LBMA Webinars

23 April 2020

Update from LBMA/WGC on Precious Metals Markets

Speakers:

Ganapathy Srivatsava, President, Foretell Business Solutions/Speaker 1
Ruth Crowell, Chief Executive, LMBA/Speaker 2
Jeremy East, Senior Advisor, Asia, LBMA/Speaker 3
John Reade, Chief Market Strategist & Head of Research, World Gold Council/Speaker 4
P R Somasundaram, Managing Director, India, World Gold Council/Speaker 5
Prithviraj Kothari, President, India Bullion and Jewellers Association/Speaker 6

Summary:

Ruth Crowell and Jeremy East, together with John Reade and Somasundaram PR of the World Gold Council (WGC), hosted a webinar on 23 April to provide a Global Market Update to the Indian market, as we face up to the challenges of the on-going COVID-19 pandemic.
Thanks to Foretell Business Solutions for organising the webinar.

Speaker 1:

Good day to all of you. At the outset, sincere thanks to London Bullion Market Association and the World Gold Council for accepting our invitation and putting together this programme in a short notice. So, this web discussion is organized by IBJ and Foretell. We have lined up four speakers, followed by Q&A in this session. Session would begin with an update on Loco London and Good Delivery List by Ms Ruth Crowell, Chief Executive Officer, LMBA. Then, Mr Jeremy East, Senior Advisor, LBMA, for Asia will provide an update on Asian Bullion Markets, and Mr John Reade, Chief Market Strategist and Head of Research at World Gold Council on what lies ahead for gold market. After that, Mr P R Somasundaram, Managing Director, World Gold Council India would give an update on Indian market. You may post your questions in the chat group. We will take it towards the end of this interaction. We request the first speaker Miss Ruth Crowell, to speak on and provide the perspective on Loco London and Good Delivery List. Here's Ruth Crowell.

Speaker 2:

Thank you so much and thank you so much to Foretell, to Srivatsava, for the opportunity to speak to you all this evening, this afternoon, or this morning depending where you are in the world. I'm so happy to be here and I just wanted to start first and foremost with the message: I hope everyone is keeping as well, and as safe, as they can. My thoughts are with all of you and your families during this difficult time. But I wanted to take the opportunity because there's a lot going on in the gold market to give you as much information as we can. I'll go to the fuller agenda. You can see that. So, we're going to start with an update from me, and then to Jeremy East to give a more particular slant on Asia and China and anything I may have missed. Then moving over to the World Gold Council, as G pointed out, to talk about the global view, as well as an update from India. But let's – and I'll try to answer some of the questions that have been kindly provided, but if they aren't covered or if they weren't clear, we'll take those during the Q&A. So, I think some of the key questions that been discussed, or certainly I've heard over the last few weeks is what is LBMA doing to support the market during this crisis? So, our critical role here is ensuring that the London Precious Metals Market remains open for business. We're doing that as acting as an information hub and we would really encourage any market participants or clients – if they're experiencing challenges or expecting challenges – to please be in touch to see if we can support. But beyond communication, we are also looking after infrastructure, and being the point of communication for two vital points. One is a daily Benchmark Auctions and the second are the London Vaults.

I'm happy to report that several weeks on, now that Europe has really been in the throes of this crisis, is that business as abnormal has become normal and that all the vaults remain open for business. The Benchmark Auctions are happening on a regular basis. These have been orderly auctions with healthy participation numbers in terms of people trading in the auction, but also healthy volumes going through. So those two key points are functioning well. Albeit there have been some challenges in terms of logistics, and I'll get onto more of that in a moment. I think the other major question that I tend to get is, 'Is there enough metal out there?' You'll see media reports that we're running out or there's concerns in terms of refiners because of the refiners going down. That is not the case. There's more than enough metal. The challenge is moving it around the world. There's also more than enough refining capacity. You'll know that before the crisis we actually were in quite a surplus of mining or refining capacity rather. And that yes, there have been some suspensions. But I'm also happy to report that of the major refiners processing gold, they are open for business. That includes the Swiss. Yes, there was news that the ones who are based just north of Italy were suspended, but all three of them are back open for business. Some other major achievements that have happened is that some refineries have also been recognized as essential businesses. This has happened in producer nations such as Australia, South Africa, as well as Canada. You've also seen vaults being recognized as essential businesses during this period. So, let's talk a little bit about some of the issues that we have seen.

