

GOLD AS MONEY AND THE DEVELOPMENT OF THE LONDON MARKET

Paul Fisher, LBMA Chairman

27 September 2019

A close-up photograph of several gold bars stacked on top of each other. The bars are highly reflective and show some embossed markings, including the word 'PAMP' and the number '999.9'. The lighting is warm, highlighting the metallic texture and color of the gold.

GOLD CHEMISTRY

Chemical Symbol AU/Latin:

AURUM = Glowing Dawn or possibly

AURORA = Goddess of the Dawn

Atomic Weight = 79.

One of the highest and heaviest elements that occurs naturally.

A Transition Metal, Group 11 of periodic table, along with:
Copper (29) and Silver (47) and Roentgenium (111)

CHARACTERISTICS OF GOLD

- Malleable and ductile; conductive.
- Attractive (shiny and bright, like the sun).
- Heavy/dense.
- Found in its natural state
(as well as in ore, alloyed with other metals).
- Resistant to corrosion e.g. by oxygen or most acids (except Aqua Regia: nitric+hydrochloric).
- Rare – from asteroids/meteorites?



**WHY IS GOLD SO
HIGHLY PRIZED?**



WHAT IS MONEY USED FOR?

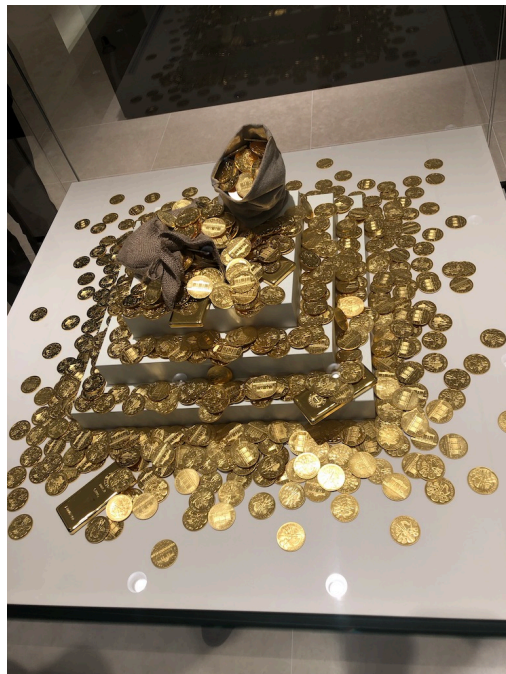
- Medium of exchange
- Store of value
- Unit of account

Gold has been used for all of these but because of its scarcity It could not originally be used as money. Rather it was used for religious purposes, adornment, prestige etc.

CHARACTERISTICS VS

MONEY

- Durability
- Portability
- Acceptability
- Limited supply
- Divisibility
- Uniformity



GOLD

- ✓ *Very difficult to destroy*
- ❖ *Yes, but heavy*
- ✓ *No-one's liability*
- ✓ *Naturally limited*
- ❖ *Yes, but ..*
- ✓ *Needs checking!*

LIMITED SUPPLY OF GOLD

• **GOLD BULLION IS AT A RECORD HIGH •**
WE ARE PAYING TOP PRICES FOR YOUR OLD GOLD AND SILVER.
Cash in on your broken/unwanted jewellery while bullion is at a record high.
IMMEDIATE PAYMENT ON ALL PURCHASES
ALSO WANTED: OLD POCKET WATCHES, MEDALS & COINS



High grade Wrist Watches, Rolex, Cartier, Patek etc
Come on ladies check your drawers!

- Around 190,000 tonnes of gold above ground today.
- That is around 10,000 m³.
- A cube less than 22m on each side.
- = 3 ½ Olympic swimming pools.
- Nearly 90% mined since Californian gold rush 1849.
- Approx half has been produced since 1972.
- Mining production is around 3,000 tonnes pa.
- Recycling varies with price : maybe 1000 tonnes pa.

THE HISTORY OF GOLD AS MONEY



- Earliest jewelry found dates back to ?Bulgaria c4500 BC.
- Form of money – but barter – c3500 BC in Eastern Mediterranean.
- Gold bars in city-state of Troy c2500 BC.
- Gold coins (electrum) started to be used around c550 BC in Lydia (modern Turkey), by Croesus.
- Gold ‘stamps’ c500 BC in China.
- Two things allowed the introduction of coins in Lydia (i) finding enough of it for use as coin and (ii) the ability to refine for purity – using salt to get the silver out.

