sectors of the market, financial institutions, the mining and refining sector, central banks, exchanges and trade associations. In fact, LBMA is in the process of reviewing its current membership structure to better accommodate a wider range of participants.

IN WHAT WAYS DO YOU SEE LBMA HAVING A POSITIVE IMPACT ACROSS ASIA IN THE NEXT THREE TO FIVE YEARS?

LBMA Asia has developed key connectivity with regional exchanges such as the Shanghai Gold Exchange (SGE) and the Hong Kong Exchange, and also with trade associations such as the Singapore Bullion Market Association and the China Gold Association. Through these close-working relationships, LBMA can partner in areas such as responsible gold sourcing, code of conduct, kilobar standards and integrity.

We are able to reach our key local partners either electronically or face to face to explain the importance of LBMA and its key governance, regulatory and supervisory market initiatives. But it is not just the major developed markets that we focus on. As regional markets, especially in Southeast Asia start to develop over the coming years, LBMA can act as a force for good, giving guidance on best practice in areas such as conduct and responsible sourcing.

WHAT IS THE PERCEPTION OF LBMA IN THE REGION?

LBMA now has greater local reach and is widely regarded as a trusted partner. It is seen as the global standard-setter for the purity, form and provenance of gold bars as well as the way they are traded. Its engagement with the market, supporting LBMA key initiatives, is a strong driver of the growing importance of the LBMA brand in the region. Association with LBMA and its principles is a key differentiating factor for market participants in their day-to-day precious metals business and is of increasing important for regional central banks, exchanges and regulators.

LIVING IN HONG KONG IS VERY CONVENIENT FOR YOU IN TERMS OF POPPING ACROSS THE BORDER TO ATTEND THE LBMA/LPPM CONFERENCE IN SHENZHEN. WHAT IS THE SIGNIFICANCE OF SHENZHEN TO PRECIOUS METALS AND HAS THE CONFERENCE GENERATED A LOT OF INTEREST IN THE REGION?

Shenzhen is a real gold city. Although not so well known in the West, it is arguably the most important physical gold location in China, accommodating more than half of the country's total gold imports. The bars typically cross by armoured truck from Hong Kong and are delivered into SGE, and now SGEI, vaults. The gold is then available to the jewellery industry, which is mainly based in the southern region of China.

There has been widespread support and interest in the Conference, not just from the industry but also the regional and local government, for which jewellery is a major contributor to the economy. Another area of interest is from the technology sector. Shenzhen is sometimes called the 'Silicon Valley' of China and is home to companies such as Tencent and Huawei. It is clear that technology is changing the way we lead our lives and we can expect this to impact the precious metals markets in the following years. In fact, my panel at the Conference will focus on the impact of technology and innovation on gold in China.

IN SEPTEMBER 2014 THE SHANGHAI GOLD EXCHANGE (SGE) ESTABLISHED A PHYSICAL GOLD TRADING AND CUSTODY PLATFORM AIMED AT INTERNATIONAL GOLD INVESTORS LAUNCHING THIS PLATFORM AS THE *"SHANGHAI INTERNATIONAL GOLD EXCHANGE (SGEI)"*

YOU MENTIONED SGEI, IS THAT A PART OF SGE?

In September 2014, the SGE established a physical gold trading and custody platform aimed at international gold investors, launching this platform as the *"Shanghai International Gold Exchange (SGEI)"*.

Organisationally, the SGEI is a fully-owned subsidiary of the SGE and is registered in the Shanghai Free Trade Zone (FTZ). It's particularly significant this year as its the fifth anniversary of the formation of the SGEI.

The SGEI has developed into an important market allowing the international gold community access to China.

WHAT ELEMENTS OF THE WORK OF LBMA ARE VALUED AND WHAT SERVICES WOULD THE MARKET HERE LIKE US TO OFFER IN THE FUTURE?

As most of the regional gold markets are physical, LBMA's work in areas such as responsible sourcing, kilobar standards and integrity are of key importance. Related to this, the market would benefit from the greater transparency and security that would result from a reliable database. LBMA has been investigating various initiatives to strengthen the security aspects of physical gold bars and the market would expect to see progress in this area.

THIS YEAR WE CELEBRATE THE CENTENARY OF THE GOLD PRICE. HOW IMPORTANT IS THE BENCHMARK REGARDED IN ASIA?

A large part of the Asian gold market is physical; therefore, access to the benchmark is key for the day-to-day business, as physical bars are often priced against OTC Loco London, either at a premium or a discount. The London benchmark is widely used as the main pricing mechanism in the offshore gold market.

IT'S PARTICULARLY SIGNIFICANT THIS YEAR AS ITS THE FIFTH ANNIVERSARY OF THE FORMATION OF THE SGEI

The onshore China gold benchmark, whose development I was closely involved in, is the key price mechanism used in the local China market, as it offers a transparent, reliable and well-governed price.

The other benefits of benchmarks are that they facilitate the market for financially settled products such as options, non-deliverable forwards, swaps and structured products, which are particularly popular in Asia.

WHAT ARE THE MAJOR DEVELOPMENTS IN THE REGIONAL MARKET AT THE MOMENT?

1. The link between LBMA in London and the SGE in Shanghai is not widely appreciated. China imports c. 100 metric tons per month of physical gold bars, equating to 25% of annual global gold production. These bars are produced by LBMA accredited refiners. LBMA is working closely with the SGE on global standards for kilobars.

2. The SGE has several new initiatives:
   - Modernisation: to develop and grow the forward and derivative markets in China. The aim is to support the growth of structured and investor products for both professional investors and also access the huge growth pool of asset management investment funds. Gold is seen positively in China as an attractive, potentially high-yielding (high-volatility) product.
   - Internationalisation: to grow the international board of the SGE (SGEI) by encouraging participation from offshore players. The SGEI now has more than 70 members, who include many LBMA members and accredited refiners. The SGEI gives access to both onshore and offshore products traded on the exchange.
   - Co-operation: the SGE is increasing its global connectivity by linking its products with offshore markets. By doing this, the Exchange is increasing theinternationalisation of the RMB and the importance of the Shanghai gold price. The exchange recently announced the launch of a Shanghai gold contact with the CME, and it already has connections with exchanges in Dubai, Russia and Hungary.

ARE YOU SEEING AN INCREASE IN THE CONSUMPTION OF GOLD IN CHINA, PARTICULARLY JEWELLERY?

China remains the largest single consumer of physical gold globally, with estimated annual demand of approximately 2,000 metric tons. This year, it is expected that gold consumption will be slightly higher than last year, driven by jewellery and also investor demand in the face of RMB depreciation.

China is also the largest gold producer in the world, producing approximately 450 metric tons per year. However, largely as a result of heightened environmental control, this year production is expected to fall by approximately 5%, with the shortfall to be made up by imports from the international markets.

IN THE PAST, IT'S BEEN VERY DIFFICULT TO GET A HANDLE ON THE SIZE OF THE CHINESE OFFICIAL GOLD RESERVES. ARE WE HEADING TOWARDS GREATER TRANSPARENCY OR WILL WE HAVE TO KEEP ON WORKING FROM ESTIMATES?

China has become much more transparent in relation to its gold reserves. At the end of 2018, China held 1,852 metric tons. So far this year, the central bank has been buying gold, with its reserves increasing at around 10 metric tons a month. China is officially the sixth-largest holder of gold globally; however, China is not the only central bank that is buying gold. The total official gold reserves have increased by approximately 375 metric tons in the first half of the year.

At the end of 2018, China held 1,852 metric tons

Jeremy and Chairman Jiao of SGE.

Aelred Connelly, PR Officer, LBMA
Aelred joined the LBMA in September 2011. He provides support to the Chief Executive in the administration and organisation of the Association's Public Affairs. He is responsible for Press enquiries, is the editor of the *Alchemist* as well as contributing to other LBMA publications, provision of the website and support for LBMA events.

Prior to joining the LBMA, he worked at the Bank of England for more than twenty-five years, the last five as an analyst in the Bank's gold bullion department.

Our reputation for integrity and excellence as well as our longstanding history as one of the world's leading refiners has seen Rand Refinery receive global accreditation, international referee status and ISO certification.

Rand Refinery is committed to internationally accepted responsible sourcing practices and as such is in conformance with the LBMA Responsible Gold and Silver Guidance and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas.

Not only do we ensure we meet the strictest standards we set for ourselves, our certified gold and silver chain-of-custody is independently audited to heed to the requirements set by independent bodies and recently enacted legislation.

RAND REFINERY

www.randrefinery.com

LBMA NEWS

LBMA-i TRADE REPORTING

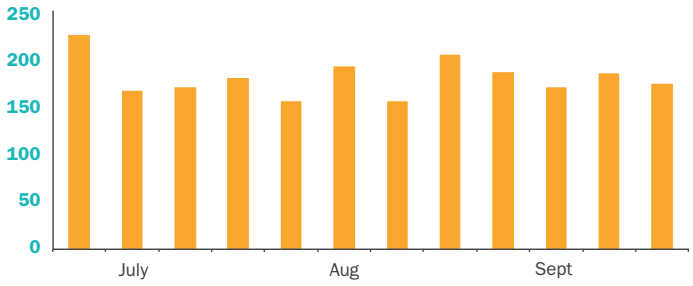
In the last issue of the *Alchemist*, we reported that the 12-week moving average (for the period to 7 July 2019) for gold was 160.1 million ounces. The weekly numbers continue to grow and the latest 12-week moving average (for the period to 15 September 2019) is now 180 million ounces.

WHY THE DATA IS IMPORTANT

LBMA-i market data makes it possible for market participants to gauge the size, shape and liquidity of the OTC market as represented by LBMA members.

It also helps support LBMA's dialogue with regulators on such matters as NSFR, where we are working closely with key stakeholders to gain a full exemption for precious metals and clearing.

