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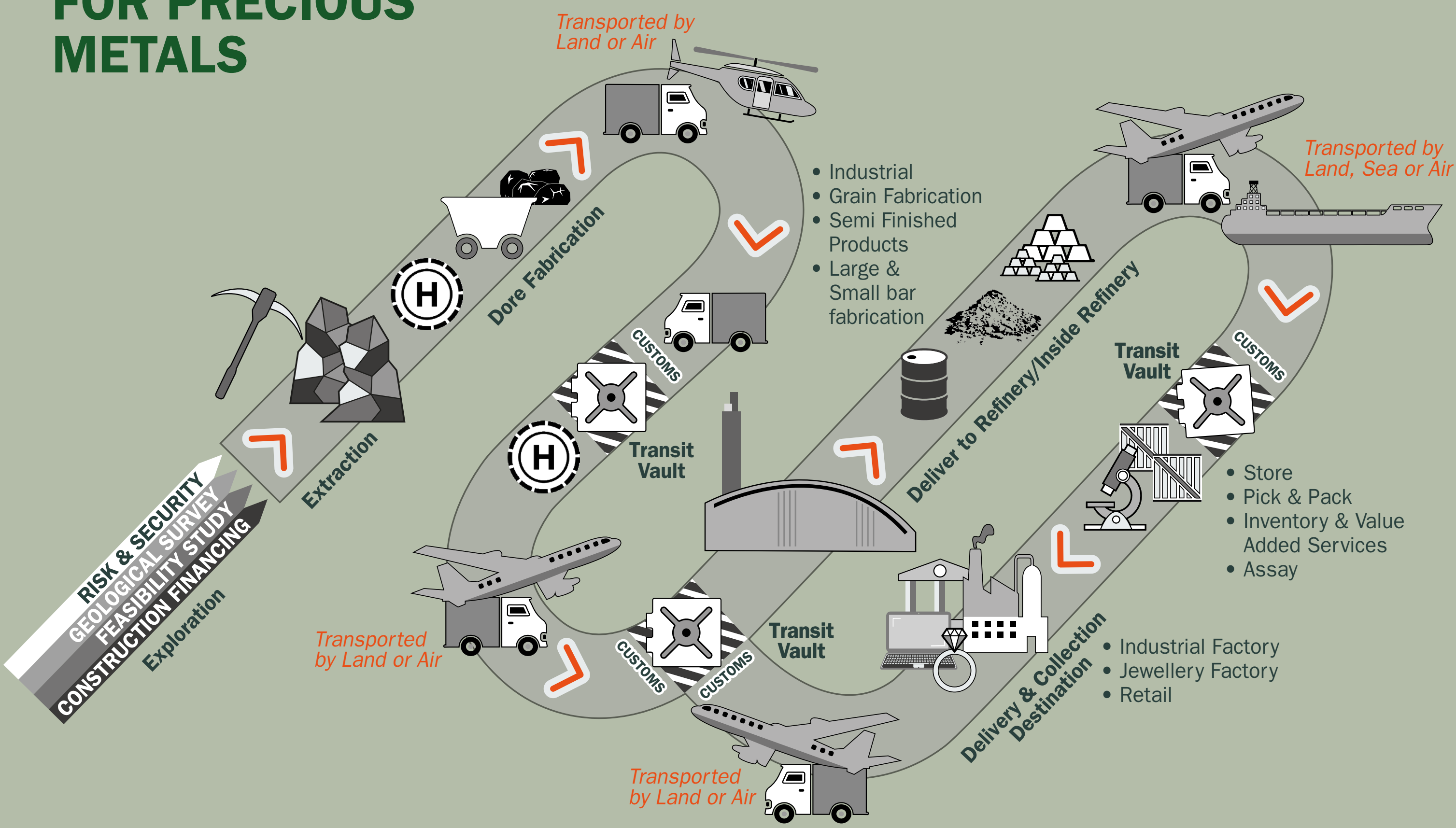
VALUE CHAIN FOR PRECIOUS METALS



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EDITORIAL

BY SIMON POTTER, FORMER LBMA NON-EXECUTIVE DIRECTOR

Unfortunately, in July, I had to leave my role as a Non-Executive Director (NED) as I am entering full-time employment in the financial services sector. For good governance reasons, I believe this is the appropriate action for all parties. The following is a review of my time as a director and is written in the spirit of transparency with which LBMA conducts all its work.

My first LBMA board meeting was on 3 March 2020. In normal time, this was not long ago, but in COVID-19 time, it feels like a very long time ago. For example, 3 March was an in-person meeting where the protocol around greetings was still open to debate and there was still some confidence that the annual conference would take place. It was also the day when the G7 met, took no direct action and then, in a surprise move, the Fed cut rates by 50bps to 1%. At the almost-socially-distanced staff party at the end of the day, it was clear that the financial markets were encountering difficulties in absorbing the immense rebalancing required to manage the direct impact of COVID-19 and the uncertainty over the policy response.

LBMA IS UNIQUE IN BRINGING TOGETHER STAKEHOLDERS AS DIVERSE AS MINERS REFINERS AND MARKET MAKERS IN THIS RESPECT

In the following few weeks, all financial markets received a stress test. For the precious metals markets and other physical delivery markets, we learnt that the fine details on delivery and contract obligations could be critical, as described in the Editorial by Paul Fisher in the May edition of the *Alchemist*. For the gold market, LBMA was able to draw on its long history, strong network and expertise to ease some of these frictions. And I know it will take the lead in doing the work required to add further resilience in the market.

One of the main attractions for me about the NED role at LBMA was to continue my involvement in promoting best practices. As the preamble to the Global Precious Metals Code states: *"The Code is intended to define a robust, fair, effective and transparent market where all participants are able to transact following best practice guidelines."*

In the case of gold fairness has a much deeper meaning than in for example the FX market because of the critical need for responsible sourcing

In the case of gold, fairness has a much deeper meaning than in, for example, the FX market, because of the critical need for responsible sourcing. All through the interview process and then in board meetings and other interactions, it was clear to me how important responsible sourcing is to LBMA. This is reflected in the launch of the first Responsible Sourcing Report next month, and I would encourage you all to read it and learn about all the good work that LBMA is doing in this regard.

Issues around good market functioning, best practices, good delivery and responsible sourcing are outputs that LBMA either directs or supports. It has a very strong reputation and track record on these outputs. This success needs to be underpinned by an agile, focused and flexible organisation. COVID-19 has affected organisations like LBMA in many ways.

First, all work needs to be conducted virtually, with the ability to react quickly to breaking news while respecting the tensions to normal life that the disruption of a pandemic can bring. I have been very impressed with how the Executive and team have dealt with this change in work and life balance. These changes are never seamless, but active listening and deep care for colleagues' well-being have smoothed some of the inevitable bumps.

Second, revenue can fall in unexpected ways, while costs don't go away. For LBMA, the initial hope that the annual conference might still go ahead in October quickly turned into a proactive decision to cancel and limit the impact on the bottom line.

ISSUE HIGHLIGHTS

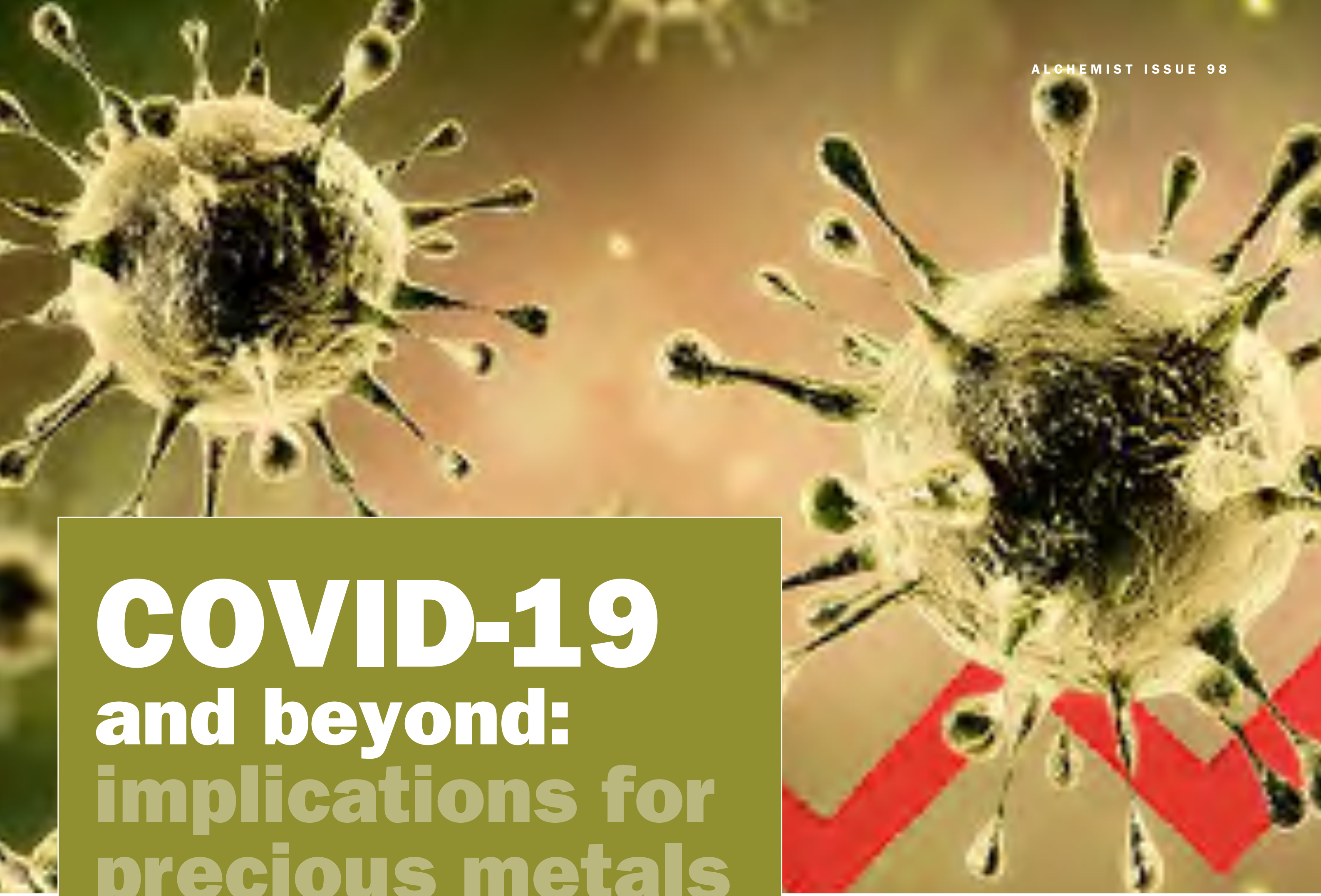
Front cover – Graphic extracted from the upcoming first LBMA Annual Responsible Sourcing Report. Modified from original, kindly provided by Brink's Ltd.

Since then, there has been a keen focus on how to control costs while maintaining strategic initiatives and ensuring that LBMA's convening power for the industry adapts.

Third, strategic initiatives need to be maintained and adapted to the new environment induced by COVID-19.

In working with CEO Ruth Crowell over the last six months, it has been clear how focused she is on strategies to further LBMA's impact on good market practices and functioning, with the goal of improving the precious metals market for all its stakeholders. LBMA is unique in bringing together stakeholders as diverse as miners, refiners and market makers in this respect.