So yes, the vaults are open, the benchmarks, et cetera, but we've been having a price dislocation between London/New York – as well as London/Shanghai – and what's really driving all of that? Part of it, and I would say the main issue affecting everyone, is logistics. Gold is normally traveling by passenger airline and there's been a real reduction in flights because people aren't moving around the world and, in some cases, cancellations altogether. Now gold isn't the only thing that goes by cargo on passenger airlines. So, it's had to get into a queue and fight for space when it comes to the limited flights that are going as well as charter. One thing that has been achieved in the last couple of weeks is at least recognition by insurance providers that shipments can go by charter. At the beginning of this outset – of this outbreak – really hitting Europe, there's a question as to whether a gold shipment that going from South Africa to London on a charter plane would be covered by the insurers because that's not normally how it's moving. So, having that clarity has been important and it has allowed things to move. That said, as gold isn't the only thing fighting for charter. We've seen the cost of that go up exponentially, so one of the other things we've been exploring, and you may have seen this in the media, is trying to work with infrastructure providers as well as the clearing banks to see what can be done in terms of delivery in other parts of the world, and I would really encourage you if you're facing challenges with these logistics to reach out to your metals partner to see what can be done on a bilateral basis. In terms of the New York – the price dislocation, and the heightened cost of the trading on the EFP – a lot of this has been some misinformation in terms of some traders getting spooked. Again, this fear that there's not enough gold or there's not enough refining capacity.

There's also been a challenge in terms of if COMEX accepts a different type of bar to, say, what is traded in London. We're taking 400oz, where that's the 100oz or the kilo bars. I would also say, having spoken to a lot of participants, it's a challenge for those who – while there's refining capacity out there, a lot of market participants have had to change their supply chain with – during what is already a challenging time – and that is time consuming. And again, also goes back to the logistics issue in terms of moving it. So, what else? There were questions, I think, from the organizers in terms of what are we doing with the GDL refiners? How are we supporting them? I mean the simple thing is that we're there to support them. Yes, it's a global list. So, when this was affecting China much earlier in the year, we had already taken steps to extend the deadlines, in terms of when those responsible gold audits could take place. Also, just as it's part of the – the cycle – China was up for proactive monitoring this year, so we paused that in the beginning of the year. But hoping now that China's coming back online – and Jeremy will talk a little bit more about that – but we may be able to push forward on that. But we're in active communication. If there's any refiner who are concerned, we would encourage you to get in touch with us. We're also looking on the responsible sourcing side for existing Good Delivery refiners, if the virtual audits could help in the meantime, depending on how long this crisis goes on. I think beyond the challenges, and we can talk more about that as well. Certainly, from where we sit in Loco London, we've got record volume in terms of gold held in the vaults – over 400 billion U.S. Dollars sitting in London. And we've seen, from our normal average daily volume of 45 billion, we've seen up to a hundred at least on two occasions of daily volume, going through the markets. So, there's some big numbers, some big trading, and I think it's important whilst this has been very different times for the gold market, to put gold in the context with other asset classes. And particularly if you're comparing to what's happening in equities or certainly what's been happening in the last few days on oil. From a London market perspective, for Q1, we are up to 4.32 trillion in terms of volume going through with a price increase of 5.8%. So, even though there is a lot of media stories, I think worrying about, 'Is the gold running out?' Actually gold is performing, and I think it's certainly something we look to collaborate with our colleagues at the World Gold Council after the dust settles, after this crisis as well to see where has gold performed well, as well as where have there been challenges and what we can do to address them collectively.