GOLD - TRADE REPORTING DATA - WEEKLY AVERAGES (MILLIONS OUNCES)



The chart shows the weekly average volume of gold trade reporting data for the 12-week period to 15 September, 2019.

Redefining LBMA

As part of its three-year plan, LBMA is working with a brand specialist agency, LIDA, to enhance its communications strategy. The project will assist LBMA in shaping its key messages and its value proposition as effectively as possible.

The goal will be to ensure that LBMA can provide the best service to all stakeholders and engage the wider audience in the positive work that is being done in the market. We recently invited members to provide comments and feedback, and we would like to thank you all for doing so, as it has proved invaluable. We are expecting to receive the conclusions of the review before the end of the year.

Responsible Sourcing – Introductory Training Module

LBMA together with the Responsible Minerals Initiative (RMI) and the Responsible Jewellery Council (RJC) have developed an introductory training module focused on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. You can find the Training module in the media centre on our website (under webinars).

2019 LBMA Charitable Donations

LBMA would like to invite members to nominate charities that could benefit from the annual fund that LBMA sets aside each year for charitable donations, particularly those that members may be directly associated with. LBMA usually splits the fund between two or more charities.

Please send your nominations by 15 November to **aelred.connelly@lbma.org.uk**

JOIN THE LBMA PRICE AUCTIONS

The Gold Price celebrates its 100th birthday this year and we have already held a number of events to celebrate the occasion, with the black-tie dinner on 3 December still to come. Back in 1919, there were just five participants in the auction, but since IBA became the independent administrator in 2015, the number has trebled to 15 participants. As we look to the next 100 years of the Gold Price, LBMA would encourage any members or Associates to join the auctions, using the contact details below.

- Gold or silver price auctions, ICE Benchmark Administration: IBA@theice.com or +44 (0)20 7429 7100, or
- Platinum and palladium auctions, LME: market.access@lme.com or +44 (0)20 7113 8888.

My LBMA

Recently, we've stepped up our engagement with members through holding more webinars and the launch of a weekly Newsletter to keep everyone in the loop on the latest market developments and news.

As announced in the last issue of the *Alchemist*, we are encouraging all of our members and other key contacts to sign up for an account with MyLBMA. This is where our members can find a new and secure members-only area, in addition to other sections available to all of our stakeholders. As we develop MyLBMA, our online users will get more relevant and targeted content, so keep a look out for more improvements.

MyLBMA FEATURES INCLUDE:

Secure online access Committee members can access papers and minutes securely.

An easy and convenient way to manage your LBMA subscription preferences, including receipt of our key publications and ability to update your contact details and profile.

Tailored content to reflect membership type, including news updates, regulatory briefings, upcoming events, as well as the ability to download branding guidelines and member/refiner logos.

Web-based applications for membership and Good Delivery accreditation.

View any invoices from LBMA relating to subscriptions or registration for our events.

FOR YOUR UNIQUE REGISTRATION LINK TO THE PORTAL, PLEASE EMAIL
emmy.richardson@lbma.org.uk

103 ACCREDITED REFINERS

We now have **103 refiners** on the Good Delivery Lists, with **69** listed for gold, **83** listed for silver and **49** refiners on both lists.

69 GOLD

83 SILVER

CURRENT APPLICATIONS

There are currently 6 active Good Delivery applications.

GOLD AND SILVER Held in London Vaults

As at the end of May 2019, there were **7,627** tonnes of gold valued at **$317.7** billion and **35,835** tonnes of silver valued at **$16.7** billion. This equates to approximately **610,130** gold bars and **1,194,487** silver bars.

LBMA MEMBERS

We currently have 142 member companies – 86 Full Members (including 12 Market-Making Members and 12 Affiliates), three Exchange Affiliates and 53 Associates.

LBMA OUTREACH

The LBMA Executive has participated at a number of industry events recently, a selection of which are highlighted below.

Recent Event Summary

6 September – Webinar Sakhila Mirza and Ian Warman, Head of Precious Metals Trade Management Unit, Standard Chartered Bank and Chair of the Physical Committee, discussed LBMA's gold bar integrity programme of work. They reflected on the project over the last 18 months, which has been looking at the supply chain provenance risks as well as exploring how a security feature can be embedded in a gold bar to provide more confidence when trading gold bars. If you missed it, you can watch it in the media centre on our website (under webinars).

12 September Ruth spoke on Bloomberg TV about the centenary of the Gold Price on the morning prior to the reception at Rothschild & Co. Ruth explained the significance of the price and current workstreams such as how trade reporting data supports our arguments in respect of NSFR (see page 35 for more details).

9-13 September Sakhila Mirza and Neil Harby attended Platinum week in New York. Sakhila appeared on Bloomberg radio, Neil spoke at the IPMI Chapter, and both attended networking events throughout the week. The focus was very much on Gold Bar Integrity initiatives and how technology can assist LBMA with ensuring that the integrity of the industry is maintained.

18-21 September Paul Fisher and Ruth Crowell attended a series of meetings in Tokyo with our Japanese membership, hosted by Tanaka, to see how LBMA can continue to support them and the regional market.

UPCOMING INDUSTRY EVENTS

16-18 OCTOBER:
Executive Programme in Gold Reserves Management

Tsinghua University PBC School of Finance, Haidian District, Beijing

This is a joint initiative between the Tsinghua University PBC School of Finance and the World Gold Council. Jeremy East will be delivering a presentation on the global OTC market.

27-31 OCTOBER:
LME Week

London

LME Week is the annual gathering of the global metals community in London. Representatives from the entire supply chain meet to discuss current trends in the metals markets and what to expect for the year ahead, and to network with industry peers and colleagues.

The London Metal Exchange hosts two official flagship events, the LME Metals Seminar and the Annual Dinner.

11-12 NOVEMBER:
Precious Metals Summit Zurich

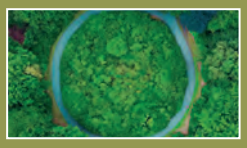
Park Hyatt Zurich

3 DECEMBER:
LBMA's Centenary of the Gold Price Seminar and Dinner

Goldsmiths Hall

Dinner from 18:30. The details relating to the seminar earlier in the afternoon will be announced in the near future.

27 MARCH 2020:
LBMA Responsible Sourcing Strategy Forum, London



Save the date – details to follow.

11-13 OCTOBER 2020:
LBMA/LPPM Global Precious Metals Conference

EPIC SANA Lisboa Hotel, Lisbon, Portugal

A Price BENCHMARK for the Ages

BY RACHEL M. HARVEY, PHD, ADJUNCT ASSOCIATE RESEARCH SCHOLAR WITH THE CENTER ON GLOBAL ECONOMIC GOVERNANCE, COLUMBIA UNIVERSITY

We reproduce here the speech which Rachel delivered on 12 September, 2019 at the reception to commemorate the centenary of the London gold price. Fittingly it was held at the fourth New Court, the offices of Rothschild & Co in the heart of the city, built on the site of the second New Court where the gold auction took place for much of the last 100 years.

It is a both a pleasure and honour to be here. I first encountered the London Gold Fix in Timothy Green's books 20 years ago, or the LBMA Gold Price as it is currently known. Since then, I have spent a great of deal of time both researching and writing about the history of this auction. I never imagined that when I began my research that I would be here on its centenary. My excitement has been so great that my friends have had to listen to me talk about this event – more than once. As might be expected of good friends, they were very happy for me. At the same time, I know they were slightly perplexed by the idea of a gold price having a birthday party.

As I prepared for this talk, I reflected on my friends' genuine curiosity about this event and the questions it raised about the significance of the LBMA Gold Price and its historical antecedent, 'the Gold Fix'. Taking their perspective – and they are people who have little knowledge of the LBMA Gold Price – I heard them saying: "You can find gold prices everywhere – from the shops with 'We Buy Gold' signs to gold industry focused websites. What makes this one different?"

My answer to their question has two parts. First, over the last 100 years, this small but mighty auction has played important roles in the global financial system. Second, in these roles, it has produced a publicly visible, prominent and trusted price, whose significance has extended far beyond the transactions upon which it was based.

THE FIRST WORLD WAR WAS OVER AND THE BANK WAS FOCUSED ON RE-ESTABLISHING THE GOLD STANDARD AS WELL AS THE INTERNATIONAL IMPORTANCE OF THE CITY OF LONDON AND POUND STERLING

I will elaborate on these 2 points as I provide a broad overview of the history of this auction, with a particular focus on the development of the ritualistic form that it has been associated with for much of the 20th century.

Our first historical stop – and a very fitting one for a birthday celebration – is the start of the auction in 1919. At that time, the First World War was over and the Bank of England (the Bank) was focused on re-establishing the Gold Standard, as well as the international importance of the City of London and pound sterling. As part of these objectives, the Bank felt it was critical to ensure that the London gold market, which was closed during the war, be returned to its pre-war stature. Toward this objective, the Bank arranged for the world's largest gold producer – South Africa – to market its gold in London (Ally 1994). It then asked the firm acting as the agent for the South African gold producers, N M Rothschilds & Sons – or 'Rothschilds' – to chair the market in which this precious metal would be sold.

A key question that needed to be resolved was what form the market would take. It was within this context that an important conversation occurred on 6 August 1919. On this day, Anthony de Rothschild, a Rothschilds managing partner, was invited to the Bank to meet with Governor Sir Brien Cokayne. During their conversation on the marketing of South African gold, the Governor expressed what he wanted the market to look like:

> **"AN OPEN MARKET FOR GOLD IN WHICH NOT ONLY EVERY SELLER WOULD KNOW THAT HE WOULD RECEIVE THE HIGHEST PRICE THE WORLD COULD PAY, BUT ALSO EVERY BUYER WOULD KNOW THAT HE WOULD GET HIS GOLD AS CHEAPLY AS THE WORLD COULD SUPPLY IT."[1]**

In this simple statement was a core principle about the auction that has been consistent across the past 100 years. All gold on offer was to be transacted at the same publicly visible price, and on the same terms. These elements contrasted with transactions in the over-the-counter gold market, or OTC market, whose price and contract terms were individually negotiated and private. By having an auction where the price and terms were public, buyers and sellers could trust that they would get the best deal from the existing order flow. It was these conditions established by the Governor that would distinguish the auction and its price for decades to come.