The ultimate goal is to provide a market that allows people all over the world to hedge against unknown events and an uncertain world, using the most enduring, best-known and liquid alternative asset class of precious metals. The pandemic has again proved how valuable this asset class can be.



COVID-19 and beyond: implications for precious metals

Gold, silver and the platinum group metals in a world of coronavirus

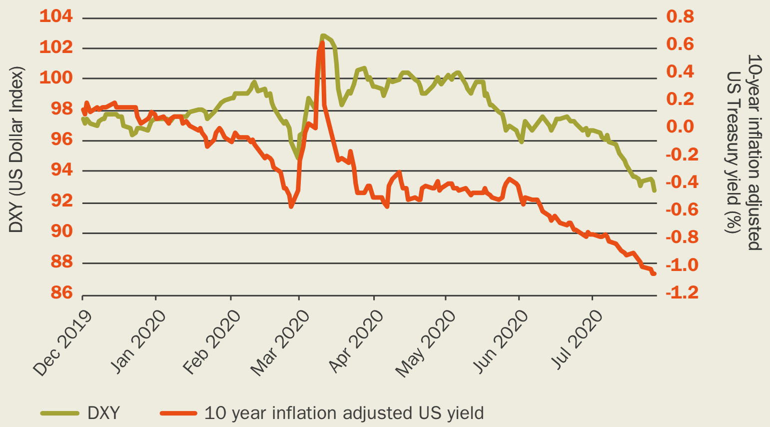
BY DR. JONATHAN BUTLER,
PRECIOUS METALS STRATEGIST,
MITSUBISHI CORPORATION

The COVID-19 pandemic, coupled with an unparalleled global economic contraction, and associated fiscal and monetary policy responses around the world, has been sufficient to send gold to fresh all-time highs of over $2,000/oz by early August 2020.

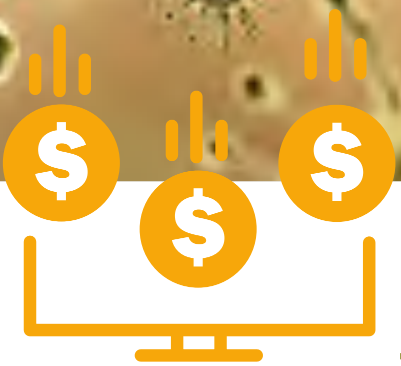
With gold registering a more than one-third price increase since the start of this year, the global health and economic crisis has clearly played to bullion's strength as a risk hedge in times of turmoil, and demonstrated that gold is the asset of choice for many investors seeking to capitalise on negative real interest rates and a weak US dollar.

But what of gold's sister metals: silver, platinum and palladium? While these principally industrial metals are exposed to falling demand in key sectors as the impact of the coronavirus is felt, they are also supported by many of the same macroeconomic factors as gold, and there are some end-use markets that stand to benefit as the world finds ways to live with the pandemic.

CHART ONE: REAL RATES AND THE DOLLAR



Source: Mitsubishi from Bloomberg



SUPPORTIVE MACRO ENVIRONMENT DRIVES PRECIOUS INVESTMENT

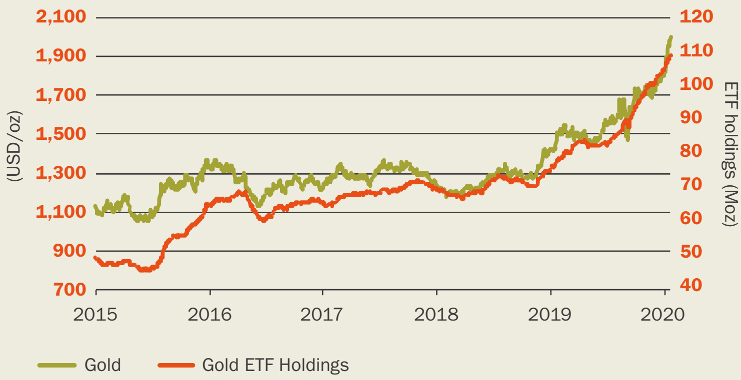
National lockdowns in response to the coronavirus have brought an unprecedented contraction in both the supply and demand sides of the global economy, together with great uncertainty for the future. Central banks were quick to try to alleviate this by cutting interest rates to ultra-low levels, with the US Federal Reserve cutting its benchmark rate by 1.5% to 0.25% in March, the lowest since the 2008 financial crisis. Yields on 10-year US Treasury bonds plunged as investors piled into these safe havens. When adjusted for inflation, this put 'real' interest rates in deeply negative territory – ideal investment conditions for non-yielding precious metals. Indeed, holdings of gold in exchange traded funds (EFTs) have recently reached record levels of over 100 Moz. Silver too has seen a surge in ETF buying, taking holdings to all-time highs of over 800 Moz, while even platinum and palladium have seen an uptick in investor purchasing since the pandemic began.

HOLDINGS OF GOLD IN EXCHANGE TRADED FUNDS (ETFS) HAVE RECENTLY REACHED RECORD LEVELS OF OVER 100 MOZ

As governments rushed to announce large-scale measures to maintain household and corporate incomes via massive new spending programmes, gold and the other precious metals have benefitted from currency weakness and played their traditional role as stores of value. The US Congress passed a $2.2 trillion coronavirus relief package in March, a level that dwarfed the 2008 Economic Stimulus Act and takes the Federal balance sheet to the unheard-of heights of $7 trillion. With spending and borrowing still constrained by the closure of many parts of the economy, and the health and economic situation worsening in the US, it has become painfully clear that this economic life support will need to continue for some time to come. Projected political wrangling over further stimulus is at the time of writing in early August further weighing on the dollar and raising fears over unsustainable long-term debt levels.

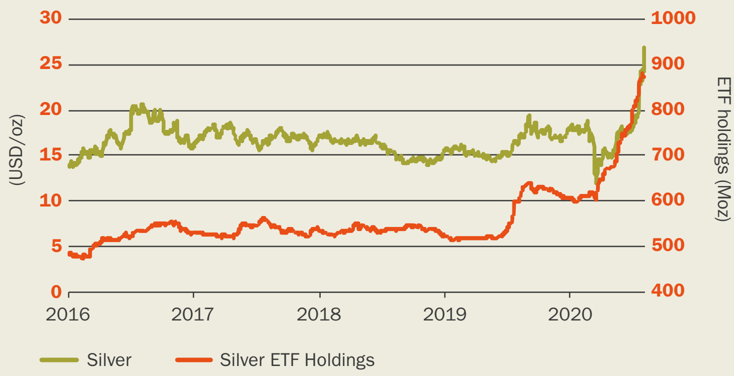
GOLD AND THE OTHER PRECIOUS METALS HAVE BENEFITTED FROM CURRENCY WEAKNESS AND PLAYED THEIR TRADITIONAL ROLE AS STORES OF VALUE

CHART TWO: GOLD PRICE AND GOLD EXCHANGE TRADED FUND (ETF) HOLDINGS



Source: Mitsubishi from Bloomberg

CHART THREE: SILVER PRICE AND SILVER EXCHANGE TRADED FUND (ETF) HOLDINGS



Source: Mitsubishi from Bloomberg

SILVER: SHINING BRIGHTLY

Silver has performed remarkably well this year, rising to 7-year highs of $29/oz and appreciating by over 150% since its lows of mid-March. Like gold, silver has been lifted by a rising tide of favourable macro conditions and has outperformed gold significantly, with the gold:silver ratio crashing down from over 100 in late June to under 80 by late July, though silver remains undervalued compared with the long-term average ratio of under 60. ETF investors especially have piled into silver, partly owing to its accessible price levels, with a strong uptrend also seen in the physical coin and bar market.

Silver's performance as a supercharged version of gold can be partly attributed to it having a solid industrial base, unlike gold, and one that stands to benefit from greater physical offtake in the scary new world of coronavirus – such as its use as a catalyst in the production of ethylene oxide, a key ingredient in many plastics used in everything from masks and gloves to protective screens.

It is also finally getting a chance to shine in an important but hitherto overlooked niche – its use as a biocide in a range of applications including surface coatings and clothing. The green-tinged fiscal stimulus underway in many countries also improves the outlook for its demand in solar PV, as well as in electronic gadgetry as consumers adapt to a world that is more virtual than ever.

SILVER'S PERFORMANCE AS A SUPERCHARGED VERSION OF GOLD CAN BE PARTLY ATTRIBUTED TO IT HAVING A SOLID INDUSTRIAL BASE – SUCH AS ITS USE AS A CATALYST IN THE PRODUCTION OF ETHYLENE OXIDE A KEY INGREDIENT IN MANY PLASTICS

PLATINUM AND PALLADIUM

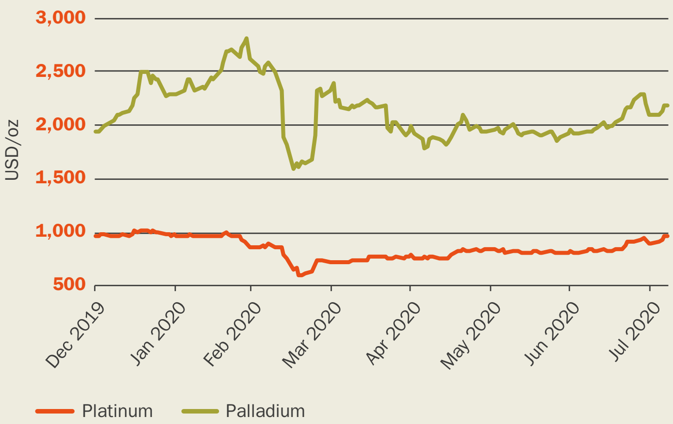
Platinum has been a study in both a demand and a supply shock this year. In mid-March, prices crashed to $564/oz, the lowest since 2002, as the scale of the pandemic and the impact of national lockdowns on demand in the auto, industrial and jewellery sectors became clear. This was quickly followed by a recovery as South Africa, the world's largest producer of platinum, went into a national lockdown in late March that saw the closure of most of the country's PGM mining operations.

This, together with an absence of international freight to transport finished metal, saw platinum for immediate delivery get bid up and a substantial forward backwardation emerge for the first time in 15 years. Though most mining operations have now reopened, the difficulty in enforcing social distancing measures in labour-intensive deep-level underground mining environments means that mined production will be constrained for the foreseeable future, keeping physical availability tight and helping support prices.

THE DEMAND SIDE FOR PLATINUM HAS SUFFERED FROM A SHARP PULLBACK IN OFFTAKE FROM THE AUTOMOTIVE SECTOR AS MOST HEAVY AND LIGHT DUTY VEHICLE MANUFACTURERS SHUT DOWN OPERATIONS IN THE EARLY PART OF THE PANDEMIC

OVER 40% OF MINED PALLADIUM COMES FROM RUSSIA

CHART FOUR: PLATINUM AND PALLADIUM PRICES



Source: Mitsubishi from Bloomberg

The demand side for platinum has suffered from a sharp pullback in offtake from the automotive sector, as most heavy and light duty vehicle manufacturers shut down operations in the early part of the pandemic. While demand has started to return, buoyed in some cases by stimulus measures, platinum will be missing a chunk of offtake this year when vehicles were simply not made. The jewellery sector has been buoyant in Asia and, as noted, physical platinum investment has grown strongly. In industrial demand, the fall in oil and gas prices has in some cases improved manufacturing margins for petrochemical intermediates, and demand for platinum in chemical catalysts for the production of plastics has been robust.