So, this was a question that came through, 'Given the price dislocation – so, with New York trading at a premium, Shanghai trading at a discount – in the future, are there going to be multiple spot prices for gold?' I mean, I would actually argue you already have them hence we know the difference of prices. But you know, I think having a price that follows this on makes a lot of sense. And having, you know, prices for local markets is important. I think what's challenging is when there's such a difference between those. And particularly if that is partly influenced by the shape of the metal as opposed to the purity of the metal. And I think that's something as an industry we should look to see if we can coordinate more on global standards. And prior to the crisis, this is something we were looking at already in particular, a little with kilo bars. While they aren't accepted in London, we see our role as a global standard centre to assist setting those global standards. And it's something we've currently been working with the Shanghai Gold Exchange on, as well as looking at ways that we can take that process to a more transparent and more efficient place. And you may have heard us talk about our Gold Bar Integrity work and that's exactly what that's trying to achieve, in terms of creating digital gold receipts and also giving transparency on stocks. But that's more to come and certainly something that we need stakeholder input and we're conscious that that's not something we can get as everybody is facing – keeping core business going during this crisis. I think that's an overall summary from me and I might just turn it over to Jeremy East, and we'll take questions at the end. Jeremy, are you there?

Speaker 3:
Can you hear me? Okay, great! Welcome everyone, from a warm evening here in Hong Kong. I think what we are going to talk about this evening, in terms of Asia and China, is probably going to be quite interesting in terms of its relevance for India in the coming months because, obviously, where we are here – we're a little bit further down the curve, so to speak. Hong Kong, in terms of the virus, we're down into single figures in terms of new people who have it. China is pretty much a similar situation. And any new people that are showing up have been imported from outside. So, it looks like we're in the right place. The countries are starting to open up and go back to work. So, Hong Kong never really closed down in the same way that China did. But China now is going back to work and, so, what does that mean for gold? What does it mean for the jewellery stores? So, the jewellery stores are open, but limited time only. And there's not that many people on the streets. There's not many people going out and buying jewellery at the moment. The jewellers are now – which we ha– we saw back at the gold conference in Shenzhen, where we had the speakers from Chow Tai Fook talking about developing more e-platforms. So, I think, this is going to be a big focus for the companies at the moment to be able to distribute, change their business model rather than have stores everywhere to move to a more, an e-platform delivery for their jewellery. But, generally, people are staying home, demand is low.

On the investment side. Although there's, I think, three tonnes of gold were added to the (inaudible) ETF, it's more a bit of a drop in the ocean. And if anything, I think the investors out here in Asia have been a little bit dissuaded from buying gold by higher prices. In general, demand is low out here. And we can see that by the price of gold in Shanghai. Normally it trades at a $10-$20 premium to London. Recently it's been trading at a $50 discount. There are huge stocks of gold in China. These stocks of gold have been building up over the past 10/15 years. If anything, the holders of gold would become sellers. The rainy day is here. People who have had problems with the lockdown, inability to earn money. People are starting to use their gold to crystallise – to convert into cash, so – which is something that's happening not just in China, but in other areas in Asia. So, we're seeing people starting to sell gold. So, the premiums in the regional markets are reasonably low, so – between flats and one just over a dollar. And the gold that's sold to China cannot come out of China. So, it's illegal to export gold. This is something that I think will have an impact potentially in India, in the coming months, because of the similarities between the difficulties to move gold out of the country. So, this gold policy, even though gold is trading at a significant discount, that gold is effectively trapped in the country. And that is – that's thousands of tonnes of gold. In some ways there's a little bit of a silver lining. The silver lining is, thank God China's not buying now. If China was consuming a thousand tonnes of gold and the gold refineries of the world were having difficulties and logistics, you know, I do not want to know what could be happening in the market, but the market is performing well. The volumes on the Shanghai Gold Exchange is strong There's no problems in terms of liquidity in terms of the market. So, I think, you know, the markets are performing well, but they are performing independently. And as Ruth said earlier, you know, it's dislocation. These things happen. You know, the markets are – I think, what we'll see in China… It'll take time for the market to absorb, get back to normal and we'll start seeing the normal situation in terms of investors. Demand in China is usually about 1500 tonnes of gold a year. 400 tons are domestically produced and the rest of it comes from outside. And, at the moment, there's no demand there, but there's no demand – there's no gold coming in from the outside. But I think that will change, but it will change in a slower way than we probably expected.