The Governor's wishes came to fruition on 12 September 1919. At around 11:00 am on that morning, Rothschilds settled on the opening price of 98s/6d, based on the main factor impacting gold prices at the time – the dollar-sterling exchange rate. The brokers were then notified by phone and asked to place their orders. The participating brokers were bullion firms whose names would become synonymous with the auction in the coming decades: Mocatta & Goldsmid, Samuel Montagu & Sons, Sharps & Wilkins and Pixley & Abell (the latter two merged in 1957 to become Sharps Pixley & Co). Additional phone calls might have been made that day to adjust the price to accommodate the existing order flow, but at the end of the process, all gold was transacted at a single price of 98s/8d (Green 1978).

Watercolour of the second New Court.

Much like a newborn, at its birth, the auction did not look like its more mature form. The ritualistic quality associated with the auction for most of the 20th century was absent at the first meeting. These features would emerge slowly over the next 20 years. The first step in this development began a few weeks later. Rothschilds still arrived at the opening price based on the dollar-sterling exchange rate, but now the participating bullion brokers came to Rothschilds' offices. At 11:00 am, everyone would enter a room at New Court with their orders in hand, and they needed to remain in the room for the duration of the auction if they wanted to purchase gold. At first, only Mocatta & Goldsmid was a regular participant. In time, the other firms began to participate in the auction each day and, by 1925, all four bullion brokers were regular attendees.

> **ANOTHER DEVELOPMENT DURING THE 1920S WAS THE ADDITION OF A SINGLE PHONE – PERHAPS AROUND 1923**

By 1926, the refiner Johnson & Matthey was also invited to join the auction.

Another development during the 1920s was the addition of a single phone – perhaps around 1923. This allowed the participants to have contact with their firms during the auction.

THE FIXING ROOM AT ROTHSCHILD'S, NEW COURT

This gradual development of the auction continued in the 1930s. The decoupling of the pound from gold on 21 September 1931, the collapse of the post-First World War gold standard, worldwide economic depression and monetary uncertainty lead to a period of unprecedented turnover, volatility and price levels in what was now a free gold market in London. The resultant price fluctuations meant that brokers needed to be in communication with their firms to see how these movements impacted their order flow. With only one phone in use, the brokers had to "queue up in order to use it".[2] It is not surprising that additional phones were added – perhaps in 1933.

1. Bank of England Archives (BEA), C40/360/90, Sir Brien Cokayne's notes on a meeting with Anthony G. de Rothschild, 6 August 1919. **2.** BEA, C43/661/172, Letter to J.B. de K Wilmot, South African Reserve Bank, from L.T.G. Preston, Bank of England, 10 August 1955.

In the 1930s, the stature of the auction and its price expanded. Comments written in 1938 by a Bank staff member express this point:

> GRADUALLY THE LONDON GOLD FIXING ASSUMED INTERNATIONAL IMPORTANCE AND FROM 1934 ONWARDS WE WERE FORCED TO INTERVENE TO AN INCREASING DEGREE IN THE BULLION MARKET… THE CURRENT LONDON GOLD PRICE HAS BECOME OF PARAMOUNT INTEREST AND THE FIXING PRICE IS REGARDED BY OTHER CONTROLS AND THE GENERAL PUBLIC AS THE KEYSTONE OF THE SYSTEM.[5]

What is captured in this quote is how the economic and monetary uncertainty of the 1930s increased the auction's importance. In their efforts to stabilise currencies and exchange rates, the Bank and other financial authorities intervened in the auction. As a result, the significance of the auction further increased as did its public visibility.

The stature achieved by the auction during the 1930s extended beyond this decade. When plans were being made to reopen the auction nine years after the end of the Second World War, the Bank still wanted it to be the only publicly visible market clearing price denominated in pounds. Yet it also considered making dramatic changes in the auction's organisation. For a variety of reasons, such as expediency, these plans never came to fruition. One factor behind this outcome that is particularly relevant to why we are here today is expressed in comments by a Bank staff member in January 1954:

> PARTICIPANTS WOULD, HOWEVER, YELL "FLAG" TO SIGNAL THAT THEY WANTED TO PAUSE TRADING

> WE MAY HAVE TO FACE SOME CRITICISM FROM OUTSIDE ON THE GROUNDS THAT WHATEVER THE SHAPE OF THE MARKET WAS PRE-WAR IT WORKED. MOREOVER, IT WAS PERFECTLY RESPECTABLE AND GENERALLY ACCEPTED IN THE CITY. WE MAY, THEREFORE, BE CALLED UPON TO EXPLAIN WHY SUCH RADICAL ALTERATIONS ARE NECESSARY.[6]

Another change was that the auction found a permanent home in New Court when it moved into a conference room that in the future would be known as the 'Gold Fixing Room'.[3]

For those of you familiar with the older form of the auction, you have likely noticed that an important feature is still missing – the flags. Initially, these were not used in the auction. Participants would, however, yell "flag" to signal that they wanted to pause trading.[4] In the late 1930s, George Matthey, a director and descendant of one of the founders of Johnson Matthey, suggested that each participant should have an actual small Union Jack flag before them to use when they wanted to halt proceedings to confer with their trading room (Green 1978).

By the time the auction was closed due to the outbreak of the Second World War, the ritualistic elements that characterised it for most of the 20th century were well established.

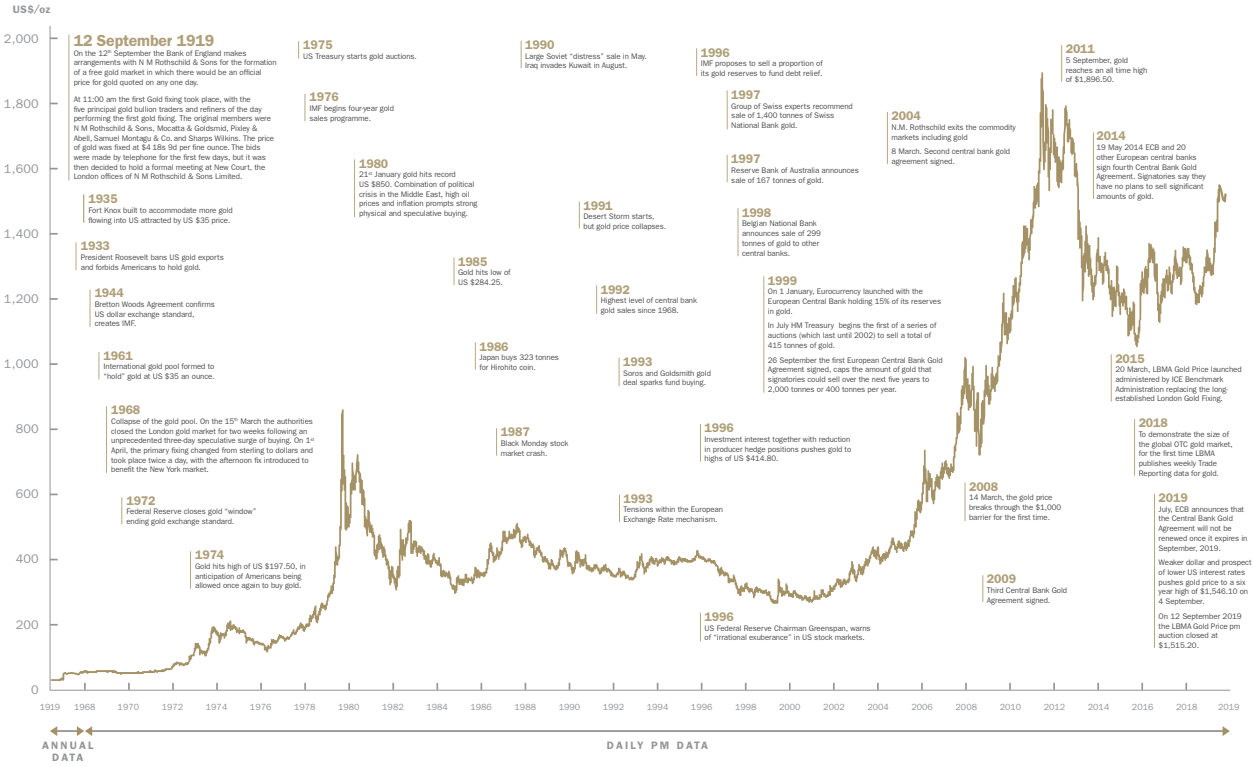
The availability of archival documents and periodicals that provide detailed information about what some might consider to be the minutia of this auction hints at its historical importance. From its inception, the auction was clearly important to the Bank.

> ANOTHER CHANGE WAS THAT THE AUCTION FOUND A PERMANENT HOME IN NEW COURT WHEN IT MOVED INTO A CONFERENCE ROOM THAT IN THE FUTURE WOULD BE KNOWN AS THE 'GOLD FIXING ROOM'

3. Ibid. **4.** The Times (London), "Those Gold Market Flags" 17 March 1960. **5.** BEA, C43/142/50, "Gold Market: Exclusive Relations with Rothschilds", 24 August 1938. **6.** BEA, C43/159/5, "London Gold Market", 8 January 1954.

LBMA

GOLD PRICE CENTENARY 1919 – 2019



LBMA have updated the chart produced by Rothschild & Co. to celebrate the 80th anniversary of the gold price. This updated chart features the price and key events over the last 100 years.