The surge in remote working has given a further boost to cloud computing, utilising platinum-containing hard disk drives.

SILVER AND THE PGMS HAVE A STRATEGIC IMPORTANCE IN EVERYTHING FROM PROTECTIVE EQUIPMENT TO ELECTRONICS CLEAN ENERGY AND PERSONAL TRANSPORTATION – DEMAND AREAS THAT HAVE A BRIGHT FUTURE IN A POST-COVID WORLD

Over 40% of mined palladium comes from Russia and, as a result of mines remaining open there (and also in the USA, the third-largest producing region) throughout the pandemic, palladium availability has actually become easier as demand has fallen.

Palladium prices crashed down from the all-time highs of over $2,800 in February, causing the metal to lose close to half of its value at the lows in mid-March as its main market, the automotive industry, fell away. A partial recovery has taken place that has seen palladium trade on either side of $2,000, with positive signs of a V-shaped recovery in the Chinese auto market where pent-up demand and the desire for private car ownership in order to avoid public transport has boosted demand for palladium in emissions control. Palladium has also benefitted from a steady stream of demand in the petrochemical and life science industries, where palladium is used as a catalyst to make plastics and pharmaceuticals.

WHERE NEXT?

Rising incidences of COVID-19 around the world, and associated negative outcomes in employment and economic activity, are likely to weigh on the global macro outlook at least until an effective vaccine becomes widely available. With ultra-loose fiscal and monetary policies likely to be pursued around the world for the foreseeable future, the stage is set for gold and its sister metals to perform well. If expansion of the monetary base and damage to industrial output leave too many dollars chasing too few goods, inflation could further ignite investor interest in precious metals. In this environment of extreme monetary and fiscal largesse, systemic risk, possible large-scale insolvencies and fears over currency debasement in some quarters, it is not difficult to see how gold and its sister metals have the best prospects that they have had for many years. While some parts of the demand profile may be impacted by the economic slowdown, governments and corporations will continue to do everything they can to stimulate broader consumption.

Silver and the PGMs have a strategic importance in everything from protective equipment, to electronics, clean energy and personal transportation – demand areas that have a bright future in a post-COVID world.

Dr. Jonathan Butler is Head of Business Development at Mitsubishi Corporation in London where he specialises in precious metals sales and commodity strategy, as well as new market development. He is also responsible for Mitsubishi's global research on gold, silver and the PGMs.

The Extraordinary Rise of ETF holdings in 2020

BY JOHN READE, CHIEF MARKET STRATEGIST, WORLD GOLD COUNCIL

One advantage that exchange traded funds (ETFs) bring to gold market watchers such as me is their transparency.

It's relatively easy to track gold held by ETFs: Bloomberg even has a robot that does this for a limited set of funds and then automatically writes a news story based on the calculation. At the World Gold Council, we also monitor gold-backed ETFs and similar products – which we refer to as gold ETFs for short – tracking flows for approximately 90 funds worldwide and providing data and tables on our website. We also write a comprehensive analysis of gold ETF flows each month. These can all be viewed at **https://www.gold.org/goldhub/data/global-gold-backed-etf-holdings-and-flows**.

> Inflows into gold-backed ETFs have broken all records in 2020 with total holdings reaching an all-time high of **3,785t** at the end of July

This analysis shows that inflows into gold-backed ETFs have broken all records in 2020, with total holdings reaching an all-time high of 3,785t at the end of July, leaving the value of global assets under management standing at $239 billion. Global net inflows of 899t ($49.1 billion) in the year to July are considerably higher than the previous record annual totals and the trend of inflows has continued in the first few trading days of August as the price of gold has breached $2,000/oz.

To put these flows and holdings in perspective:

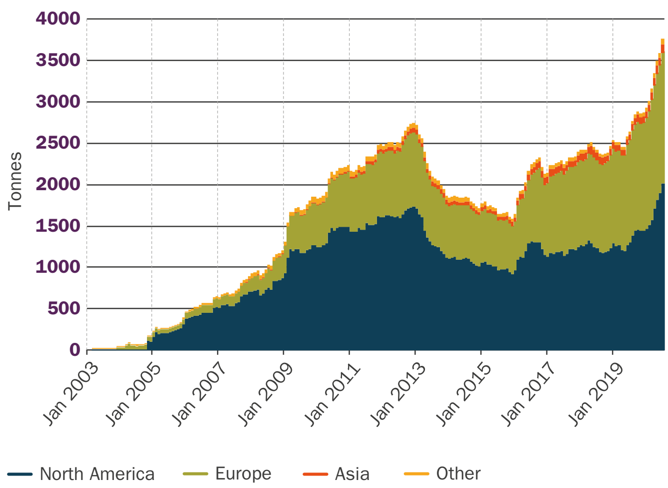
- ETFs now hold more gold than any one central bank barring the US Treasury.
- Inflows in 2020 have exceeded the record annual purchases by central banks seen in 2019 of 667t.
- ETF inflows in the first six months of the year were equivalent to about 40% of new mine supply.

Before we discuss these inflows in more detail, it's worth discussing the short history of physically-backed gold ETFs.

> **INFLOWS IN 2020 HAVE EXCEEDED THE RECORD ANNUAL PURCHASES BY CENTRAL BANKS SEEN IN 2019 OF 667t**

Gold ETFs first came on the scene in 2003 with the listing of the first product by ETF Securities in Australia. ETFs grew steadily, both in the number of funds and in aggregate holdings, before being thrust into the limelight in 2009 when buying associated with the global financial crisis saw a surge of inflows. But once gold corrected from its then all-time high, heavy profit-taking saw holdings fall between 2013 and 2015, and gold-backed ETFs slipped from the headlines.

CHART 1: TOTAL GOLD HELD BY ETFs HOLDINGS



Sources: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

North American inflows outpacing European net purchases by more than 3:1

But investor interest hadn't gone, it was only sleeping: inflows into ETFs resumed in 2016, firstly into North American-listed products, but then European-listed funds saw strong inflows, becoming the main driver of net inflows, a trend that would continue until late 2019.

Only after the period of late March 2020 madness, which saw broad asset market weakness associated with the first palpable fears about the economic impact of COVID-19, did North American listed funds regain the lion's share of inflows. This has continued each month since March, with North American inflows outpacing European net purchases by more than 3:1.

SO WHAT'S CHANGED IN 2020?

We believe that there are two principal reasons why ETFs have seen such strong purchases in 2020, both connected to the coronavirus.

- As the global economy tipped into deep recession, falling bond yields – especially negative real US Treasuries' yields – have driven gold prices higher, encouraging investors to buy gold, sometimes via ETFs.
- The logistical issues that triggered the dislocation of the Comex gold futures market from the OTC market centred in London have reduced the attraction of investment on the Comex futures market, due to increased costs of ownership and higher premiums to the OTC price.

SOME INVESTORS WHO HAD HISTORICALLY OWNED GOLD VIA FUTURES HAVE SWITCHED POSITIONS INTO OTC HOLDINGS AND INTO ETFs

Anecdotally, some investors who had historically owned gold via futures have switched positions into OTC holdings and into ETFs. It is also possible that shortages of coins and small bars and/or the high premiums of these products have encouraged ETF buying instead.

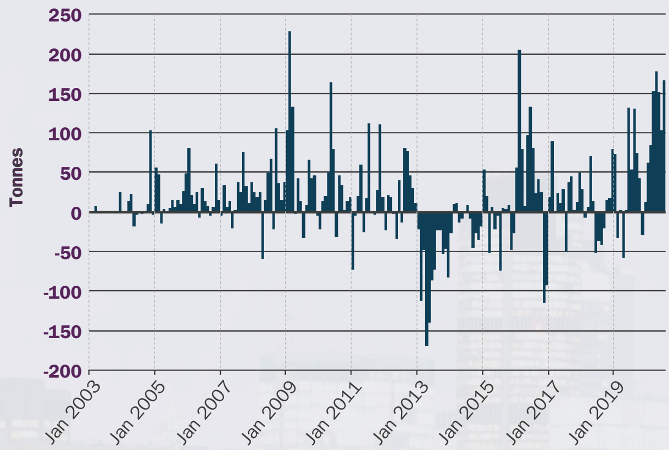
So, it's possible that a shift in the patterns of investment demand towards ETFs due to the logistical issues and the breakdown of the efficient connection of the OTC and Comex futures market may be exaggerating the impact of these strong ETF inflows.

WHERE'S ALL THE GOLD COME FROM?

We often get asked how it is possible for ETFs to see so much in the way of inflows, especially during periods when there are shortages of coins and small bars in some markets.

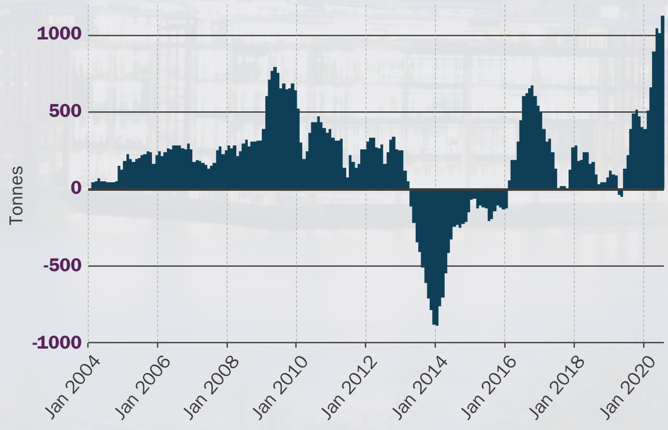
Firstly, I think it is important to differentiate between coins and bars in retail outlets and gold held in London, where most of the ETFs vault their gold, as London is the major centre of OTC market liquidity. It's much easier to get gold from refineries to London than it is to get small consignments of retail investment products to sales points around the world. According to comments from LBMA and from authorised participants we've spoken to, there has been no difficulty in getting gold to allow the ETF creations that have been seen this year, in spite of logistical challenges.

CHART 2: MONTHLY CHANGE IN ETF HOLDINGS



Sources: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

CHART 3: ROLLING 12M ETF FLOWS



Sources: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

Secondly, for all the strength in certain types of investment demand in Western markets, consumer demand for gold has fallen sharply in the first half of the year. In our Gold Demand Trends report for Q2 and H1 2020, published in late July, we reported that jewellery demand fell by 46% year on year to 572t "as markets remained in lockdown and consumers were deterred by the high price and a squeeze on disposable income". Total bar and coin demand fell 17% year on year, central bank buying slowed and technology demand fell 13% as "end-user demand for electronics collapsed". The weakness in demand from these sectors resulted in gold being available for the ETF creations we've discussed.

SOME INSTITUTIONAL-SIZED **ETF POSITIONS** MAY BE SWITCHED INTO ALLOCATED GOLD HOLDINGS

OUTLOOK

We recently published the Gold mid-year outlook 2020, which concluded that gold investment will likely offset weak consumption. Three of the four broad sets of economic drivers, namely:

- Risk & Uncertainty
- Opportunity Cost, and
- Momentum

should continue to support investment demand in 2020 and probably beyond.

The fourth gold demand driver, Economic Expansion, which is mainly a driver of consumer demand, will not support gold demand in 2020, although recovery in the global economy in the second half of 2020 and beyond may help consumer demand for gold be less weak.

If gold investment demand continues to be strong, will this result in continued strong ETF inflows? We think this is very likely, but not inevitable. If the linkage between the Comex futures market and the OTC market becomes more efficient, some ETF investors may migrate back to this market.