I touched earlier a little bit about the psychology – which is something which, sort of, occurred to me as I was putting some notes together for here – because, traditionally, the physical market, the physical buyers, the retail buyers, the farmers, the shopkeepers, they buy gold every year and they buy gold for the rainy day. And today is the rainy day, so these guys are selling, this is an Asia psychology, I would say. In the West, people are buying gold because it's a rainy day. We're seeing a totally different view in terms of the psychology for gold. So, I mean John, I'm sure, will be talking more, you know, about this later on, but the investors are putting their money into ETFs. You know, gold price is going up. People are buying as a safe haven for whatever reason. But, out here, they're selling. Not only are they selling gold here, gold is actually moving, and it's moving towards New York. So, there've been a number of shipments coming out of Hong Kong, with gold being delivered into COMEX. Either from local traders who were looking to capture the premiums, or from local traders who are scrambling to deliver against positions which they didn't expect to be so out of the money. Typically, traders in Asia use Loco London to hedge their physical. So, if they're holding physical, there'll be long physical, short Loco London. However, some traders use COMEX futures to hedge their exposure. Because of the past 20 years, the 99.5% correlation between Loco London and COMEX – liquidity and markets and all the rest of it – people have, some traders have moved towards the futures as their hedge of choice. Obviously, the recent dislocation has caused a lot of, I don't know, damage or damage to that relationship in terms of how the trade – how the traders – would look at a market and say that, 'That market is a good hedge for me.' And I think in the future people will probably look more friendly and, more friendly on the London market – which is a very, obviously a very stable market – than perhaps the looking at futures as being a hedge for their physical amount in Asia. And so that basically is it from Asia, from Hong Kong.

Speaker 2:
Thanks, Jeremy. I think we now turn over to our colleagues at the World Gold Council. John, I believe you're on the line? If you could unmute if…

Speaker 4:
Yes, I wasn't. Ah, now I've been unmuted. Thank you. Well, thank you very much for the opportunity to speak here. It's interesting times, as they say. I started in the gold industry in 1986 and I would

say that this has probably been the most complicated time that I have seen in my 35-year history. Every aspect of the industry has been impacted by the Coronavirus in one way or the other. And as we're putting the finishing touches to our gold demand trends publication – which we're going to release next Thursday – the magnitude of the impacts on the gold market are becoming clearer. As is also the difficulty in assessing supply and demand because rather than the face-to-face meetings that we have around the world, we have to do these by, well, video conferencing such as this or telephone, et cetera. And that's been a lot tough. Now, because we haven't published the report yet, I can't talk specifics. I can't talk numbers in terms of how much demand has been affected – how much supply has been affected – but we can certainly talk about, I can summarize what we're seeing in general. But the first point to note is that gold mines are continuing to work. There's been some production, disruptions have been seen and some continue, although they're generally decreasing. But the overwhelming majority of gold production continues. As Ruth said, most refineries are working – some have got reduced capacity – but it is, the system is still. Gold is getting from the mine, to the refinery, to the market, although logistics are slower, complicated and more expensive. If you think about demand and what's happening on that side, investment demand is strong at the moment. We're seeing daily inflows into exchange-traded funds, one of the things I track on a daily basis, is about 80 ETFs around the world.