Almost 15 years after its closure, the stature of the auction and trust in its price were so great that any alternations in its form would have raised questions. In the end, the Bank's decision paid off as the reopened auction worked "quietly," "efficiently" and had "quite a reasonable volume of business".[7]

Unlike the 1930s, the auction was not a free market and UK residents were banned from owning monetary gold. This did not mean that the auction was unimportant in the post-Second World War era. Gold and the US dollar were at the heart of the post-World War II international monetary arrangements known as "Bretton Woods". By the 1960s, the overseas commitments of the United States and its growing deficit led to increasing doubt worldwide that the country could maintain the US$35 dollars per ounce of gold parity level at the centre of the Bretton Woods arrangements. This first manifested in the auction on 25 October 1960, when its price increased to $38.00 (270s). These events and the worldwide concern and attention they garnered, signalled how the price was acting as a barometer for international confidence in the US dollar. In an effort to create international monetary stability, eight central banks[8] – possessing nearly 80% of the world's gold reserves – created a 'gold pool' that the Bank could use to buy or sell gold in London in order to counteract speculative attacks on the US dollar. The Gold Pool operated successfully until March of 1968. At this point, the speculative attacks became so great that the Pool was losing too much gold. On 15 March 1968, the US government requested that the UK Treasury close the London gold market. Comments by a Bank staff member on why the auction was to be closed capture its importance and the trust placed in its price:

> **"THE OBJECTION TO THE LONDON MARKET REMAINING OPEN SEEMED TO STEM FROM THE FACT THAT LONDON HAD ALWAYS BEEN REGARDED AS A WELL-ORGANIZED AND RESPECTABLE MARKET AND THAT THE LONDON FIXING PRICE WAS A "THERMOMETER" IN RELATION TO GOLD. THERE WAS A FEELING THAT IF THE THERMOMETER WAS BROKEN THE TEMPERATURE WOULD NOT BE KNOWN."[9]**

These events marked the beginning of the end of the Bretton Woods arrangements and were the start of a new era for the auction and its price.

The auction reopened two weeks later on 1 April 1968. It was now part of the free section of what was an international two-tier gold market. Unlike the tier used by financial authorities to trade gold at the $35.00/ounce parity level, the auction's price would be allowed to fluctuate according to supply and demand only. During the enforced closure, the auction's participants made some changes. There would now be two auctions – one at 10:30 am and the other at 3:00 pm. The afternoon auction was established for the Canadians, Americans and South Americans, who preferred to see the state of the market "when they were awake".[10] In addition, the

6 ▶ 55

With the end of currency controls in 1979 the number of firms active in the London market increased from six to more than 55 by 1985

7. BEA, OV48/13/137, "Copy of the Governor's Letter to Mr. Towers", 29 March 1954. **8.** West Germany, France, Italy, Belgium, the Netherlands, Switzerland, the United Kingdom and the United States. **9.** BEA, OV53/38/78, "Closing the London Market", 18 March 1968, L.T.G. Preston. **10.** BEA, 3A139/1/80, Miscellaneous note, approximate date is 29 March 1968.

benchmark price would be a dollar price for gold. This change simply reflected the fact that the auction had been a de facto dollar market for quite some time even if the initial price it produced was quoted in pounds.

In addition to the structure of the auction, trading conditions within it also changed. During the 1960s, the auction's participants were primarily buyers, with most of the gold coming from the South Africans or the Gold Pool via the Bank. In the new era, the bullion firms now arrived with both buy and sell orders.

These changes occurred within a dramatically shifting gold market landscape. During the auction's two-week closure, several countries removed restrictions on their residents owning and trading gold, and some even created their own fixings. This trend was to continue over the next decade as a round-the-world, round-the-clock gold market emerged as gold was demonetised, restrictions on gold ownership lessened and foreign exchange controls decreased. These factors also spurred growth in the London gold market. With the end of currency controls in 1979, the number of firms active in the London market increased from six to more than 55 by 1985. The number of firms participating in the auction was still limited to five, but the nationalities of the participating companies started to change. By 1993, only two firms of British origin had seats in the auction, with the other three hailing from the United States, Germany and Hong Kong.

With these changes, the auction was now part of a tightly interconnected network of gold dealing centres spanning the globe. Participants in the auction during the closing decades of the 20th century were well aware of this.

Acting for a firm in the auction did not require great trading skills, but the individuals present recognised that it was a public venue and they were representing their firms.

It was a more formal affair with jackets being worn and an expectation of decorous behaviour. Participants also had an awareness that their London colleagues were not the only ones watching them. The auction was the centre of organisational and trading networks spanning the world. It was not simply that fabricators, central bankers, mining companies or even the general public used the auction's price as a reference point for their valuations or in pricing their own transactions. The transactional price benchmark was used in derivate contracts and could even be part of arbitrage strategies involving the auction and markets in New York and Hong Kong. Gold might have been demonetised and there was a 24-hour a day spot market, but the auction and its price continued to play a significant role in the global financial system.

TO ROUND OUT THIS BREAKNECK-SPEED JOURNEY THROUGH THE AUCTION'S HISTORY THE FACE-TO-FACE AUCTION DISAPPEARED IN 2004 WHEN IT WAS MOVED TO A CONFERENCE CALL

To round out this breakneck-speed journey through the auction's history, the face-to-face auction disappeared in 2004 when it was moved to a conference call. The only reminder of its ritualistic past was participants using the world "flag", followed by their firm's name, to pause trading. Perhaps somewhat ironically, its telephone-based form represented a return to the auction's origins. There was an additional element that stretched across the previous 85 years as well. As had occurred on 12 September 1919 and as would continue to occur over the next 15 years – a single price based on transactions conducted on the same terms was the essential principle structuring the auction. Through economic depression, a world war and dramatic changes in the global financial system, this one feature was a critical underlying principle behind the creation of a trusted and reliable price benchmark for the ages.

The gold fixing in action. Left to right: Keith Smith (Mocatta), Patrick Smith (Samuel Montagu), Alan Baker (Sharps Pixley), Alistair Christmas (Rothschild) and Dick Gazmararian (Republic Bank of New York). Circa 1992

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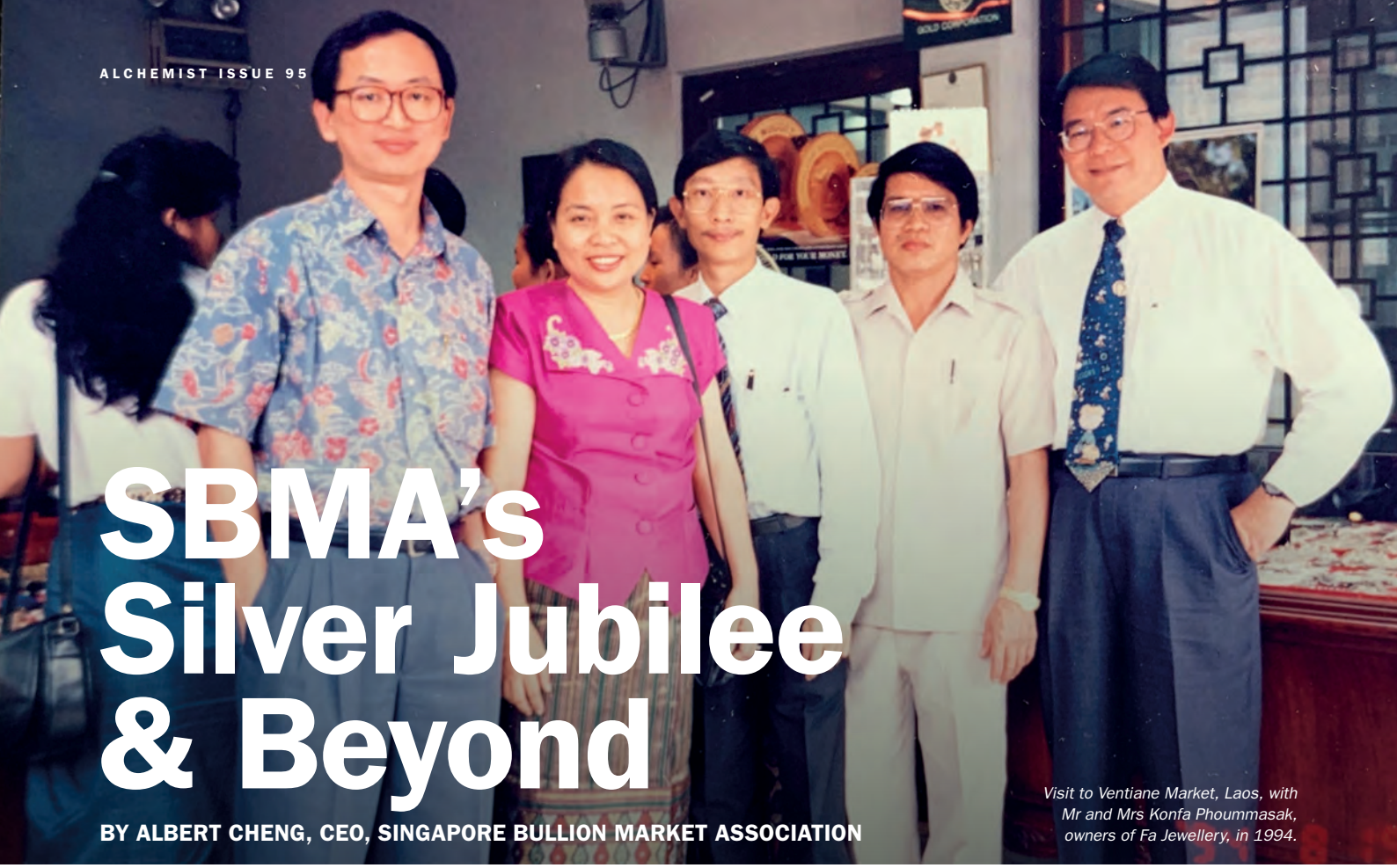
Rachel M. Harvey, PhD is an Adjunct Associate Research Scholar with the Center on Global Economic Governance, Columbia University. She received her PhD in sociology from the University of Chicago. She is a Fellow with the *Framing the Global Research and Publication Project*, Indiana University. Her publications include *Money, Markets, and Struggles against the State: Reframing the Global and the Particular* (forthcoming, Indiana University Press) and "The Legal Construction of the Global Foreign Exchange Market" (2013, Journal of Comparative Economics).