Also, based on conversations with investors, some institutional-sized ETF positions may be switched into allocated gold holdings, because for those permitted to invest in gold in this way, costs can be lower.

Gold-backed ETFs have hit the headlines for all the right reasons in 2020. It's unlikely that flows will stay permanently strong, but these products have demonstrated that allowing a broad spread of investors exposure to the gold price can support overall gold demand even if consumer demand collapses.

John Reade joined the World Gold Council in February 2017 as Chief Market Strategist. He is responsible for producing strategy and developing insights on the gold market; leading our global dialogue by engaging with leading economists, academics, policy makers, fund managers and investors on gold; and leading our research team.

John has over 30 years' experience in the gold industry and related fields, most recently as a partner and gold strategist with Paulson & Co for the past seven years. Prior to that, he worked as a precious metals strategist at UBS for 10 years; a gold equity analyst in South Africa for 5 years; and over 8 years held various positions in production and project evaluation in the gold division of Gencor, then a leading South African mining house.

John has a degree in Mining Engineering from the Royal School of Mines, a constituent of Imperial College, London.

"THE STRANGEST COMMUNITY"

Front Street, Nome at the turn of the 20th Century

Golden Cities of the World – Nome, Alaska

BY SIMON ROSTRON, LBMA PR CONSULTANT

At longitude 165° 24' W, on the coast of Alaska's Seward Peninsula, the City of Nome is almost as far west as one can be on the North American mainland.

It is a small place, the 2018 population numbered some 3,866, and remarkably isolated. There are neither road nor rail links, and no ferry service. There is no natural harbour, although there is now a seaport, the city is ice-bound for several months a year and the airport is subject to closure by storms.

For the hardy, or perhaps foolhardy, one way into Nome over land is by dog-sled and, every March, the City acts as the finishing post of the Iditarod Trail Sled Dog Race, a competition for some 50 'mushers' and 1,000 dogs over a varying course of about 1,000 miles running from Anchorage, Alaska's largest city, to Nome. The record time (set in 2017) is just under 8 days and 4 hours!

Scroll back to 1900 and Nome was a very different place. A photograph of River Street from that summer shows a line of tents on a sand spit stretching some 30 miles into the distance, an old paddle steamer converted into a hotel, a riot of half-built wooden houses, the 'US Restaurant', the River Side Saloon (drinks 25 cents) and, for entertainment (of a sort), Roscoe's Theatre Comique.

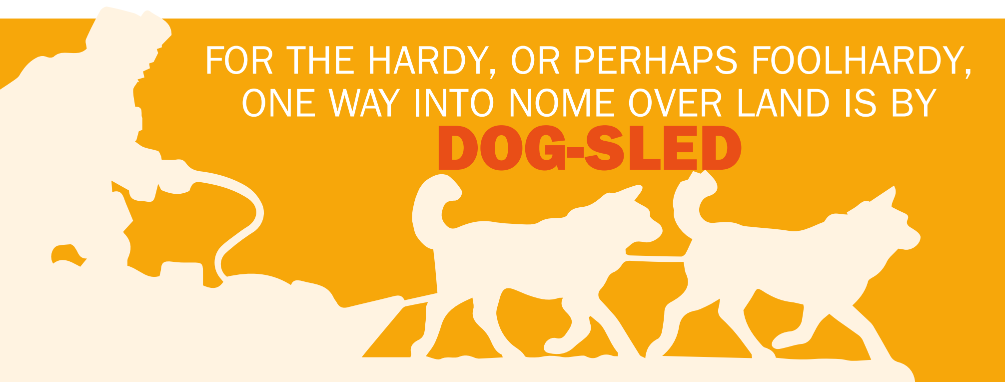
NOME HAD BECOME AN ARCHETYPAL GOLD RUSH TOWN

There were even luminaries in the town, notably Wyatt Earp, who with a partner opened the Dexter Saloon in 1899 in Front Street (see hero image), Nome's first two-storey building. Earp apparently departed a few years later, with $80,000 (equivalent to about $2.25 million in 2020) stuffed in his pockets.

In short, and thanks to the discovery of rich placer deposits in 1898, Nome had become an archetypal gold rush town and, for a while, the biggest municipality in Alaska, with a population of around 20,000. This crowd was supplemented by the soldiers from Fort Davis down the road, newly built to control the frequent, violent disputes between first-footers and subsequent claim-jumpers.

A 17 July 1900 line in the *Seattle Post-Intelligencer* summed it all up, describing the Nome of that year as: "The strangest community ever seen upon the face of this old earth."

FOR THE HARDY, OR PERHAPS FOOLHARDY, ONE WAY INTO NOME OVER LAND IS BY **DOG-SLED**



What's in a Nome?

Map of Alaska, highlighting Nome at the south east point of the Seward Peninsula.

One theory about how Nome got its name suggests a misunderstanding of the indigenous Iñupiat people's language. A second suggests the name is of Norwegian origin.

The third, and most attractive explanation, is that **'Nome'**, more accurately C. Nome (for Cape Nome), was a cartographer's misreading of a chart annotation by a British naval officer of the 1850s, who had actually written **'? Name'**, for future amendment.

By the way, the possibly misinterpreted Iñupiat phrase Kn-no-me means, **"I don't know"**, which doesn't help at all.

DANIEL LIBBY

Unlike the discovery that set off the 1848-51 California gold rush – finding gold where none was thought to exist – gold had been known to exist in Alaska for at least 50 years before the Nome Gold Rush, some of it on the Seward Peninsula where the city stands.

The Russians had found gold before 1850 but had not attempted to exploit it. The first commercial production, 967 troy oz, reported by the US Geological Survey took place in 1880, probably from placers near Juneau in the south.

Arguably, the first unmistakable traces of gold on which Nome was built were seen in the mid-1860s in the Fish River Valley, some 65 miles north, by a young engineer, Daniel Libby, and the euphoniously named Baron Otto Von Bendeleben (commemorated by a local mountain), who were involved in the construction of a planned trans-continental telegraph line.

Libby never forgot his observations and coupling these with other reports of gold found on the Seward Peninsula, plus the mania generated by the Canadian Klondike Gold Rush, which was still going on, returned in 1897. Less than a year later – on St George's Day 1898 – Libby and his partners made the first major strike in the Peninsula at what quickly became called Council City, the region's original gold rush town.

ON ST GEORGE'S DAY 1898 – LIBBY AND HIS PARTNERS MADE THE FIRST MAJOR STRIKE IN COUNCIL CITY

Despite the fact that gold continued to be produced here for the next 30 years, the development of these fields was, it turned out, only a prelude to the main event which took place six months later, courtesy of the 'Three Lucky Swedes', who met by chance in Council City in 1898 and set out to seek their fortunes further west.

THE THREE LUCKY SWEDES

Alaska's Seward Peninsula is home to hundreds of rivers and smaller watercourses flowing into the Bering Sea. The names of those around Council City, testify to the success, or at least ambitions, of the prospectors – Bonanza River, Eldorado River, New Eldorado River and so on.

However, for Lindblom (a tailor), Brynteson (a coal miner) and Lindeberg (actually a Norwegian, who claimed without justification to be a reindeer herder), a different river was the path to riches and gave rise to the 'Three Lucky Swedes' appellation.

To quote Alaska Geographic of 1984 (Cole and Walsh): "After several days of battling stormy weather in their makeshift boat, they came ashore at the mouth of the winding stream which they called the Snake River [on which Nome now stands]. Within a week the three greenhorns, who supposedly could not tell a 'placer from a potato patch', had staked most of the best claims in one of the richest gold fields ever found in Alaska."

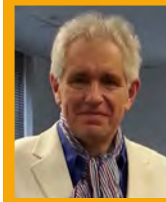
News of this discovery spread rapidly, and fuelled by disaffected prospectors from the Klondike and passenger ships from Seattle (only able to anchor in the warmer months), the opening act of the Nome Gold Rush began.

But as new prospectors arrived in the spring of 1899, there were many who immediately took offence at the fact that "the few hundred men in the Nome district had staked about fifteen hundred mining claims, which were enough, if placed end to end, as one observer pointed out, to stretch the entire length of the state of Illinois". *(ibid)*

News of this discovery spread rapidly and the opening act of the NOME GOLD RUSH BEGAN

The Three Lucky Swedes; Alaska State Library – Historical Collections

Claim-jumping, and plot-jumping for building space, quickly became, after gold, Nome's second major business and involved everyone who could afford to play, including a dodgy politician from North Dakota and the inevitable crooked judge who jointly overturned a series of legitimate claims to the benefit of their friends and themselves.



Simon Rostron has been Managing Director of Rostron Parry Ltd - media relations consultancy since 1991 and PR and media consultant to LBMA since 2014. In his earlier career he was a Stockjobber, London Stock Exchange and remains a legend in his own lunchtime.

The Spoilers, 1942 - Universal Pictures.

So notorious were their actions, they formed the basis of a 1942 John Wayne and Marlene Dietrich movie, *The Spoilers*.

In September 1900, the rule of law reached Nome and the claims of rightful owners were restored. The Three Lucky Swedes continued to prosper and, according to Wikipedia, their mining company had by 1920 made some $20 million (–or $255 million in today's money).

But this is not the whole story.

CITY OF THE GOLDEN BEACHES

Extracting gold from the unforgiving environment of Alaska is hard, and as well as the costs of filing and defending a claim, requires substantial investment in equipment, let alone accommodation to withstand the harsh winter.

But as with all gold rushes, there were some who arrived in Nome entirely unprepared, without equipment and without money either to buy it, to establish a claim or simply to live. Many of these became destitute, living as best they could in makeshift shelters on the beach.

Then the miracle occurred – the discovery that makes Nome unique in gold rush history.

No claims (just the length of a spade) and nothing much in the way or equipment or experience were required.

Gold was present in good amounts from the surface to four feet down – accessible to all.

"Poor Man's Diggings – American Soil – 8 Days from Seattle" proclaimed an advertisement for the North American Transportation & Trading Co. The second and final phase of the Nome Gold Rush had begun.

> **"THERE WAS GOLD IN THE SAND. THE NOME BEACH WAS SO RICH THAT A MAN COULD ALMOST PICK GOLD UP OFF THE BEACH LIKE SEASHELLS OR DRIFTWOOD. THE MINERS CALLED IT 'THE POOR MAN'S PARADISE'"**
> (IBID)

The beach bonanza didn't last long – two or three seasons at most – and was only profitable for a few.

> THE THREE LUCKY SWEDES CONTINUED TO PROSPER AND THEIR MINING COMPANY HAD BY 1920 MADE SOME **$20 MILLION**

It became clear that the deposits extending from Snake River and its tributaries into the hills were the best long-term bet even after the Rush fizzled out in 1909.

As a former gold rush town, Nome is unusual. Some, such as San Francisco and Ballarat *(Alchemist 89)*, have prospered. Others such as Council City no longer exist except as marks on the map.

Nome, by contrast, while never regaining the population numbers of its heyday, is still extant and, in terms of employment, beyond the usual coterie of municipal workers, teachers, medical and airport personnel, most of the working population still derives their income, as they always have, from the extraction of gold. Some 115 tonnes so far and still counting.

Cancelled check in the amount of $7.2 million, for the purchase of Alaska, issued August 1, 1868; Records of the Accounting Officers of the Department of the Treasury; Record Group 217; US National Archives.