REFINING



Earthenware pot, blackened by heat –
from excavations at Sardis, Lydia
(modern Turkey)
Reconstruction to show how it was used
as a parting vessel




Diagram of how the pot is thought to have been used to refine
impure alluvial gold, beaten into thin sheets, packed between
layers of salt parting cement, heated for many hours below the
melting temperature of gold, removing the silver as chloride.

(Ramage and Craddock 2000, King Croesus' Gold:
Excavations at Sardis. fig. 4.31)

The British
Museum

The LBMA Assaying & Refining Conference
London 2017



A close-up photograph of several gold bars, showing their textured surfaces and embossed markings. The bars are stacked and slightly offset, creating a sense of depth and highlighting the metallic sheen of the gold.

GOLD IS NOT ENOUGH...

Gold can be used as money but not for most common transactions because:

- Smallest coin too valuable
- Too heavy for large transactions (paper easier)
- There isn't enough of it

Instead, other forms of money are used:

Other precious metals
(esp silver)

Base metals with value
(esp copper, bronze (copper and tin))

Paper currency
(eg China under Kublai Khan early C13th) or coins that are less than content value.

Electronic money
(now dominant)
or Crypto-currencies?

“Gold standard” links gold to other forms of money

TYPES OF GOLD STANDARD

1. Gold *specie* standard – gold coins circulate but so do others, which are linked in value to gold.
2. Gold *bullion* standard – no gold coins but the authorities sell bullion on demand at a fixed price for currency.
3. Gold *exchange* standard – fixed exchange rates with at least one currency fixed to gold.

'THE' GOLD STANDARD

- Relatively modern and short:
Britain adopted from 1717, formally in 1821;
US formally in 1900, most other major countries c1870/80s.
- Originally a gold *specie* standard.
- Suspended during WWI (1914-25).
- Post-WWI resurrected as a gold *bullion* standard.
- Effectively died in 1931 when Britain left.
- But Bretton Woods from 1944 was a gold *exchange* standard until 1971 with the US\$ pegged at \$35 per oz.



HOW DID THE GOLD STANDARD WORK?

WITHIN ONE COUNTRY

- Form of nominal targeting with gold the anchor.
- If price of gold fixed then all other prices are set relative to it.
- If gold supply limited then should prevent inflation.
- Authorities (eg central bank) need to supply or take gold at the given price in exchange for deposits/currency.
- If non-gold prices rise, gold becomes cheap, so gold leaves the central bank. So raise the price of money - 'Bank Rate' - to retain deposits.
- That depresses activity generally, limiting the demand for gold.

ACROSS BORDERS

- A bit like inflation targeting!
- If all countries fix domestic prices to gold, then exchange rates between currencies should be stable.
- International creditors can convert local payments to gold.
- That in turn makes currencies acceptable and facilitates trade.
- If running a trade deficit i.e. suppressed inflation, then a country will lose gold abroad.
- So need to raise Bank Rate or do something to limit outflow.



BRETTON WOODS REGIME 1944

CREATED THE IMF

- Fixed exchange rate regime.
- US as numeraire fixed to gold at \$35oz as it had since 1934.
- US willing to buy at \$35 from anyone and would sell to central banks (only) at that price.
- Hence gold exchange standard.
- NB The 'London Gold Pool' – club of 8 central banks intervened to try and stabilise the market price of gold 1961-68.
- Bretton Woods collapsed in 1971.
(Vietnam War)

A close-up photograph of several gold bars stacked on top of each other. The bars are highly reflective and show some embossed markings, including the word 'PAMP' and the number '999.9'. The lighting creates bright highlights and deep shadows, emphasizing the texture and metallic sheen of the gold.

WASHINGTON AGREEMENT

- Under floating exchange rates, central banks eventually started to sell gold. Unusually, UK pre-announced.
- Washington agreement 1999 between a number of European central banks gave certainty to market that no more than 2000 tonnes would be sold over a 5 year period.
- Market immediately rallied.
- UK sold at average \$275 oz. Current price around \$1,500 and has been as high as \$1,917.9 oz (August 2011).



MAIN TAKEAWAYS

01

Despite its long history, there was never much of it so its role as money has been important, but limited.

02

Most gold above ground now is relatively recent: c1850 onwards.

03

Many desirable properties – perhaps ‘no one’s liability’ is the most important for its role in finance.

....The Future:

04

Still plays a big role in official FX reserves.