SBMA's Silver Jubilee & Beyond

BY ALBERT CHENG, CEO, SINGAPORE BULLION MARKET ASSOCIATION

Visit to Ventiane Market, Laos, with Mr and Mrs Konfa Phoummasak, owners of Fa Jewellery, in 1994.

This year, the Singapore Bullion Market Association (SBMA) celebrates a significant milestone – our silver jubilee. What started as an informal association acting on behalf of the bullion community, which only met occasionally for business networking, now plays a pivotal role in the development of Singapore as an ASEAN precious metals hub.

This journey has been a long but exciting one, and it would have not been possible without the support of industry stakeholders and our members.

In 1993, at the age of 40 and after eight exciting years with the Royal Canadian Mint in Asia, I emigrated with my family to Singapore to take on the position of Regional Manager at the World Gold Council. While engaging in market development work there, I joined SBMA at its inception as its honorary secretary.

AFTER EIGHT EXCITING YEARS WITH THE ROYAL CANADIAN MINT I EMIGRATED WITH MY FAMILY TO SINGAPORE

This was the start of my decades-long involvement with the association, which continued even after I left the World Gold Council.

In 2015, I was invited to lead the revival of SBMA and champion Singapore as a gold hub for ASEAN and beyond, again on an honorary basis, with the help of a small team. This has been a role in which I have been very happy to contribute by growing the sector in both Singapore and the region, as well as grooming the next generation of market development professionals.

SBMA'S ORIGINS

SBMA was formally registered as an association in December 1993 with an initial membership of 16 corporate members from the precious metals industry. In early 1994 SBMA began to engage with the Goods & Services Tax (GST) Working Committee in discussions relating to the exclusion of GST on precious metals and to develop Singapore as a bullion hub for the Asia Pacific region.

From its inception, we contributed to discussions and deliberations between the bullion community and the Inland Revenue Authority of Singapore (IRAS). We convinced IRAS to exempt re-exported physical gold bars from GST through a special scheme available to qualified bullion banks and houses, which took effect on 1 April 1994.

The long bear market in the late 1990s, which led to the departure of key personnel in the gold industry and the closure of gold desks at many international bullion houses and banks, rendered SBMA inactive from 2000 to 2008, although it remained a registered association. However, in the advent of the financial crisis in 2008 and its aftermath, there were growing activities in the bullion market and players that had left the market re-entered Singapore and became active again.

WE CONVINCED IRAS TO EXEMPT RE-EXPORTED PHYSICAL GOLD BARS FROM GST THROUGH A SPECIAL SCHEME

REVIVAL OF SBMA

In February 2012, Singapore said it would exempt investment-grade bullion and precious metals (IPM) from GST (currently 7%) to encourage the growth of refining, trading, clearance, custodian/storage services, market-facing institutions and retail investors in the country's bid to become a gold hub. The market took the announcement positively, and the bill, which exempted IPM from GST, came into effect on 1 October 2012.

This was the result of extensive efforts initiated by government agency IE Singapore, the predecessor of Enterprise Singapore, which engaged with members of the bullion community such as the World Gold Council, commercial banks and bullion houses as early as 2010 to look for ways to develop Singapore as a hub for financial market activities such as oil and precious metals.

SBMA celebrates its 25th anniversary during the Gala Dinner at the 3rd APPMC in 2019.

With the support of IE Singapore, the World Gold Council and key bullion players took the lead to revive SBMA and engage with various government agencies and the international bullion market in pursuing the proposition of developing Singapore into a global gold-trading hub alongside London and Zurich, amid strong Asian demand.

It was not until 2015 that SBMA had its first full-time staff and its own offices. Prior to this, the association's secretariat and registered address was the World Gold Council's Singapore office.

SBMA TODAY

SBMA currently has 46 corporate members and our membership base is still growing. SBMA's nine-member Management Committee is elected at the Annual General Meeting (AGM) for a two-year tenure and meets once a month.

Industry milestones since our relaunch include the 2010 opening of the Singapore Freeport, a free trade zone at Changi Airport that facilitates the storage and movement of gold, the lifting of GST on investment precious metals in 2012 and the opening of Metalor Technologies Singapore, the first world-class bullion manufacturing and refining facility in the country.

Our annual Asia Pacific Precious Metals Conference (APPMC) has been well attended since its inaugural edition in 2017 and this year's conference welcomed more than 390 delegates from 182 companies and 27 countries, including a contingent of more than 100 from China and Hong Kong. Additionally, the conference saw sizeable participation from industry counterparts in Australia, the world's second-largest gold producer and one of the largest suppliers to Asia's hungry gold markets.

46

CORPORATE MEMBERS

AND OUR MEMBERSHIP BASE IS STILL GROWING

US$600 BILLION

IN TRADE BETWEEN CHINA AND ASEAN ANNUALLY

The strong turnout by the international bullion community this year reflects the vibrant regional market and growing role Singapore has in connecting regional players with international markets. In particular, the response to the first Kilobar Pavilion, in which 10 gold refiners displayed and marketed their kilobars, was a strong indicator that Singapore has become an important marketplace for global precious metal market players.

SBMA'S 25TH ANNIVERSARY

The third APPMC, held in June 2019, was also an opportunity for SBMA to celebrate its 25th anniversary with our members and other key industry stakeholders. Marking this occasion was SBMA's founding Chairman and former Global Head of Precious Metals at TD Bank, Tim Gardiner, who delivered the conference's opening address alongside Martin Huxley, SBMA's current Chairman.

The topics that garnered the most discussion included the effects that the ongoing US-China trade war will have on this sector, the changes that digital gold is bringing to the industry and the role of gold in investment portfolios. In line with the theme of the conference, environmental, social and governance issues in the precious metals sector were also discussed in detail, with the session on revolutionising the precious metals supply chain providing lively debate on responsible mining and responsible sourcing, as well as the challenges refiners face when addressing these issues.

Participants also discussed the possibilities and opportunities for increased regional connectivity and mutual benefits in the gold jewellery and financing sectors between China and Southeast Asian countries. There is already US$600 billion in trade between China and ASEAN annually, and there is growing investment in ASEAN by China.

LOOKING AHEAD

According to Enterprise Singapore data, the volume of gold traded out of Singapore reached 1,600 tonnes in 2017 and the industry has recorded a CAGR of 24% since the lifting of GST in 2012.

Our vision is for Singapore to be a global financial and physical trading hub for precious metals – the most vibrant one in Asia, with the respective strengths of London and Zurich. Our mission is to assist member companies in business, commercial and economic activities, promote them commercially, facilitate research and the exchange of commercial and academic knowledge about the gold market, and monitor gold market developments.

SBMA will continue to work with stakeholders on introducing a benchmark gold price in an Asian time zone to cater to the region's gold market and help build Singapore into an efficient trading, clearing and storage centre that attracts key players in the international bullion community.

BUILD SINGAPORE INTO AN EFFICIENT TRADING CLEARING AND STORAGE CENTRE THAT ATTRACTS KEY PLAYERS IN THE INTERNATIONAL BULLION COMMUNITY

This is a big step forward that requires the support of the authorities and the co-operation of key bullion players in the region.

With Singapore at the forefront of digital financial services in the region, we hope to engage stakeholders – both regulators and users – to promote the use of physical gold as a tangible asset to back the units created in the crypto space.

We are also in discussions with key gold jewellery manufacturers in China (the biggest in the world) to use Singapore as a hub to connect to the consumer base in Southeast Asiaand beyond, and to service countries along the Belt and Road route.

ENGAGE STAKEHOLDERS – BOTH REGULATORS AND USERS – TO PROMOTE THE USE OF PHYSICAL GOLD AS A TANGIBLE ASSET TO BACK THE UNITS CREATED IN THE CRYPTO SPACE

At the same time, we want to become a thought and innovation leader for the Asia Pacific bullion market. APPMC will no doubt be crucial for this as it continues to attract bullion market players to Singapore and grows in importance on the bullion market calendar, particularly for global players intending to use Singapore as a springboard for growth in Asia Pacific.

THIS YEAR'S CONFERENCE WELCOMED MORE THAN 390 DELEGATES FROM 182 COMPANIES AND 27 COUNTRIES INCLUDING A CONTINGENT OF MORE THAN 100 FROM CHINA AND HONG KONG

Paul Fisher, Chairman of LBMA addressing the opening of the 2nd APPMC in 2018.

Albert Cheng, CEO, Singapore Bullion Market Association, International Advisor, Shanghai Gold Exchange. Albert Cheng joined the World Gold Council (WGC) in March 1993 as Regional Manager, becoming Managing Director, Far East in 2003. He retired at the end of March 2015 and has been appointed as Advisor to World Gold Council since then. In addition, he was appointed to the panel of the 18 International Advisors to the Shanghai Gold Exchange in 2019 again, a position he has held since its inception in 2002.