THE **ALASKA** PURCHASE

There is a parallel between the Alaska gold rushes at the end of the 19th century and the more familiar California gold rush of 1848-1851. In both cases, substantial deposits of gold were found in land which only a little time before had belonged to another nation.

California gold was famously discovered on 24 January 1848, nine days before the signature of the Treaty of Guadalupe Hidalgo, which marked the formal end of the Mexican-American War, and enabled the US to buy California and much other territory, for $15 million.

The pace was slower in Alaska, which the US bought from Russia with a cheque for $7.2 million dated 1 August 1868 (the equivalent of approximately $132 million in 2020).

The 'Alaska Purchase' was unpopular with many. Describing the newly acquired territory as nothing but a 'frozen wilderness', the *New York World* said that except for furs, there was nothing of value – unless gold were found in the country!

And gold was found. According to figures supplied by the US Geological Survey, to the end of 2018, total Alaskan gold production was between 42.3m and 43.8m troy oz (1.31m to 1.36m kg); however, some estimates are significantly higher.

LBMA NEWS

BY RUTH CROWELL, CEO, LBMA

LBMA's Commitment to a DIGITAL FUTURE

Read the Regulation Update on page 24 to see how LBMA is working with other industry bodies in a collective commitment to a digital future for financial markets.

LAUNCH OF THE FIRST RESPONSIBLE SOURCING REPORT

We're excited to announce that we will be launching our first annual Responsible Sourcing Report in September. It will set out clearly the scope of our Responsible Sourcing Guidance, including the responsibilities of LBMA accredited refiners and the steps LBMA takes to ensure their compliance with our programme. It provides more granular data on Country of Origin to highlight where gold is mined and refined around the world.

It also features a number of case studies to illustrate the key points and remedial action that LBMA has taken to deal with issues of non-conformance. Look out for details of the special webinar in September to mark the launch of the Report, which will highlight its key aspects.

LBMA launches Security Feature Specifications for Gold Bars

On 12 August, LBMA launched its security feature specifications, enabling vendors of security features for gold bars, as well as users of existing security features, to benchmark their particular solution.

These form part of the Gold Bar Integrity (GBI) initiative to enhance the integrity of the physical gold market by ensuring gold bars entering the market are genuine and have a known provenance. These specifications will integrate with a bar database solution currently under development.

The specifications were developed in conjunction with the London vaults, Good Delivery refiners and other industry experts. The specifications will apply to all new 400oz London Good Delivery gold bars produced. In future, it is envisaged that they could be applied to other bullion products to enhance the integrity of the wider market.

LBMA is also forming a digital gold task force, which will help to further explore market innovation related to digital gold receipts. Full details of this initiative will be shared in due course, but in the meantime, if you would like to find out more, please contact us at **mail@lbma.org.uk**.

GOLD PRICE Hits Record High

The LBMA Gold Price broke through the $2,000/oz barrier on 11 August for the very first time in its 100+ year history to reach an all-time record high of $2,034.45/oz. It leapt to a further high in the afternoon auction of $2,048.15/oz.

GOLD & SILVER HELD IN LONDON VAULTS

Record Value of Gold Stocks – Over $460 billion of gold held in London Vaults

As at the end of April 2020, there were **8,482** tonnes of gold, valued at a record high of **$464.4** billion, and **35,667** tonnes of silver, valued at **$17.58** billion. This equates to approximately **678,595** gold bars and **1,188,898** silver bars.

104 ACCREDITED REFINERS

We now have **104 refiners** on the Good Delivery Lists, with **70** listed for gold, **83** listed for silver and **49** refiners on both lists.

Guangxi Nandan Nanfang Metal Co., Ltd was added to the Good Delivery List for silver in June and Zhuzhou Smelter Group Co. Ltd was moved to the Former List for silver, effective 31 December 2019. There are currently four active Good Delivery applications.

LBMA TRADE DATA

On 29 July, daily gold volumes hit a record 89.4 million ounces, with a record value of $174.3 billion. The daily volume in 2020 has averaged 37.4 million ounces, with an average daily value of $62.7 billion.

There are a couple of exciting changes to the trade data which will come on stream in September for subscribers. The most impactful update will be the launch of the exclusive Lease Loan Deposit Report, which for the first time will give market participants a clear understanding into the Lease Rates traded across the OTC markets for each metal.

In addition, all market data reports will now become available to subscribers in the morning (UK) rather than later that evening, reducing the latency of trade information. The final enhancement was born directly from market feedback for more transparency and granularity in the data set, so we are happy to inform that both the VIPT (spot price/volume data) and Option Strike Price data sets will be enhanced to include additional price buckets, more granular strike prices and a broader range of trade information, all adding more colour and depth to the data available.

LBMA Trade Data* (provided by Nasdaq) is now available via the Bloomberg Terminal. For more information on subscribing or contributing data, visit: **https://www.nasdaq.com/LBMA-Trade-Data**

LBMA MEMBERS

We currently have **145** Member and Associate companies – **63** Full Members, **12** Market-Making Members, **14** Affiliates, **3** Exchange Affiliates and **53** Associates and **one** Subscriber.

If you are interested in applying for membership of LBMA, including the new Subscriber category, please email: **mail@lbma.org.uk**

LATEST STAFF NEWS

LBMA appoints new NED to its Board

LBMA is delighted to announce the appointment of Isabelle Strauss-Kahn, formerly of the World Bank and the Banque de France (BDF), as its third Independent Non-Executive Director, with effect from 1 July 2020.

This follows the news that, due to an unexpected change in personal circumstances, Simon Potter has had to resign from the Board to take up a new full-time role. LBMA wishes him all the best for the future. You can read about his experiences of working at LBMA in his Editorial for this edition of the *Alchemist*.

Charitable Donations

One of the three charities that LBMA supported in 2019, the Jamil & Nyanga Jaward Foundation in Sierra Leone, has recently sent us some photos to illustrate how our money has been used. The Foundation was established to help impoverished children and widows in Sierra Leone cope with the challenges of poverty. Some of the widows are pictured here and its gratifying to see that our financial support has already had such a positive impact. For further information, please visit: **https://jnjf.org/**

Webinars and Events

Our programme of webinars, which we began earlier this year at the start of the COVID-19 lockdown, have proved very popular. We took a break in August but we will be resuming them again in September. We have some exciting speakers and topics lined up, including James Kynge, global China editor for the *Financial Times*, who was the keynote speaker at our conference in Shenzhen last year.

Keep an eye on our weekly newsletter for details of our Autumn webinar programme and visit our website to view any that you may have missed.

If you haven't already registered for the weekly newsletter, our Responsible Sourcing or Good Delivery newsletters, you can do so by updating your preferences in the MyLBMA portal. LBMA members, associates and subscribers receive member-specific news so it's a great way to stay updated on things.

LBMA's Assaying and Refining conference will launch this September, and keep an eye out for our 2021 Annual Conference registration launch this October, where we will have some limited discounted passes for those of you who manage to catch this special offer in time.

Sadly our conference this year was cancelled, and we have also been forced to cancel the annual dinner in December this year too. Our next event will be the virtual AGM, which will now take place at the earlier date of 29 September. This year it is the turn of the Full Members of the Board to stand for re-lection (Hitoshi Kosai, Mehdi Barkhordar and Fang Wenjian). Watch out for details in the weekly members' newsletter.

MARKET MOVES

NEW SENIOR TRADER AT BULLIONVAULT

Henryk Vasilevski has joined BullionVault as Senior Trader, working alongside Izabela Kacprzak at the $3bn private-investor platform. Fluent in Polish, Russian and Lithuanian, and with an MSc from St Andrew's in Money, Banking and Finance, Henryk traded oil, gas and renewables for five years at SSE, before prop trading Brent futures at a London market-making firm.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www.lbma.org.uk/events

IS GOLD STILL A SAFE-HAVEN ASSET?

BY JIAO JINPU, CHAIRMAN, SHANGHAI GOLD EXCHANGE

In mid-March, gold appeared to have lost its safe-haven status as the gold price tumbled due to the combined effects of a number of factors, including the global stock market rout, the highly synchronised price movement between gold and commodities, the magnified role of a strong dollar and the oil price crash. However, in the long run, gold is still a sought-after safe-haven asset and will continue to shine as a portfolio diversifier given the massive and unprecedented monetary and fiscal stimulus measures launched by central banks and governments worldwide to combat the economic damage generated by the virus.

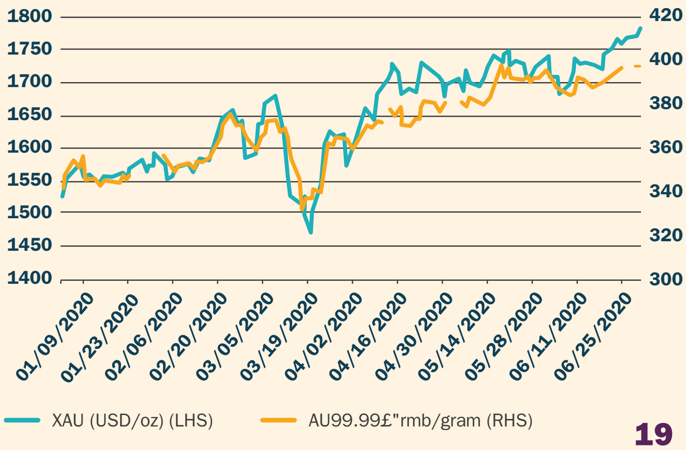
The onset of 2020 saw significant financial market turmoil and heightened asset price volatility as the COVID-19 pandemic raged globally. The same rings true for gold. The spot gold price in one week alone plunged over 15% in mid-March. As a result, it was questioned whether gold's role as a diversifier still held as gold's safe-haven status was seemingly lost.

SO, IS GOLD STILL A SAFE-HAVEN ASSET?

On the face of it, the drastic volatility in the gold price at the beginning of the pandemic looked quite similar to what we saw in the 2008 global financial crisis. However, the root causes of the two are different. Theoretically speaking, there are a host of factors that affect the gold price and the role each plays differs. The significant gold price volatility this year was not as a result of traditional fundamental or geopolitical factors, but mainly driven by the sudden disruption of economic activities together with the macroeconomic policies launched against the gloomy growth outlook in times of market distress.

In mid-March, gold appeared to have lost its safe-haven status as the gold price tumbled due to the combined effects of a number of factors, including the global stock market rout, the highly synchronised price movement between gold and commodities, the magnified role of a strong dollar and the oil price crash. However, in the long run, gold is still a sought-after safe-haven asset and will continue to shine as a portfolio diversifier given the massive and unprecedented monetary and fiscal stimulus measures were launched by central banks and governments worldwide to combat the economic damage generated by the virus.

CHART 1: XAU VS SGE AU99.99 TO END JUNE 2020



Source: Refinitiv

DRIVERS BEHIND THE HEIGHTENED GOLD PRICE VOLATILITY

At the end of March, the gold price nose-dived to $1,450.98/oz from its Q1 peak of $1,702.56/oz, a steep drop of 14.78%, which was followed by a rapid rally. As illustrated in Chart 1, gold continued to push higher, hitting $1,689/oz on 10 April and then $1,786.02/oz at the end of June, before reaching an eight-year peak, up 17.36% YOY in the first half of 2020.

So what led to the huge price volatility in gold this time round?