I did run a 22nd consecutive day of aggregate increases in ETFs – something around 140 tonnes being bought this month and about 450 tonnes, so far, on a net basis this year. We saw the investment demand has been strong in developed markets as well. The U.S. and Europe, in particular, we've seen a strong demand and many outlets, many retail outlets for gold have sold out, or are charging very high premiums for the material that they have. For consumer demand and. by that, I mean jewellery and tech demand, is slow to non-existent in some markets depending on which are locked down and which are not locked down and even where they're not locked down – as Jeremy was suggesting – jewellery and technology demand is relatively subdued. Central banks continue to buy gold, however, but at a slower pace than we saw in the last two years. And one very important buyer – Russia – announced that it would cease its purchases on the 1st of April. So, what do we expect for the year to come? To be frank, I expect these trends to continue. This is going to be a year that will be dominated by investment demand, particularly institutional and Western investment demand. Consumer demand – so jewellery – very much in the shadows this year. I would expect it to recover through the balance of the year, but even so, it's not going to be a strong year by any stretch of the imagination. And, as Jeremy has pointed out, there will be some selling back from people who are in a financially distressed position. We are going to talk more about these trends when we release GTT next week. In the meantime, we continue to produce lots of detailed research. Two reports released just today, one on the Indian return investment market and another, which came out while I was waiting to get into this call, on gold's role as a portfolio hedge during the periods of stress, such as we've seen in the markets this year. I'd recommend that you sign up to our gold hub site so that you can get all our research and data for free. We're also very active on social media so do follow me, and the World gold Council on Twitter and LinkedIn as well, for our latest thinking. I'm going to stop there and hand it back to Ruth. I'm more than happy to take questions at the end.

Speaker 2:
Thanks John, thank you for that. And I think it'll be good to get into a little bit of discussion at the end. So, hopefully, we'll have a little time. But I am delighted that Som's able to join us and to give us some context from the Indian side. Som, if you could unmute? Or, if the organisers can help unmute and...

Speaker 5:
Thank you. John, Jeremy good to have you. I don't have much to add in addition to what John has already spoken about the market. About me talking you people on the call, about the Indian market, is a bit, you know, you must understand I only pick up this information from you. I don't have any special passes to go around and see how the market is performing. So, I'm just going to say what I have heard from all of you. So, if I have missed something, it is just that I haven't spoken to as many of you as I would like to. First of all, three days we have Akshaya Tritiya – a big buying occasion is not going to be the same as usual. We're getting used to it. I see people selling gold certificates digitally, and of course there is also the digital gold, who are also struggling right now to get, you know, enough of the gold, but still it will be about digital this year: Akshaya Tritiya. Nevertheless, it's a great

occasion and I wish you all a very, very happy Akshaya Tritiya. We have been speaking on various forums, so I just want to say a, very quickly, couple of things. As John said, this year is going to be a very, very different year. It's going to be tough for the consumer demand. I hear in many of these webinars, extreme views: as soon as a lockdown is over, the first thing that people will probably rush to buy is gold. That's one extreme. Not possible. The other is they will completely go where they will not have any money to buy. I don't think that is truth either. Somewhere the truth is in the middle of this. Certainly, one of the issues before us, prices are very, very high. Income has taken a hit – massive hit – and the manner of buying is also going to change. You know, we always have jewellery stores in clusters. Now COVID is not going to go away.

So, if people come in and we are going to have people wearing it in the same way as in the past and then passing it on. And if there is even one case, which is noted in that area, every store is going to be shut down. So, now this is going to be – therefore, it is not just how well a particular store does which matters anymore. It is about how all the jewellers in that area are going to sell gold. That's very, very important for us. , these are all going to change the way we market and sell gold, at least for the next one year I would say. And, of course, we need to also constantly think about what's happened to the artisans. And it's a matter of shame for all of us that we don't even have enough data about this labour. So, things have actually broken, now. But when we put it together, let us put it together in a very structured way. That would be my request to all of us. Let's all sit together and strategize and put this back in a very, very structured way. We need to improve productivity. Definitely. Do we need all those designs or is there a better way of managing that? We need to definitely improve that. Our report today speaks just about that – 61% of the people still believe they don't trust gold, but they love it. They just love it. So, we also need to understand that, yes, gold will have a very good run, but let's not forget one thing, gold prices are very, very high now, but we also must understand that blue chip shares are available really, really at attractive prices. So, it is not – while gold will have a very good run – shares, too, will have a very good run. So, we need to just think and not just, you know, be carried away by, you know, what's happening to the gold price at the moment. So, with that I will stop and, you know, open this for questions. Thank you very much.