Albert's marketing career began with Dentsu Young & Rubicam, Hong Kong in the early 80's, moved on to gold marketing in July, 1985 when he joined the Royal Canadian Mint as Regional Manager for HK/Southeast Asia. He was appointed honorary CEO of Singapore Bullion Market Association in November 2015 after retirement

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CENTENARY: Gold Price Reception

BY AELRED CONNELLY, PR OFFICER, LBMA

ON 12 SEPTEMBER 2019

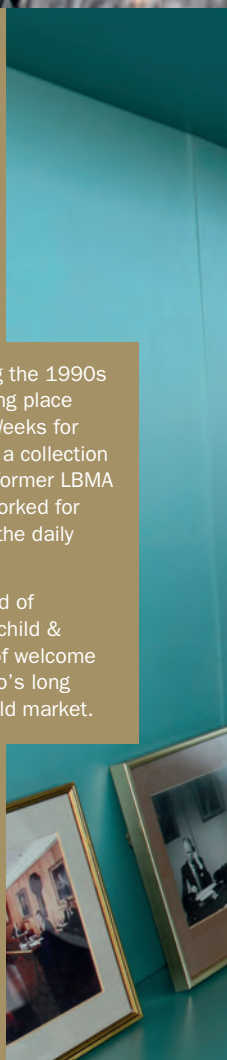
The current modern Rothschild building built on the site of the second New Court building where the gold auction took place for much of the last 100 years, was a fitting location for the reception.

Rothschild & Co had kindly agreed to host us in its iconic Sky Pavilion, the eye-catching glass cube with unique panoramic views across the city. It certainly provided the wow factor for our guests, many with deep associations with the gold market, and an opportunity to pause and reflect on the events of the past 100 years.

The Rothschild Archive had kindly put on display a range of fascinating artefacts from its collection, which provided a fitting backdrop to the day.

We showed a film recorded during the 1990s of the live Gold Price auction taking place at New Court. Thanks to Simon Weeks for supplying it. Also on display were a collection of photos principally provided by former LBMA Chairman Robert Guy, who had worked for Rothschild for 36 years, chairing the daily fixing for half of that period.

Christopher Coleman, Group Head of Banking, Global Partner at Rothschild & Co, provided some warm words of welcome before describing Rothschild & Co's long and deep association with the gold market.



Justin Cavernelis-Frost of The Rothschild Archive provided some further colour, including a description of the items on display. Tim Bowler, President of Ice Benchmark Administration (IBA), the current independent administrators of the Gold Price auction, then explained the changes that had been introduced since IBA took over responsibility in 2015.

We then watched the live 3:00 pm auction, which was a real highlight for many of our guests. To round off proceedings, we heard from Rachel Harvey about how the Gold Price had existed before 1919 and how and why it has become so important over the last 100 years. You can read a transcription of her speech on page 21. Rachel had travelled over from her home in San Francisco specially to attend the event, so special thanks to her. The formal proceedings were completed with a film about the Gold Price which LBMA had commissioned especially for the big day.

To wrap up proceedings, Ruth invited guests to take stock of the huge amount of effort and the achievements of those who have been a part of this extraordinary market over the past century, before inviting everyone to relax and enjoy the spectacular venue and the equally spectacular wine selection care of the Rothschild's cellars.

This was truly an event to remember and one that we are all sure will remain in the memories of those present for a long time to come, if not quite perhaps for another 100 years.

FACING FACTS

Gold Mine Production to Break a New Record in 2019

BY FEDERICO GAY, PRECIOUS METALS SUPPLY ANALYST, GFMS, REFINITIV

According to our preliminary findings, global mine production in the first half of 2019 was 1,642 tonnes, representing a 3.6% rise from the same period last year.

Over the last six years, only three quarters have posted year-on-year losses, while average growth during this period was 3.2%, supporting an upward momentum for gold production. Asia, the largest producing region, responsible for over a quarter of total global output, was the only region that reported losses, as production dropped by 24 tonnes following a significant output decrease at Indonesia's Grasberg mine, where the transitioning to underground mine is severely impacting throughput.

We estimate production will slightly recover after the transition to the Grasberg Block Cave (GBC) is completed, during Q3. Also in Indonesia, further losses were posted at the Batu Hijau mine, due to a combination of lower grades and reduced operations following a fatal accident at the end of March. China's output keeps falling, as production dropped by less than 1% from the same period last year; however, some recovery signs, specially within the small-scale mining sector, are starting to be reported.

3.6%

global mine production in the first half of 2019 was 1,642 tonnes representing a 3.6% rise from the same period last year

At a regional level, the largest year-on-year gains were posted in North America, following strong results in US operations. The region added 12 tonnes to global production during the first half of the current year, compared to 2018. Elsewhere, Russian operations continue to improve their efficiency, while Polyus's Natalka mine achieved full design capacity, supporting strong results in the European region, which, according to our findings, posted an increase of 8 tonnes from the same period last year.

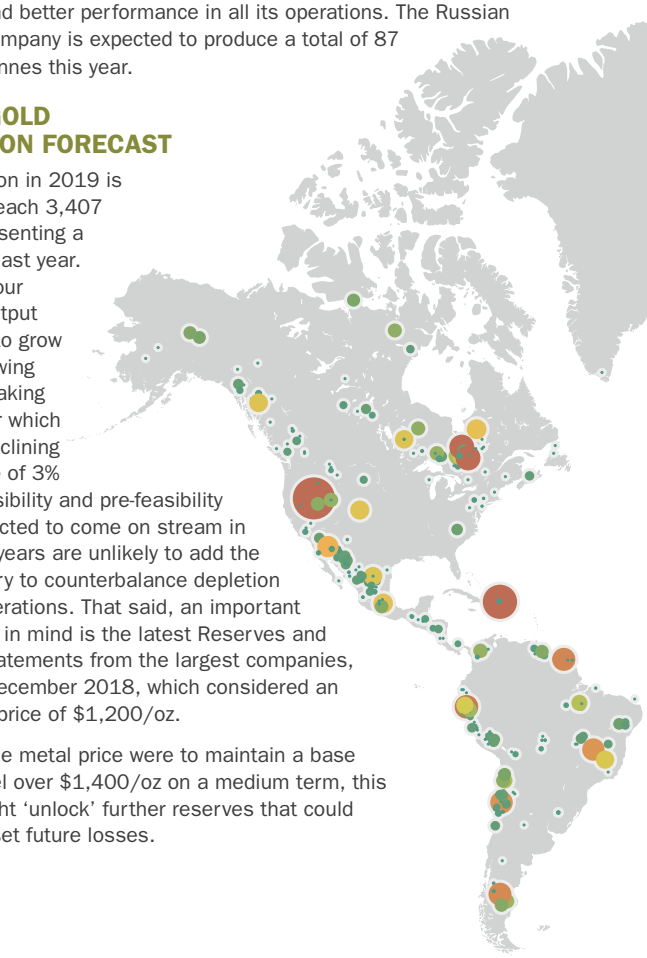
At a company level, recently rebranded Newmont-Goldcorp's attributable gold output increased by nearly 16% during the first half of 2019, totalling 85 tonnes, therefore becoming the world's largest producer during this period. Gains were posted at its Subika Underground, part of the Ahafo mine in Ghana, after achieving full operation capacity, and at Merian (in Suriname) and Yanacocha (in Peru) mines, after higher grades and higher recoveries were realised. Further increases were reported at Cerro Negro mine, in Argentina. Partially offsetting these robust results, production dropped at Boddington in Western Australia, due to lower ore grades, while a failure in the East wall of the Kalgoorlie mine in Australia led to higher strip ratio and lower grades, pushing gold production down by a staggering 37%, while considerably increasing costs.

After the merger with Randgold, the fulfilment of the Nevada Joint Venture with Newmont and the recent acquisition of Acacia Mining, Barrick continues to implement its new operational strategy, focusing on improving efficiency, while evaluating divesting some of its non-core assets. The company realised total production of 84 tonnes during the first half of 2019, therefore becoming the second-largest producer in the period. The company's guidance production for 2019 is between 158 and 174 tonnes. AngloGold Ashanti's production dropped by 5% from last year, with losses in its South African, Guinean and Argentinian operations. The company expects a stronger second half, specially at its Geita, Siguiri and Sunrise Dam mines, forecasting a total annual production between 101 and 107 tonnes. Polyus's production increased 16% year on year, supported by higher recovery rates, higher mine throughput and better performance in all its operations. The Russian company is expected to produce a total of 87 tonnes this year.

10-YEAR GOLD PRODUCTION FORECAST

Gold production in 2019 is expected to reach 3,407 tonnes, representing a 2% rise from last year. According to our estimates, output will continue to grow over the following five years, peaking in 2023, after which it will start declining by an average of 3% annually. Feasibility and pre-feasibility projects projected to come on stream in the following years are unlikely to add the gold necessary to counterbalance depletion at current operations. That said, an important factor to bear in mind is the latest Reserves and Resources statements from the largest companies, released in December 2018, which considered an average gold price of $1,200/oz.

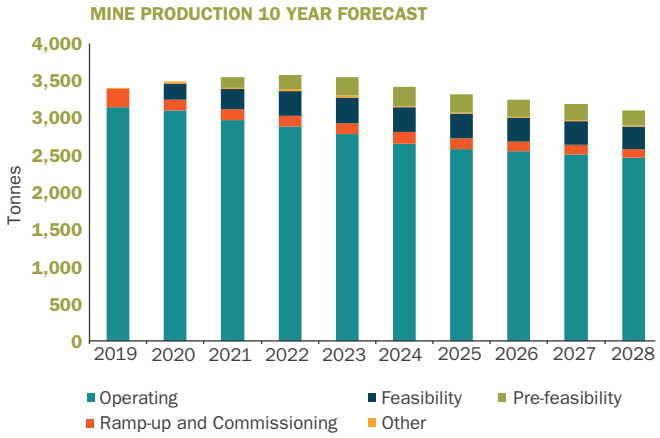
If the metal price were to maintain a base level over $1,400/oz on a medium term, this might 'unlock' further reserves that could offset future losses.