1. The plunge in financial assets across the board in the US and Europe due to COVID-19

Since the COVID-19 outbreak, the total number of confirmed cases worldwide reported to WHO has exceeded 12.76 million (as of 30 June). Most of the countries responded to the health crisis by introducing lockdown measures, which pushed the world economy into a temporary lockdown and the medium to long-term global growth outlook into negative territory.

As we all know, human capital is the most dynamic factor in driving productivity. Once the health or life of humanity is under threat, the demand for work and wealth suddenly becomes awfully subdued. So, it is inevitable that once COVID-19 put human capital in jeopardy, it wreaked havoc on the real economy, which manifested in business shutdowns, market shrinkage and a free-fall in trade activities from the transportation, hotel, catering, wholesale, culture, sports and entertainment sectors.

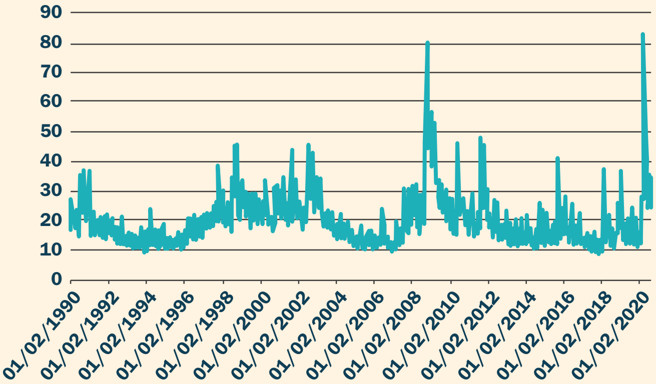
THE CRISIS IN THE REAL ECONOMY WITH ITS KNOCK-ON EFFECT ON THE WHOLE FINANCIAL MARKET GOT AMPLIFIED AND IN TURN COMMODITY BOND EQUITY AND GOLD MARKETS BECAME HIGHLY VOLATILE

The crisis in the real economy, with its knock-on effect on the whole financial market, got amplified and, in turn, commodity, bond, equity and gold markets became highly volatile. It then moved rapidly onto financial institutions such as asset management companies, insurance companies and banks, snowballing into larger crises. In other words, the colossal 'top-down' damage from COVID-19 to the real economy set major systemic risks off in the global financial markets, which in turn imposed more acute and sweeping repercussions than the 'bubbles' in previous financial crises. Chart 2 below illustrates this point. Since COVID-19 hit advanced economies in March and began spreading rapidly, there have been growing concerns about an economic downturn and a liquidity squeeze. Consequently, the VIX Index saw a surge to an all-time high of 82.69 on 16 March.

the VIX Index saw a surge to an all-time high of 82.69 ON 16 MARCH

During the same period, the US equity market saw four circuit breakers triggered on 9, 12, 16 and 18 March. The Fed responded by aggressively cutting rates to near zero, and introducing a new $700 billion QE programme and a combination of policy toolkits to inject liquidity directly to consumers, businesses, funds and banks. This was achieved through expanding the Consumer Paper Funding Facility (CPFF), the Primary Dealer Credit Facility (PDCF), the Money Market Mutual Fund Liquidity Facility (MMLF) and 'unlimited' QE bond buying, establishing the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF), etc. Despite all these initiatives, the US equity market was still subject to heightened swings, further proof of market-wide panic and liquidity constraints. Faced with this decline and significant volatility across global equity markets, some investors had to sell liquid assets such as gold to cover their losses and margin calls. And in so doing, money flowed out from gold market.

CHART 2: VIX VOLATILITY INDEX OVER THE PAST 30 YEARS



Source: Refinitiv

Worse still, the virus-induced 'all-out crisis' plunged the world economy into a downward spiral, depleting liquidity in the financial markets and bringing a precipitous drop across the asset classes, including equity, crude oil, gold and bonds. Rising uncertainty and risks, together with deleveraging, led to the trampling effect and the plummeting of financial assets. Even gold was not immune to this sell-off across the board and its safe-haven status remained dormant amid the early financial turbulence.

2. Price actions for gold and commodities moved in lockstep as gold is widely included in financial asset indices

Financial products such as the Commodity Research Bureau (CRB) Index futures, one of the most widely traded contracts worldwide, covers 19 commodities, including crude oil and gold (in this case, gold's role as monetary value becomes vague). So, if commodity prices tank, especially when risk-off tone returns, investors tend to sell off CRB Index contracts. Therefore, gold was indiscriminately liquidated along with other assets as all commodities were included and bonded in the index in equal proportion.

Likewise, gold has also been widely added to investment portfolios, meaning that when the financial markets see a rise in volatility, gold tends to move in lockstep with it. This might well explain why gold lost its safe-haven status when risks started to surge in the international financial markets. However, the correlation between gold and other commodities is not organic in that it is designed and made by humans to optimise asset allocation. After all, gold, unlike other commodities and common financial assets, will usually recover its safe-haven status when the shock of a liquidity crisis gradually eases.

AS MARKET LIQUIDITY STARTED TO SQUEEZE THE US DOLLAR INDEX SOARED TO 103.01 ON 20 MARCH A NEW THREE-YEAR HIGH

3. The magnified role of the US dollar in the gold price

The US Dollar Index is a major factor affecting the gold price. Despite the inverse correlation that the index has with the gold price in the long run, the effect of such a correlation gets greatly magnified when financial liquidity is in extremely short supply. A case in point is when the US Dollar Index experienced a temporary drop in late February as a result of the COVID-19 contagion and the US stock market rout. On 9 March, the US equity market hit its two-year low, triggering the first circuit breaker this year. As market liquidity started to squeeze, the US Dollar Index soared to 103.01 on 20 March, a new three-year high. Contrary to the US dollar, the gold price lost its upward momentum on 9 March and started to dive down. With this in mind, we can see that the inverse correlation between gold and the dollar index got greatly magnified.

With looming risks, market panic crept in as investors were faced with significant uncertainties and extreme fluctuations. At this point, the US dollar, a benchmark for global wealth, was undoubtedly the hedge of choice against market risks, and that was the rationale behind the sell-everything-for-the-greenback response, even though the Fed unleashed two rounds of unconventional rate cuts in March.

The highly leveraged US equity market faced a situation of forced liquidation risks and liquidity crisis when the dollar plunged. Though the Fed injected more cash into the market via banks, the liquidity found it hard to make its way into the equity market as US banks are subject to the Volker Rules, which generally prohibit banking entities from engaging in proprietary trading or owning, investing in or sponsoring hedge funds or private equity funds. On top of that, high-frequency trading and financial derivatives exacerbated the liquidity crunch because of the liquidation of assets in dollar terms in extreme market conditions. Then, cash became king again across the financial markets. Even though the Fed cut interest rates to near zero and launched QE bond buying, the liquidity crunch did not ease. Normally, the US Dollar Index dips following rate cuts, but it surged surprisingly this time, which indicates the magnified role of the greenback in financial markets.

THOUGH THE FED INJECTED MORE CASH INTO THE MARKET VIA BANKS THE LIQUIDITY FOUND IT HARD TO MAKE ITS WAY INTO THE EQUITY MARKET

4. Oil price crash weighed on gold

Amid the initial phase of the COVID-19 outbreak in China, there were concerns over China's economic fallouts from the virus, which aggravated the imbalance between supply and demand in the global oil market and sent the oil price in a downward spiral.

On 22 February, the virus started to hit other countries and worries about the epidemic intensified as the oil price dipped at a faster pace. On 4 March, Russia rejected the OPEC+ backed additional oil cuts. On 7 March, Saudi Arabia announced its decision to sell oil at a sharply discounted price and increase its production to well above 10 million barrels a day, which it then increased to 11 million barrels a day in April. Subsequently, other OPEC members followed suit and joined the oil price war. On 9 March, the oil price took another dive, with the WTI crude oil price nearly back below $20 mark at $20.06 per barrel from its peak $65.65 per barrel, down approximately 70%. In this sense, the oil price crash weakened further the already fragile financial markets.

GOLD IS STILL A SOUGHT-AFTER SAFE-HAVEN IN THE LONG HAUL

Low oil prices also pounded the US shale oil sector, with the majority of US shale drillers and producers bearing the brunt and being forced into debt crisis, given that the break-even cost on average is above $45 dollars a barrel. In the meantime, the shares across the sector started to collapse, with the industry tycoon Chesapeake Energy down by 75% in less than a year. In this sense, panic in the equity market and the liquidity crunch were clearly intensified.

GOLD IS STILL A SOUGHT-AFTER SAFE-HAVEN ASSET

Though gold was not immune to the across-the-board price drop in the early stage of this year's financial turmoil, from the point of view of its previous data, gold is still a sought-after safe-haven in the long haul.

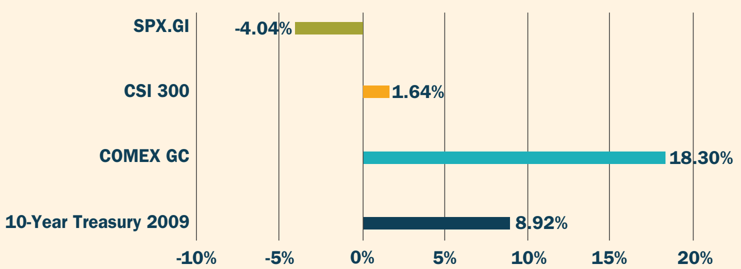
1. As one of the best-performing financial assets with the highest yield this year, gold continues to see sizeable growth in trading

Despite the fact that the gold price posted its biggest fall of 15% in March, gold still managed to be top of the list of this year's best-performing assets, with handsome returns as of the end of June.

Gold-backed exchange-traded funds (ETFs) increased their holdings of gold by 154 metric tons in May, taking holdings to 3621 tons at the end of June. The global gold ETF inflows outpaced records for any calendar year in only five months. As SPDR, the world's largest gold ETF, increased its gold holdings to 3.8 million ounces (about 1,178.91 tons), the record net inflows revealed investors' enthusiasm for gold's safe-haven status.

THE GLOBAL GOLD ETF INFLOWS outpaced records for any calendar year in only five months

CHART 3: YIELDS OF MAJOR GLOBAL ASSETS IN 1H, 2020



Source: Wind

In addition, driven by the surges in the gold price in 1H 2020, gold exchanges across the globe witnessed remarkable growth in trading volumes. While major international exchanges for precious metals, such as the CME and TOCOM, saw a substantial increase in trading volume, the SGE also hit record highs on many fronts.

In the first six months, trading turnover on the SGE registered 18.7 trillion RMB, up by 84.19%, among which gold trading volume climbed 13.28% to 33,800 tons and silver a staggering 272.06% to 1,561,400 tons.

2. Historical data shows gold expects a faster rally than other commodities

When SARS broke out in 2003, the CRB Index fell 11% from its peak of 221.38 to its lowest point of 197.79. In contrast, gold reversed its downward trend on 7 April on the back of a two-month drop and reached $415 per ounce at year end, while the CRB Index did not rally until three weeks later on 29 April.

During the 2008 financial crisis, the CRB Index hit its year low of 208.6 on 5 December, a 66% plunge from its high of 473.52 on 2 July. As the financial meltdown ran its course, and the market was flooded with liquidity from the Fed, the gold price started to rebound and has gained momentum ever since to reach $1,964 per ounce at the end of July, 2020. In contrast, the commodities included in the CRB Index (see chart 4) were yet to recover at the end of 2008.

Given that the end of the coronavirus pandemic is not within sight, gold is poised for tremendous volatility further down the line. But it is more likely that the gold price will rally at a faster pace than other commodities once the financial markets return to normal after COVID-19 has ended.