Speaker 2:
Thank you Som and thank you to all the panellists. I very much appreciate everybody taking the time. I know this was put together relatively quickly. Thanks to the slight urging of Foretell. So, thanks for taking part and for giving so much information. There are a few other questions that we're asked in the pre-read that we maybe didn't get to, in terms of how silver is produced – is performing. I think Jeremy, there's some questions about the Chinese silver market? You know, I think we do tend to focus on gold a lot. So, it's probably not for the World Gold Council to answer but on those side of things, I think the other question is how the ratio between gold and silver have been changing from its normal pattern. And I don't know, Jeremy, if there's something you could add particularly on the Chinese silver side of things.

Speaker 3:
Sure. I mean, I actually talked with the Shanghai Gold Exchange today and they – so, the background to this is that the gold exchange rate really was focused on gold for its first, sort of, 15 years of operation. And it was only, sort of, two or three years ago that they started trying to develop the silver T+T contract. And it has become one of the most popular contracts traded on the exchange. There were huge volumes going through. In fact, the volumes are up 225% over last year. Asking, sort of, the reasons for that is really price driven. The interest in the silver market, in China – especially on the exchange – is largely from a speculative nature and maybe the… so, the retail investors have been attracted by market volatility and by price action. And so therefore we've seen a rush to the silver market from the retail investors to trade silver and that's really what is driving these big volumes.

Speaker 2:
Okay, great. Thank you. Some of the other questions we had coming through, just shifting gears a little bit, was saying, when India does reopen again, they're expecting to be a huge amount of selling in terms of jewellery. The rainy day has come – as Jeremy has said – and expecting, certainly in Asia people to be selling back. And I guess one question was for LBMA, in terms of dealing with that in a

responsible manner. 'Is there a guidance note on how to do that?' We do have a lot of materials that we make free to air and consider open source. And, so, have – very happy to share those in order to facilitate that as it comes in. And it's maybe an opportunity for that to go into GDL bars and certainly happy to help where we can on that. I think beyond that, though, those were the main questions. I guess, I had a question for John when you just mentioned in terms of mines are functioning, and I would assume that's on a similar basis as we've seen other industries, in terms of shift work. Like they're functioning but maybe slightly slower because you're splitting the team to try to protect the work force or – how is that going?

Speaker 4:
It really just depends on the type of mine. If you look at a modern mining operation of large open class operation in North America or Australia for example. People are socially distanced already. I mean, you're sitting in a cab, driving a truck, and you are in that cab the whole day, and you can't actually touch or see anybody under those circumstances. So, for those operations, they can work safely, very effectively. Clearly, if you're going underground in large numbers – like the South African gold mines do – different procedures have to be adopted there. So, it's not possible to have quite as many people, going on underground in an underground cage as fast as it did before. But, certainly, the numbers that we're seeing – when I made an estimate before I saw the GDT numbers – that I estimated that we would see global mine supply down by perhaps 10% in the first quarter, and that the worst I saw was about 20% of mines suspended. And I think that's probably a, you know – I actually do know the numbers, but I can't talk about them now – but I think that, you know, that's the sort of magnitude that I think we should be thinking about in terms of production being interrupted. And, certainly, we can see from some of the large gold mining companies that are reported (inaudible) production, they're down. They're down a bit less than that actually but that the ones I can think of so far that I've seen over the last few days.

Speaker 2:
Okay, thank you. And, I've turned this just onto video because I think we had a few hackers coming in to make some images on the slides but I think I'll encourage people to go to the chat, which we actually, as panellists, I didn't realize – we've had a lot of questions on the chat side of things. I'll start with some of the ones I see but please have a scroll through. And for the guys from Foretell, if there's been a consistent message that you want to raise, let's bring that up as well. So, I think one question is certainly in terms of, some of you might be aware the European Commission basically challenged the UK's Terminal Markets Order, back in 2018, and that is coming to the European Courts of Justice soon. So, there hasn't been an update yet, but we are waiting for that. For those of you who aren't as familiar with this, this is about having tax efficiency when it comes to trading of precious metals. Now this doesn't affect gold because within the EU context, gold trades on a zero-rated basis throughout the EU. So gold is not the issue here. It's much more on the white metal side. So silver, platinum and palladium, as well as the base metals. So, we'll – once there's an announcement – we'll be sure to share that. But the UK government has also said that if they, if it was to go the wrong way, that they stand ready to challenge. Any other questions? I think from the Foretell side that you maybe want to jump to if you've been monitoring this a little bit more closely than I have.