Rank		Company	Output (tonnes)	
Q1 2019	Q2 2019		Q1 2019	Q2 2019
2	1	Newmont Goldcorp	38.3	47.0
1	2	Barrick Gold Corp	42.5	42.1
3	3	AngloGold Ashanti	23.4	24.9
6	4	Polyrus	18.7	21.3
4	5	Newcrest Mining	19.4	20.6
5	6	Kinross Gold Corp	18.8	20.2
7	7	GoldFields	16.9	16.8
8	8	Agnico Eagle	12.4	12.8
9	9	Yamana Gold	7.3	7.2
10	10	Kirkland Lake Gold	7.2	6.7

Source: Company reports, Refinitiv

Federico Gay, Senior Analyst, Refinitiv, GFMS. Federico is a geologist with a BSc from the National University of the South, Argentina. He joined Refinitiv in London in November 2019, focused on precious metals supply modelling. Prior to Refinitiv, he worked over seven years in Chile in a wide range of assignments, including exploration, ore control, geological modelling and resource estimation for a Copper-Gold-Molybdenum mine in the Atacama Desert. He completed a master's program in Economic Geology from the Catholic University of the North, Chile.

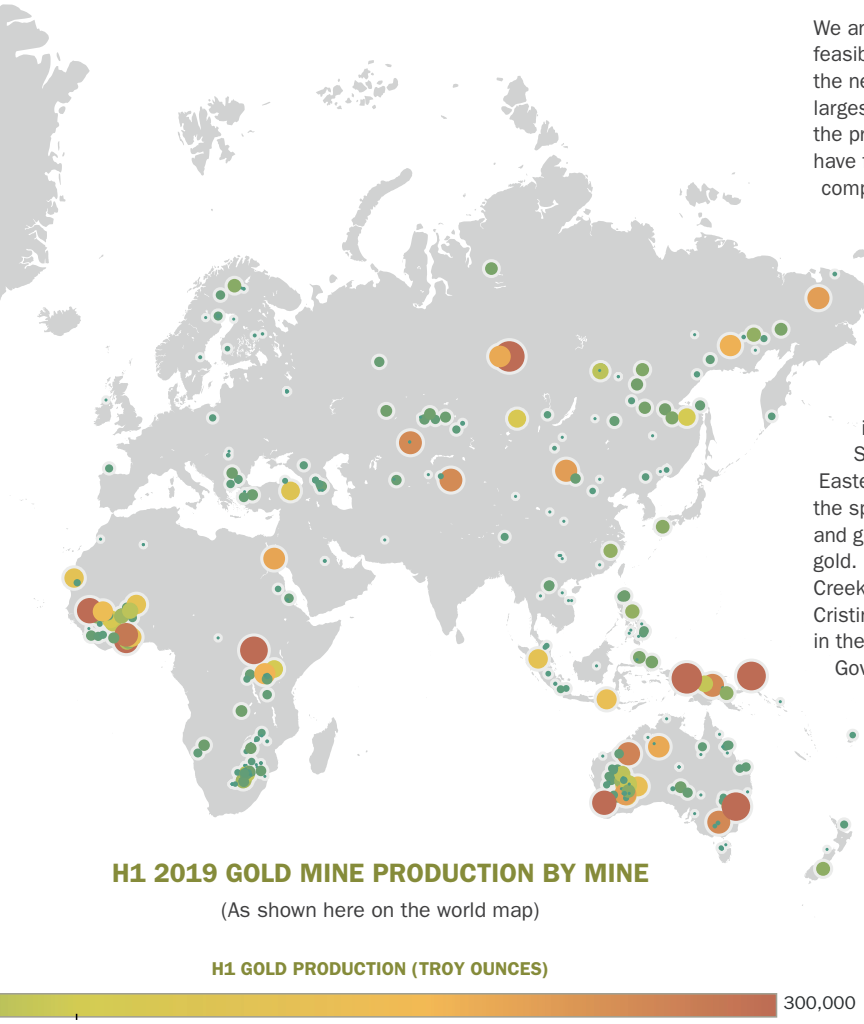


Another possible outcome is that the depletion curve will soften, as low-grade shafts and current loss-making mines might find new economical parameters favourable to continue operating.

We anticipate that more than 57 feasibility projects and 66 pre-feasibility projects have a high probability of becoming a mine during the next 10 years. With 51 projects, Latin America is the region with the largest project pipeline, followed by North America, with 22. This shows the preference companies have for low-cost locations, compared to South Africa, which only has 1 new project with high chances of development. Russia and Australia also have an interesting selection of projects, including Polyus's giant Sukhoi Log project, in Eastern Siberia, which is in the spotlight due to its size and geological characteristics, with over 1,960 tonnes of contained gold. Other interesting projects include Kalkaroo in Australia, Donlin Creek in Alaska and New Prosperity in Canada, and Brisas and Las Cristinas in Venezuela. The last, Las Cristinas, seems unlikely to feature in the 10-year prospects under review as it was expropriated by the Government in 2008 and has been in development limbo ever since.

BASED ON OUR FORECASTS CHINA THE WORLD'S LARGEST PRODUCER WILL REMAIN AT THE TOP RANK FOR THE NEXT **10 years**

Based on our forecasts, China, the world's largest producer, will remain at the top rank for the next 10 years. The gap between it and Australia and Russia, however, will narrow, as these countries are both expected to post impressive growth rates. Of the top producers, Indonesia will face the largest output decrease, as a result of Grasberg's open pit mine depletion (earlier this year, the operation switched to its underground mine, drastically plummeting mine throughput), followed by South Africa, in which high costs and increasing labour pressures are severely affecting gold production in the country. On the other hand, we anticipate that Russia's, Mexico's and Australia's positions will strengthen on the road to 2028.



H1 2019 GOLD MINE PRODUCTION BY MINE

(As shown here on the world map)

MARKET MOVES

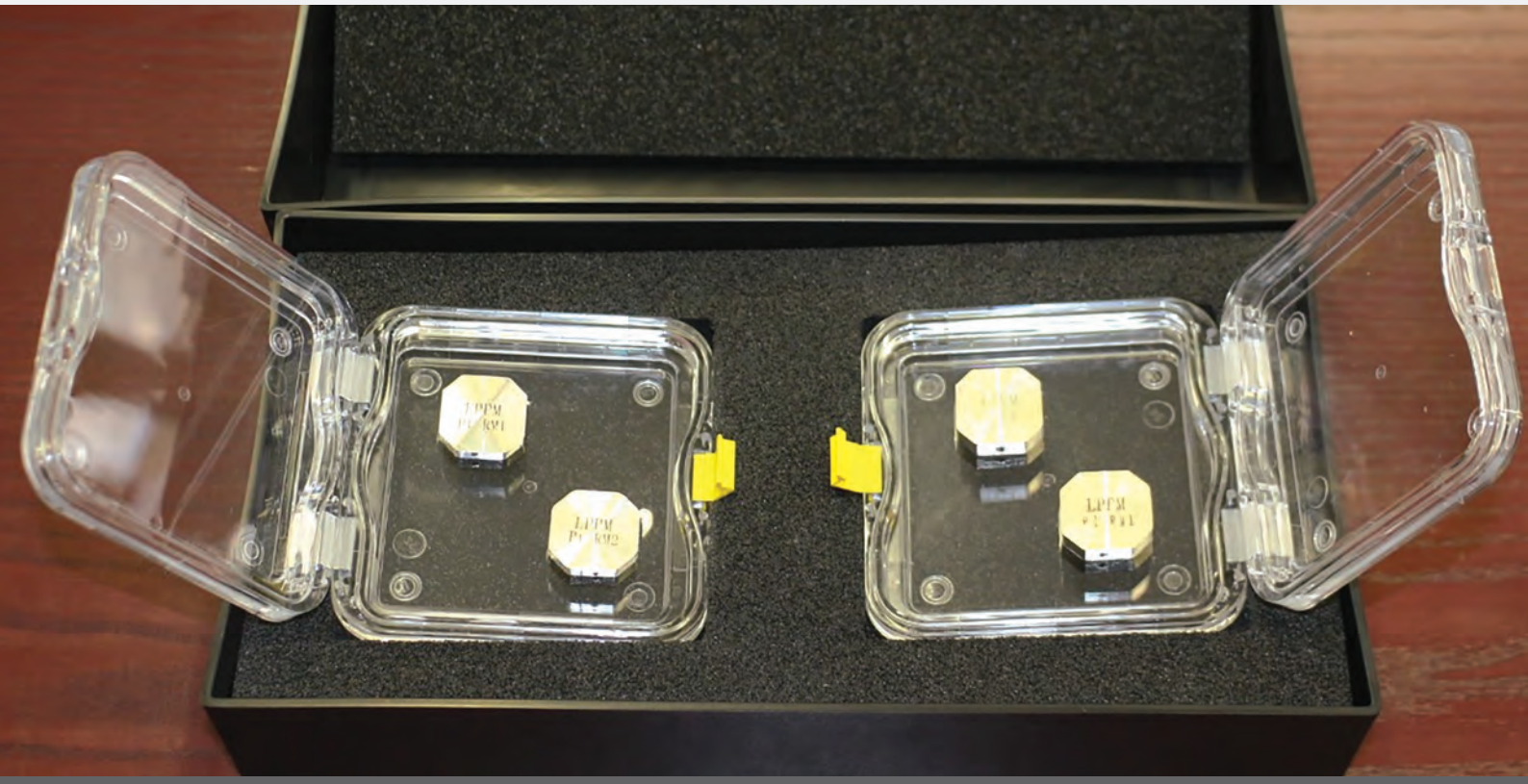
NATALIE SCOTT-GRAY JOINS INTL FCSTONE

INTL FCStone is delighted to announce that Natalie Scott-Gray has joined the Market Analysis team based in London and supporting the EMEA and Asia regions. Working with Rhona O'Connell, Natalie is expanding her brief to cover the LME suite as well as battery materials and she will be supporting Rhona in the precious metals analysis and commentary. She comes to INTL FCStone from the GFMS team at Refinitiv, where she built extensive experience in the precious metals sector and will be a very valuable addition to the team.