GOVERNMENTS ALL OVER THE WORLD TOOK CORRESPONDING ACTION BY ANNOUNCING FISCAL MEASURES AMOUNTING TO $8 TRILLION

3. Gold helps navigate risks arising out of the global macroeconomic policy stimulus

According to the IMF's April World Economic Outlook forecast, more than 170 countries were projected to have experienced negative per capital income growth, a far cry from the previous prediction that more than 160 countries would achieve positive growth in 2020.

And yet, its latest forecast shows that the world could face a deeper recession in 2020, with global output projected to decline by 4.9 percent. What's worse, the cumulative loss of output to the global economy across 2020 and 2021 from the pandemic crisis will be over $12 trillion.

What may be certain within the great uncertainty regarding the length and depth of COVID-19 is that global economic growth in 2020 will take a sharp turn for the worse, possibly triggering the worst recession since the Great Depression.

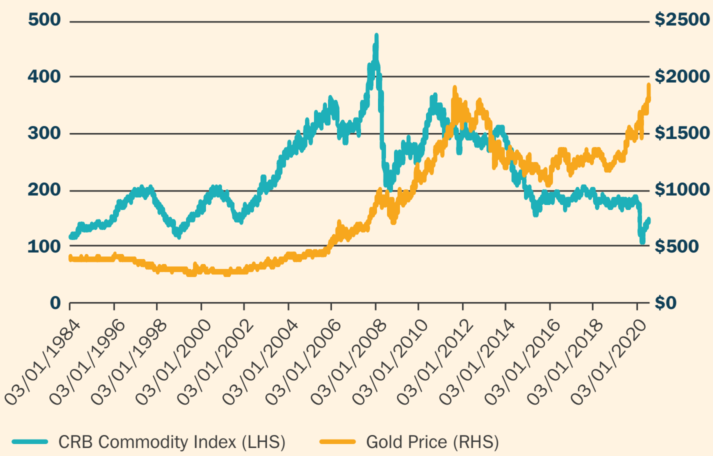
GOLD WITH ITS INTRINSIC CREDIT AND MONETARY VALUE IS UNDOUBTEDLY A SUREFIRE INVESTMENT TO HEDGE AGAINST RISKS FROM POLICY STIMULUS

In early April, governments all over the world took corresponding action and set in motion a major policy co-ordination to respond to the pandemic by announcing fiscal measures amounting to $8 trillion, as estimated by the IMF. In addition to the massive monetary stimulus adopted by the G-20 and other countries, the global market now features broad counter-cyclical economic policies previously unseen.

The key point, however, is that the main role of monetary and fiscal stimulus policies is to alleviate the significant economic volatility. Therefore, it would take time for future economic growth to cushion the perspective economic fallout from the macroeconomic policy stimulus.

Since mid-February, the return of the US high-yield bond has increased to 16.65% from 11.25 %, while the OAS of corporate bonds with a BBB rating has jumped from 135bps to 290bps. Plus, the findings from transmission patterns of crises such as the Great Depression in 1929 indicate that widened credit spreads will lead to inaccessibility to finance for corporates, which spells crises that spread in a bottom-up fashion. That is to say, the Fed's unlimited bond buying and aggressive rate cuts won't be able to turn the tide.

CHART 4: CRB COMMODITY INDEX AND THE GOLD PRICE



Source: investing.com

If the COVID-19 virus continues to rage or even mutates, the macroeconomic policy stimulus could turn into a novel crisis once the global economy becomes stuck in a downward trend.

For that reason, gold, with its intrinsic credit and monetary value, is undoubtedly a surefire investment to hedge against risks from policy stimulus.

ADDENDUM

Since this article was written, the yellow metal has climbed above its 2011 peak to a new all-time record of $2,068/oz in early August. That speaks well for gold's status as an outstanding safe-haven asset.

Mr Jiao Jinpu, is Chairman of the Shanghai Gold Exchange, as well as a Research Fellow, a Member of CPPCC Shanghai Committee and Vice Chairman of Economic Committee in Shanghai Municipality.

Mr Jiao has been Chairman of the Shanghai Gold Exchange since October 2015. Prior to this Mr. Jiao Jinpu worked in China's central bank, the People's Bank of China ("PBC") for nearly 30 years. His main responsibilities covered the research and policy formulation ranging from financial reform, monetary policies, financial regulation, to inclusive finance.

In his days with PBC, he held various senior positions, including Deputy General Director and General Director of the PBC Research Institute, Secretary of the CPC PBC School of Graduate Students Committee, General Director of the Financial Consumer Protection Bureau, and Party Member of the CPC PBC Shanghai Headquarter Committee.

Mr. Jiao is a trailblazer in China's inclusive finance and financial consumer protection with in-depth knowledge in financial market trading, wealth management and commodities pricing. He is also a prolific author of more than 10 books, and over 200 academic papers.

1. https://www.gold.org/goldhub/data/global-gold-backed-etf-holdings-and-flows
2. https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020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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 the 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.

In this Regulatory Update, Rachel Hart considers new and upcoming components of the 2020 regulatory framework governing the precious metals industry throughout Europe.

UK Human Rights Sanctions Law

In July, the Global Human Rights Sanctions Regulations 2020 (GHRSR) came into force in the UK. The Act aims to deter and provide accountability for activities amounting to a serious violation of an individual's right to life, right not to be subjected to torture or cruel, inhuman or degrading treatment or punishment, and right to be free from slavery.

Under the GHRSR, for the first time, individuals can be sanctioned for human rights breaches. Similar to OFAC, the UK now maintains a list of sanctioned individuals and entities. An individual who commits an offence (e.g. financing a sanctioned individual or entity) can face a custodial sentence of seven years.

THE CONFLICT MINERALS REGULATION WILL REQUIRE ALL COMPANIES IMPORTING OVER **100kg** OF GOLD INTO THE EU TO FORMALISE THEIR MANAGEMENT SYSTEMS IN LINE WITH THE **OECD's Five-Step Due Diligence Guidance**

EU 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) of gold into the EU to formalise their management systems in line with the OECD's Five-Step Due Diligence Guidance. Rather than prohibiting gold imports from certain areas, the Regulation requires importers to deal with gold from only responsible and conflict-free sources. Enhanced due diligence by upstream parties will also help to distinguish between conflict-affected and conflict-free sources. By implementing these practices, parties can continue to engage with legitimate sources while disengaging from sources which perpetuate armed conflict, violence and human rights abuse.

As part of compliance with the OECD Guidance, the Regulation requires gold importers to provide the names and addresses of their suppliers. This is overseen by the designated local authority; for example, in the UK, the Office for Product Safety and Standards will be empowered to examine relevant documents and audit reports, and carry out on-the-spot inspections at an importer's premises.

Ahead of the implementation date, the European Commission will be publishing several important resources to help with importers' compliance efforts. The Commission will publish an indicative, non-exhaustive list of conflict-affected and high-risk areas, comprising areas that are currently or could be affected by conflict. A 'white list' of refiners whose sourcing practices are compliant with the Regulation will also help downstream parties report on their suppliers.

An additional 'white list' will set out supply chain due diligence schemes recognised by the Commission to mirror the OECD Guidance. LBMA has applied to the Commission for assessment of the Responsible Gold Guidance (RGG).

This process builds on the alignment assessment undertaken in 2017 to close any gaps between the OECD Guidance and the RGG. Recognition by the Commission of the RGG will ensure that Good Delivery refiners' ongoing and future responsible sourcing efforts are recognised under the Regulation and can also be relied upon by upstream parties in their compliance efforts under the Regulation.

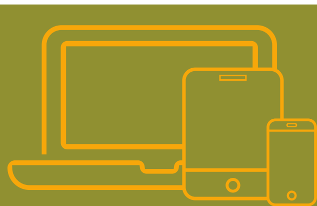
AS PART OF THE EUROPEAN GREEN DEAL BENCHMARKS ADMINISTRATORS WILL NOW BE REQUIRED TO REPORT ON HOW ESG FACTORS ARE REFLECTED IN THEIR BENCHMARKS

Benchmarks

In July, the Commission announced several delegated regulations to support the EU Benchmarks Regulation on sustainable finance issues. Since 2018, benchmark administrators have been required to publish a Benchmark Statement which sets out the rationale of the benchmark methodology, criteria for input data and governance procedures, amongst other things. As part of the European Green Deal, benchmarks administrators will now be required to report on how Environmental, Social and Governance (ESG) factors are reflected in their benchmarks. From August, the Benchmark Statement must consider whether and how the benchmark pursues ESG objectives and provide details on each element of these factors.

For commodity benchmarks (including LBMA precious metal prices), the degree of exposure the underlying commodity has on ESG factors must be considered. This includes an average rule of law score, based on the absence of corruption, respect for fundamental rights, and the state of civil and criminal justice.

DIGITAL FUTURE FOR FINANCIAL MARKETS



LBMA has co-signed a letter to policy makers promoting the development of a digital future for financial markets. Signed by LBMA, ISDA, ICMA, ISLA and other international market associations, the letter sets out a series of principles and objectives aimed at promoting the development of digital standards in order to increase efficiencies, reduce complexity and lower costs.

LBMA DEMONSTRATES ITS COMMITMENT TO EXPLORING TECHNOLOGY'S ROLE IN THE FUTURE PRECIOUS METALS MARKET

By co-signing this letter, LBMA demonstrates its commitment to exploring technology's role in the future precious metals market. For example, our Gold Bar Integrity project is considering how technology, such as digitisation and tokenisation, can benefit the physical and financial supply chains. Adoption of common standards, including LBMA's upcoming Security Feature specifications, can improve risk management, data integrity and operational efficiencies. Under the principles set out in the letter (Standardisation, Digitisation and Distribution), LBMA is committed to defining and promoting a digital future for financial markets.

FACING **FACTS**

STRONG MOMENTUM IN GLOBAL GOLD DEALS ACCELERATED IN Q2 DESPITE COVID-19 IMPACT

BY CAMERON ALEXANDER, MANAGER AND SAMSON LI, SENIOR METALS ANALYST, REFINITIV METALS RESEARCH

The number of global gold deal announcements in the mining industry continued to surge in the second quarter of this year, with more than 200 deals recorded, a jump of over 570% on an annual basis.

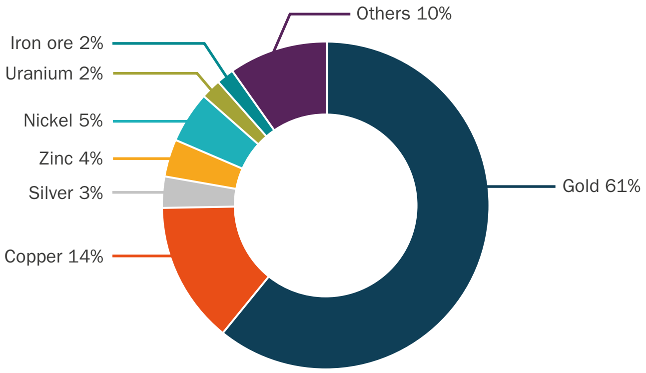
The total number of gold deals recorded in the first half of this year exceeded
280
TRANSACTIONS
(which is a historic high)

The massive increase in the number of gold deals highlights the bullishness of industry participants towards the outlook for the gold price as they strengthen their project portfolios to increase the attractiveness in the eyes of investors.