05

Can be re-fashioned and re-cycled, important in electronics and could be an important catalyst in new, low carbon technologies.

Q&A

Questions? Comments?





LONDON GOLD MARKET PAST, PRESENT & FUTURE

Ruth Crowell, Chief Executive

27 September 2019

WHO WE ARE

Independent Authority for Precious Metals



**Advancing
Standards for
the Common
Good of the
Global Industry**



Standards

Good Delivery
– Metal Quality

Global Precious Metals Code
– Ethical Trading

Responsible Sourcing



Market Support

Problem Solving

Tools & Training

Market Infrastructure

Education



Voice and Champion of the Market

Principal contact
for regulators, media,
industry and clients

THE BANK OF ENGLAND

Origins & Role



The originator of the London Good Delivery List (GDL) (1750) and regulator of the gold market until 1987 when LBMA was formed.



The Bank's Bullion Vaults served the entire European market and the gold rushes in California, Australia and South Africa.



It provides gold custodian services for the UK Treasury, other central banks and certain commercial banks including LBMA members.



Has the second-largest vault (400,000 bars) after the New York Federal Reserve with more than 5,000 tonnes of gold.

“...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.”

Sir Brien Cokayne, Governor of Bank of England, 1919



MARKET STATISTICS

01

Gold in London Vaults:

\$318 billion

02

Silver in London Vaults:

1.2 billion oz

03

Gold Average Daily Volume:

\$53billion

LBMA GOOD DELIVERY LIST

Why it's important



01

World's Leading Refiners for gold & silver located in 31 countries

02

92% annual mined gold production processed each year

03

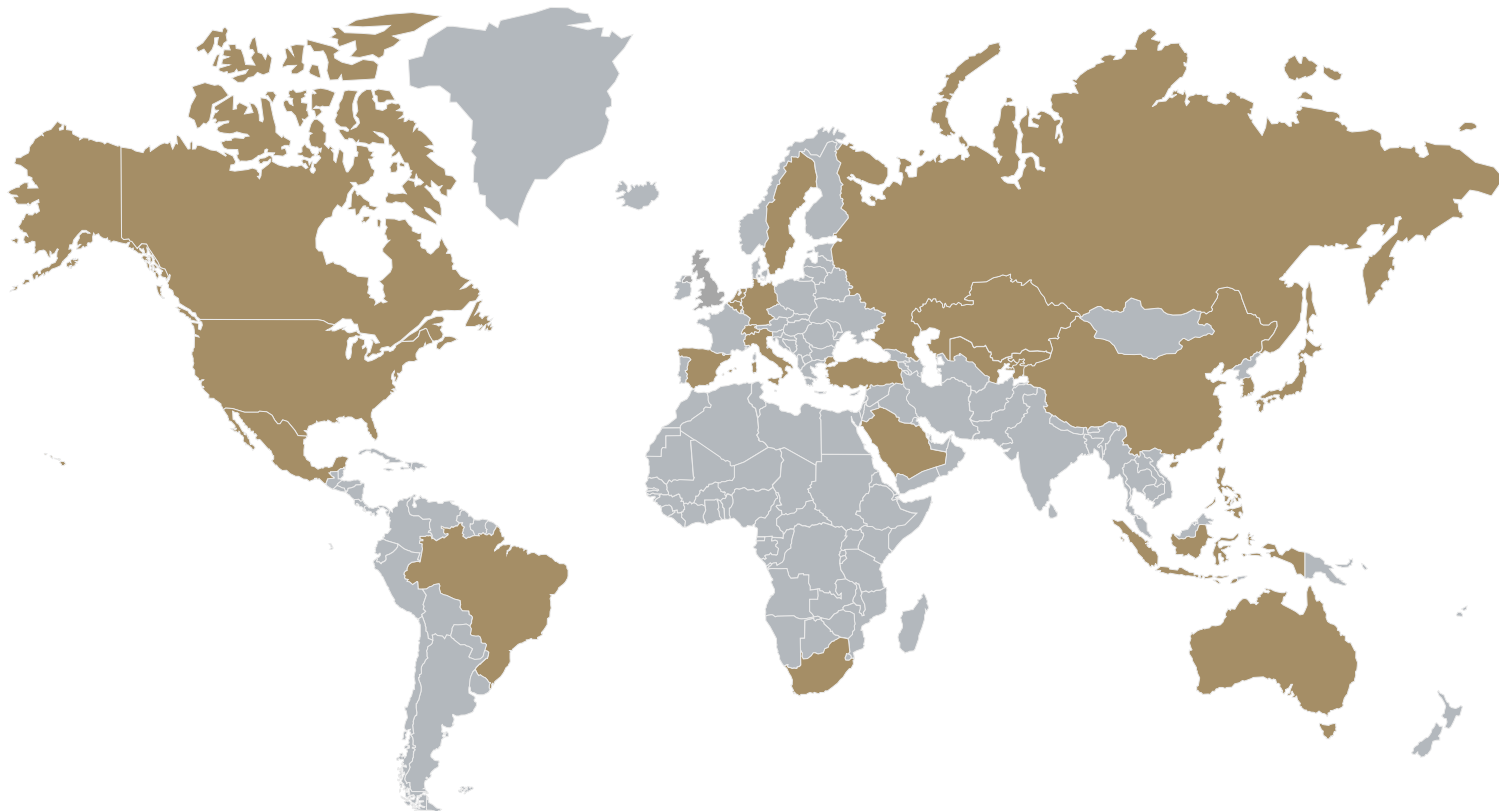
Independent LBMA Executive maintain stringent procedures & standards