LEON EDERY JOINS BNP

Leon Edery joined BNP Paribas in August 2019 as Precious Metals Sales. He will be in charge of strengthening the offering of the precious metals franchise and will oversee developments of services to the corporate clientele. He brings over 15 years' specialist experience developed at Societe Generale. In this role, Leon will continue as a member of the LBMA Public Affairs Committee.

LONDON PLATINUM & PALLADIUM MARKET



PLATINUM AND PALLADIUM CERTIFIED REFERENCE MATERIALS (CRMs)

LPPM has successfully completed the manufacture of the first Platinum and Palladium Certified Reference Materials (CRMs) and they are now ready to be delivered. The CRMs were manufactured by **Tanaka K.K.** and analysed for homogeneity and the contained elements by the five LPPM referees:

Johnson Matthey; Metalor Technologies; PAMP; Tanaka K.K.; Valcambi.

And five other prominent Platinum Group Metal companies, worldwide:
Anglo Platinum; BASF; Cendre et Metaux; Heraeus; Umicore.

All the results of the extensive testing were coordinated and statistically analysed by Dr Mike Hinds of the **Royal Canadian Mint.** Each set of each metal contains two samples of different levels of impurities.

THE LPPM ARE VERY PLEASED TO HAVE PRODUCED THE **FIRST PLATINUM AND PALLADIUM CRMs** AND BELIEVE THIS IS AN IMPORTANT STEP FORWARD FOR THE PGM INDUSTRY'S ANALYTICAL CHEMISTRY DEVELOPMENT.

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REGULATION UPDATE

BY RACHEL HART, LAWYER, LBMA

Rachel Hart, Lawyer, LBMA. Deals with legal and compliance matters affecting the precious metals market, including financial regulation and the Responsible Sourcing Programme. She has taken responsibility on a number of initiatives and helps to manage any relevant legal work on behalf of LPMCL, as well as support the market on the application of REACH and the Global Precious Metals Code.

Before joining LBMA, Rachel worked as a Finance Knowledge Assistant at Freshfields Bruckhaus Deringer, specialising in structured finance and debt capital markets. She read law at University of York and University of Law, London.

Net Stable Funding Ratio

Under the Capital Requirements Regulation (CRR) II framework to be implemented on 28 June 2021, the Net Stable Funding Ratio (NSFR) seeks to ensure banks maintain a stable funding structure. The purpose of NSFR is to ensure that banks hold stable long-term money to finance long-term assets and as such, it aims to avoid funding shocks creating distress amongst Europe's financial institutions. The NSFR provisions prescribe the amount of Required Stable Funding (RSF) that banks need to hold in respect of various categories of assets. The level of applicable RSF is closely linked with the liquidity status of an asset, as decided for the purpose of CRR Liquidity Coverage Ratio (LCR) requirements.

Currently, gold and other precious metals are considered not liquid for the purpose of LCR. Consequently, in respect of gold and other precious metals, CRR II prescribes an 85% RSF factor to physical holdings of unallocated balances of such metals, including metals held for the purpose of financing transactions or for clearing and settlement. Thanks to LBMA's active lobbying, European legislators mandated the European Banking Authority (EBA) to assess whether it would be justified to reduce the RSF factor for assets used for providing clearing and settlement services for precious metals or assets used for providing financial transactions of precious metals of a term of 180 days or less. The EBA has until 28 June 2021 to deliver its report with potential recommendations and its assessment work has already begun.

In September 2019, LBMA met with the EBA's Head of Economic Analysis as part of LBMA's NSFR lobbying activities. LBMA used this opportunity to present to the EBA's team results of its initial analysis of liquidity status of gold and other precious metals and to explore possibility of re-classifying liquidity status thereof. Using the LBMA-i data, LBMA was able to demonstrate the case for precious metals being a highly liquid asset, based on the trade reporting figures submitted by LBMA Members since November 2018.

USING THE LBMA-i DATA LBMA WAS ABLE TO DEMONSTRATE THE CASE FOR PRECIOUS METALS BEING A HIGHLY LIQUID ASSET

Also during the meeting, the EBA's team presented their initial assessment of the impact of NSFR at banks holding physical gold. The EBA based their initial analysis on data received from banks in the course of its voluntary data collection exercise. In LBMA's view, this data was not complete and not representative for the sector. LBMA pledged to help the EBA gather more representative data sets for further analysis.

LBMA continues to advocate a 0% RSF factor for transactions involving precious metals and will further engage with the EBA on this matter.

Global Precious Metals Code

All market participants involved in the global wholesale precious metals market are invited to demonstrate their compliance with the Code. Alongside all LBMA members and Associates, other participants in the industry, including the Bank of England, have published a Statement of Commitment to attest to their adherence with the Code's principles.

The Group will draft and finalise amendments before a revised version of the Code is launched in 2020

LBMA will reconstitute its Global Precious Metals Code Working Group to ensure alignment with similar review processes for the FX Code and Money Markets Code. The Group will assist in drafting a survey to poll members on how the Code has shaped decisions or behaviours since its launch, whether the Code remains fit for purpose and which amendments could be made to ensure that best practice is achieved in the market. Following the review of results, the Group will draft and finalise amendments before a revised version of the Code is launched in 2020.

Conflict Minerals Regulation

From 1 January 2021, the Conflict Minerals Regulation will require all companies importing over 100kg (including refiners, mints, banks, traders and retailers) to formalise their management systems in line with LBMA's Responsible Gold Guidance and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

LBMA and its Financial Crime Working Group are finalising a declaration which will help bullion banks to comply with the Regulation's public reporting requirements. Establishing a template that the banks can use as a minimum for reporting will assist in ensuring a uniform reporting style across the market. This template can then be tailored to each bank's internal responsible sourcing practices.

LBMA and the Working Group will continue to adapt the template to ensure each banks' regulatory obligations are met, following its preliminary launch in Q1 2020 – a year ahead of the Regulation's implementation.

The *Alchemist* is published quarterly by LBMA. If you would like to contribute an article to the Alchemist or if you require further information please contact the Editor, Aelred Connelly, LBMA, 1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF
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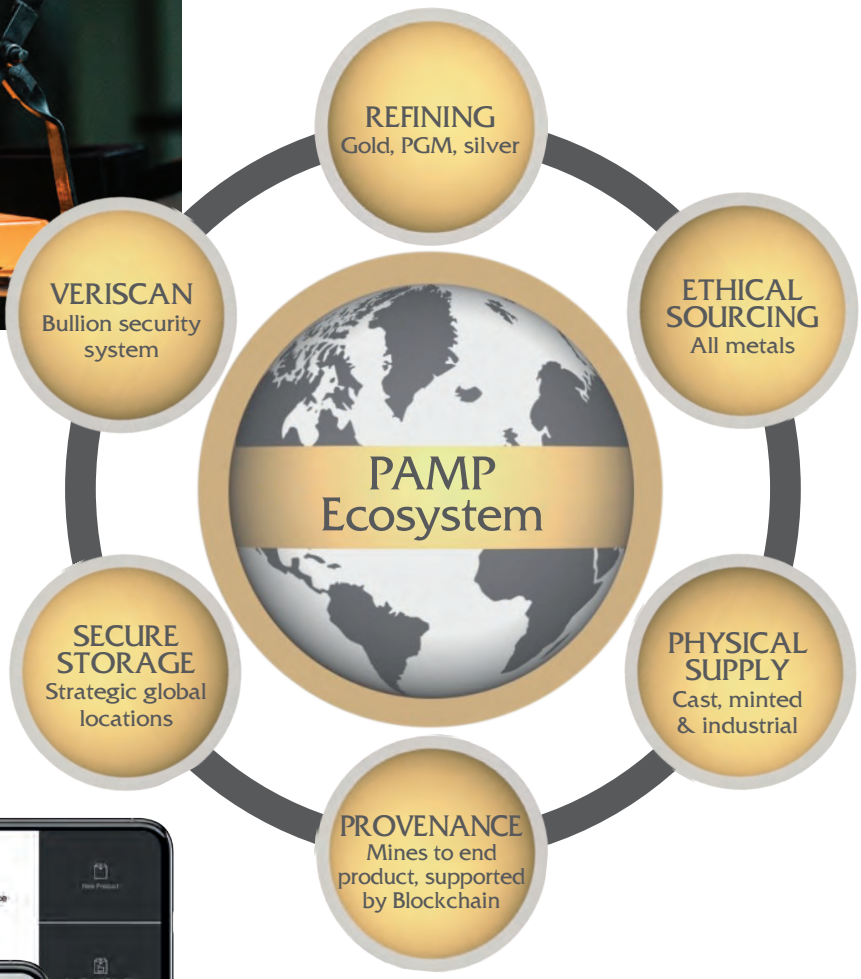

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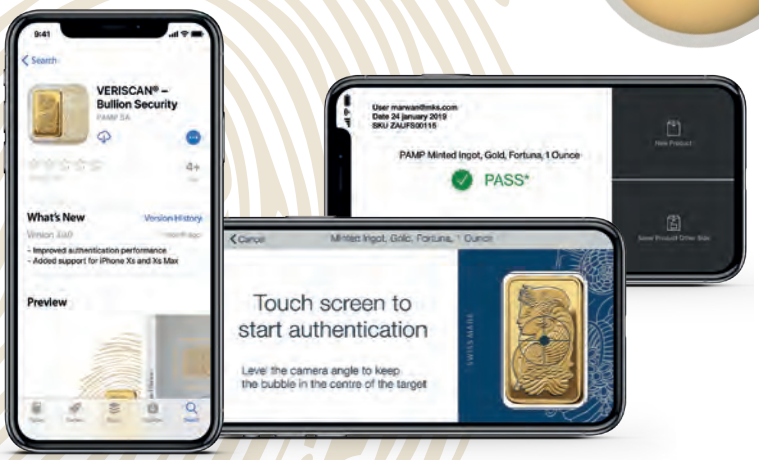

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