While the number of gold deals (including staking ground and the granting of permit applications) was already heating up in the first quarter of this year, the lockdown of Western economies due to COVID-19 put more fuel into the fire, with the number of deals in the second quarter up by approximately 230% from the first.

As a result, the total number of gold deals recorded in the first half of this year exceeded 280 transactions (which is a historic high), jumping more than 415% compared to the first half of last year. Gold has taken the lion's share of global mining deals in the first half this year:

CHART 1: GOLD HAS DOMINANT MARKET SHARE IN NUMBER OF MINING DEALS IN 1H 2020



Source: Refinitiv Metals Research

Despite the massive surge in the number of deals in the gold space this year, the value of deals announced has actually fallen by more than 60% this year. The following are the three largest gold deals that took place in the first half of 2019:

1. Goldcorp acquired by Newmont in a $10 billion deal (Q1)
2. The Barrick and Newmont Nevada JV, which was worth $7.2 billion (Q1)
3. St. Barbara acquired Atlantic Gold in a $536 million deal (Q2)

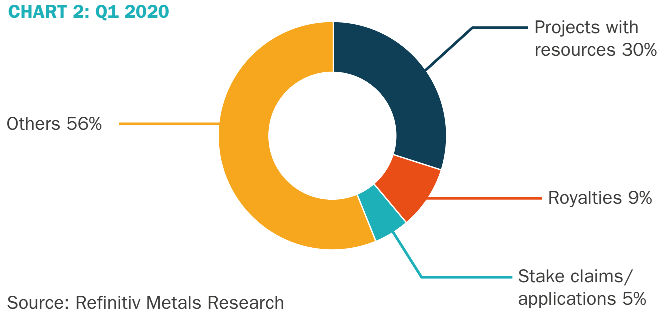
For comparison, the following three are the largest gold deals in the first half this year:

1. SSR mining acquired Alacer Gold in a $1.7 billion deal (Q2)
2. Endeavour Mining acquired SEMAFO for $720 million (Q1)
3. Artemis Gold acquired the Blackwater project from New Go ld, which was worth $560 million (Q2)

The decline in the value of deals this year is more a reflection of the two major corporation actions taken by Newmont in the first quarter last year, skewing the value of transactions last year to an extraordinary level. As both the Newmont and Goldcorp mergers, as well as the Nevada JV, were exceptional cases, it is perhaps unrealistic to expect that the value of gold deals this year could surpass the level recorded in 2019, given that last year's total was a historic high. We think the number of deals taken so far is a better reflection of the market bullishness of the gold mining industry.

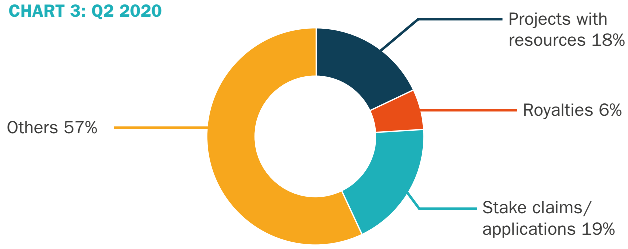
To better reflect and to compare the sentiment between the first and the second quarters, the following is the market share of gold deals segregated by types based on the number of deals. 'Others' means acquiring a project or a company without any resources. Please note that the number of deals in each category all increased in Q2 compared to Q1.

CHART 2: Q1 2020



Source: Refinitiv Metals Research

CHART 3: Q2 2020

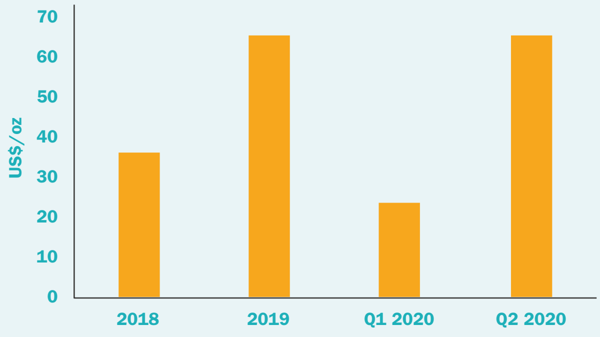


Source: Refinitiv Metals Research

Two segments stick out – acquisitions that involve projects that already have a resource estimate, and companies staking claims or applying for permits.

In the second quarter, the market share of acquiring resources fell to 18% (compared to 30% in Q1), while the share of staking claims jumped from 5% to 19%, suggesting that it is getting difficult to acquire a project that already has a resource because of the increasing bullish sentiment and thus companies that may be financially constrained have no choice but to work on grassroots projects.

CHART 4: AVERAGE ACQUISITION COST PER TOTAL RESOURCE



Source: Refinitiv Metals Research

Indeed, while the total number of resource gold ounces announced to be changing hands in Q2 fell by 52% from the previous quarter to 47 million ounces, the average acquisition cost per resource ounce jumped 182% to $66.7/oz.

As we mentioned in our gold deals commentary on Q1, most of the projects that were acquired that have a marginal resource (i.e. okay grade but small in scale or bulk tonnage scale but low grade). This trend continued in Q2, with the ore at the Ashburton gold project purchased by Kalamazoo Resources being mostly refractory, for example, which explains the cheap acquisition cost per ounce. However, the beauty of this deal is that Kalamazoo does not need to pay a dime for this project as long as it does not produce, as all the payments for this project are tied up with production output.

The Blackwater project that Artemis Gold purchased from New Gold is also a large-tonnage, low-grade gold project.

On the other hand, we also began to see some desperate buyers in Q2: Zijin Mining may come to regret paying 200% over Silvercorp's first bid on Guyana Goldfields as there are technical difficulties on the Aurora mine and at least some (more likely a large portion) of the resources will possibly be written off if mining procedures are to be implemented at a high standard.

WE ALSO BEGAN TO SEE SOME DESPERATE BUYERS IN Q2: ZIJIN MINING MAY COME TO REGRET PAYING 200% OVER SILVERCORP'S FIRST BID ON GUYANA GOLDFIELDS

The valuation per total resource ounce in the acquisition table below is only a rough guideline to get a sense of how much the buyers were willing to pay for a project, but the cost of the projects to the buyers should also include future capital investments, as well as possible write-offs in resource estimates in the future (if any), to justify a clear picture of the project and the acquisition. Each project is unique, and it is not easy nor fair to compare and judge projects solely based on acquisition value per ounce.

More importantly, people are willing to pay more for quality projects; therefore, many of these deals will need a good few years to prove themselves and by then we can judge these deals fairly.

Last but not least, as there have been strict travelling restrictions globally as a result of COVID-19, we may well have seen far more completed transactions than have been announced.

The limited logistics and concerns of catching the virus have limited the opportunity to conduct proper due diligence on sites; therefore, if the pandemic situation improves in the second half of the year, we expect the global gold M&A deals trend could maintain its current strong momentum into Q4.

GOLD CRASHES THROUGH $2,000/OZ. CAN THE RALLY BE SUSTAINED?

Following a 12% jump in the price in July, gold smashed through the $2,000-an-ounce mark on the third day of trading in August. The rally in gold has been powered by the safe-haven appeal of the metal due to the worsening economic conditions resulting from an out-of-control pandemic. The central banks around the world continue to inject stimulus measures to resuscitate ailing economies, which has led in some cases to currency devaluation and lower interest rates, further supporting the rally. Having hit a three-year high in March, the dollar fell 8% to a two-year low before recovering more recently.

The rally in gold has been powered by the **SAFE-HAVEN APPEAL OF THE METAL** due to the worsening economic conditions resulting from an out-of-control pandemic

Tensions between the US and China have simmered, while US President Donald Trump's controversial statements on the upcoming elections in the country have kept the investors interested in gold. With all these factors in the backdrop, the outlook for the yellow metal looks promising, but profit-taking could lead to the consolidation of prices after such a rapid rally.

The following are some of the more significant deals that were announced in Q2 this year:

Date	Seller	Buyer	Total gold ounces in total reserves	Acquisition cost per total gold resource ounce ($/oz)
23/06	Ashburton gold project	Kalamazoo Resources	1,650,000	6.89
12/06	Guyana Goldfields	Zijin Mining	7,900,000	30.26
9/06	Blackwater project	Artemis Gold	9,957,000	56.40
4/06	Cracow gold mine	Aeris Resources	345,000	239.13
2/06	Exore Resources	Perseus Mining	600,000	69.33
11/05	Alacer Gold	SSR Mining	8,296,359	482.14
8/05	TMAC Resources	Shandong Gold	5,940,000	28.25
29/04	Toega	West African Resources	1,100,000	39.45
17/04	74.3% interest in Veduga gold deposit	VTB Capital	1,560,300	45.5

Cameron Alexander holds the position of Manager, Precious Metals Research for the Refinitiv Metals Research team. He has more than 20 years experience in the precious metals markets. Having joined GFMS Limited as a Metals Analyst in 2005, he was brought across to Thomson Reuters in a 2011 acquisition and now heads the precious metals research within Refinitiv's Metals Research and Forecast division. In his current role he has overall responsibility for the team's output but remains responsible for the precious metals research across South East Asia, Australasia, Middle East, and Indian Sub-Continent. His main area of research covers macro influences, jewellery, industrial, and investment demand, as well as scrap supply and metal flows from these key regions.

Samson Li has been a Senior Metals Analyst at Refinitiv Metals Research for over six years. He has become a well-known figure in the Chinese mining industry. Prior to joining GFMS, Samson worked for eight years as the Chief Analyst of an asset management firm in Hong Kong, with four years being responsible for managing a portfolio investing in the global mining equities sector. Samson holds a degree in Commerce from the University of Toronto.

Coronavirus cases have exploded across the world. The global tally of COVID-19 cases has exceeded 20 million, and the conditions are worsening in several US states.

Recent data points to material slowdown in economic expansion, with many countries already experiencing a deep recession. Such weak economic data, both in the US and elsewhere, will likely result in further economic relief packages. Further stimulus measures will be a positive for gold. However, equities continue to be supported by the huge amount of liquidity that has entered the market as a result of the government intervention, but if this support falters, we could see an accelerated run on gold.

US PRESIDENT DONALD TRUMP'S CONTROVERSIAL STATEMENTS ON THE UPCOMING ELECTIONS IN THE COUNTRY HAVE KEPT THE INVESTORS INTERESTED IN GOLD

On the geopolitical front, relations between the US and China have deteriorated in the last month, with Trump indicating that he is going to ban China-owned application TikTok from the US. The United States had recently shut down the Chinese consulate in Houston, and in a tit-for-tat response, China then ordered a US consulate in the southwestern Chinese city of Chengdu to shut. With the US election on the horizon, this hostile rhetoric is likely to pick up in the coming weeks.

Looking ahead, the focus will continue to be on the coronavirus developments worldwide and on fresh economic data coming out of the United States, which will influence the price of gold in the short to medium term.

Investors will be monitoring just how quickly the world's largest economy can return to expansion mode and how soon an economic relief bill in the US will be finalised. With such a rapid rise in recent weeks, we may well see a further retracement in the price and a period of consolidation, but the overall picture remains positive for the yellow metal. Institutional investors are turning towards COMEX and ETPs as a means of risk aversion. We retain the view that monetary and fiscal policies around the world will continue to be supportive for gold. Bond yields and short-term interest rates should stay low in nominal terms and negative in real terms for the foreseeable future.

Monetary and fiscal policies around the world will continue to be supportive for gold

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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