04

Recognised as de facto global standard for gold & silver

GOOD DELIVERY REFINERS

Location of Refiners



GLOBAL PRECIOUS METALS CODE

Signed by all LBMA Members



A signed **Statement of Commitment** represents a Member's full adherence to the Code's five principles



To promote **integrity and effective functioning** of the precious metals markets



The **Bank of England** signed a Statement of Commitment in February 2018



Membership will be revoked in the case of non-adherence



LBMA maintains a **publicly available register** of 150+ Statements of Commitment



Applicable to all parties actively involved in the **OTC wholesale trading** markets



RESPONSIBLE SOURCING



**Global Risk
assessment
covering conflict,
AML, terrorist
financing, human
rights,
environment,
sustainability**



**Responsible
Sourcing
Programme is fully
aligned with OECD
requirements and
EU Conflict Mineral
Legislation**



**Encourages
engagement with
all forms of mining
and recycled
sources across
Gold, Silver
Platinum and
Palladium**



**Continuously
monitored by an
independent team
with emphasis on
public reporting**



**Programme covers
100 refiners
across the globe
comprising 85-
92% of annual
production**

Enforced by LBMA

GLOBAL OTC MARKET

Key Elements



Good Delivery

**LBMA Good Delivery
Responsible Sourcing**



Metal Accounts

**LPMCL
Metal Accounts,
Clearing System**



Benchmarks

**Benchmarks
LBMA & 3rd Party
Administrators**



Clearing System

**Market Infrastructure
provided by LBMA,
LPMCL &
Benchmark
administrators**



Vaulting Services

**Vaulting
LBMA
& LPMCL**

VAULTING

01 Good Delivery & Vaulting

02 Where Good Delivery & the Market Meet



Vault Manager acts as Gate Keeper



10 Recognised Custodians



8 Vaulting Companies



All Gold and Silver held as Good Delivery bars



Vault Operators Accreditation Scheme (VOAS)



GOLD BAR INTEGRITY



This initiative builds on the LBMA's Responsible Sourcing Programme and will focus on developing standards to recognise credible Security Features for gold bars, whilst continuing to follow the development of blockchain.



In addition, it will also look at minimising the risks associated with fraud and breaches of security. **Phase One will focus on kilobars & large bars.**



Technology developments are integral to support market development. Technology can help to meet the requirements of regulators, but more importantly, if implemented appropriately, can contribute towards making markets more efficient.



**Gold Bar Integrity
Request for Proposal
to further strengthen
the gold supply chain**

WHY GOLD?

Why is it a reserve asset?

Central banks hold gold as part of their country's national reserves, to help keep the economy trusted and liquid and to back up the value of the currency that central bank prints.

By holding gold, central banks can also offset the risk of inflation in volatile currencies. Typically, as a fiat currency such as the pound or the dollar, decreases in value, the price of gold in that currency goes up.

Central banks prefer to hold gold at the BoE in London to ensure quality is maintained and the stocks are the most liquid. Holding material at the BoE makes it easier to trade within the Loco London market as it is defacto within the London clearing network



**THE GOLD IN THE VAULTS
MUST MEET LBMA'S
GOOD DELIVERY
STANDARDS**



Q&A

Questions? Comments?





THANK YOU



lbma.org.uk



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