Speaker 3:
The selling crown centre bank is one of the questions which is asked. 'Are central bank selling?' And then one more question, which is important is that, where do you see COMEX June contract towards the delivery side, towards the expiry side. That's another interesting question. Difference between COMEX and spot at the time of COMEX June expiry – something very...

Speaker 2:
Yeah, I'm –

Speaker 4:
Shall I start on the central bank side, Ruth?

Speaker 2:
Perfect.

Speaker 4:
Yeah, I think on the central bank side we were reporting monthly central bank activity and, you know, the predominant trend, I'd say, there is of net purchases. And those net purchase levels slightly reduced compared to last year. And I'd expect that net purchases will reduce further compared to previously, mainly because the central bank of Russia – which has been one of the biggest buyers over the last decade, really – has said that they're suspending their purchases. We do see individual sales from time to time. And, look, it's not beyond the bounds of possibility that some central banks will see their foreign exchange reserves decline, and that may prompt them to either sell some gold or as we've seen already, swap those gold – swap their gold into U.S. Dollars. So, that was done by Ecuador – I think it was – they had the $300 million, one month – if I remember rightly – gold dollar swap, which is a great example of how central banks can use gold as a source of U.S. Dollar or hard currency liquidity without it necessarily selling. So, one of the things that, one of the questions that we got, repeatedly when gold sold off rather dramatically in March when other assets were being sold as well was 'Were central bank selling?' And, certainly, we have no evidence of any major central banks selling that took place during that period. That selling was done by leveraged investors, particularly on COMEX. And with that it's probably good to hand over to Jeremy to talk about – excuse me – the COMEX EFP what's going on there.

Speaker 3:
John, sure. So, futures commodity markets are not getting a lot of good press at the moment. So, it started in gold and ended up in oil. I think what we're seeing is potential weaknesses in the delivery processes around commodity futures markets. And these processes – these weaknesses – mean that we're seeing a disconnect between markets which in the past everyone assumed were joined at the hip. The correlation of 99.9% between London and COMEX, so we know that's not the case. The EFP market is, I wouldn't say its dead it's not there anymore. Now, the liquidity of the EFP – which linked COMEX to London – has disappeared. Now, because of that lack of liquidity, it means that the depth of arbitrage opportunity, the depth of the market that has reduced dramatically. So, therefore, as we see investors coming into the futures contracts – say, June futures – there are fewer people to take the other side of that trade. In the past, there would be a wall of arbitragers that would be happy to take the other side of that trade and hedge that against other markets, notably London. And that liquidity has disappeared. So, therefore, we're seeing in the futures markets almost, as Ruth mentioned at the beginning, a dislocation. The futures markets might be going up and the London market might be going down. Which is something that hasn't happened in the past and kind of looks a little bit out of whack in terms of the physical, or the financial, calculation around EFP and delivery. But as we've heard, you know, logistical problems and all the rest of it are causing those problems. However, when you actually come down to the delivery month, when you come round to June delivery, as we saw the delivery for May WTI – where crude oil traded to a -50 against the commodity that's basically worth 20 bucks – the futures contracts, the futures players, traditionally don't like to take delivery. Of a futures market, it's, I think – I don't know the exact numbers, but I'm guessing around 5% of the turnover is actually taken to delivery.

Speaker 4:
It's closer to 1% actually Jeremy.

Speaker 3:
1% thank you. Thank you, John. So, as soon as you, especially with COMEX where the traders are only putting out, really, 5% percent original margin, they get a variation margin. When faced with the situation, do you really want to pay 100% for your gold and do you want to pay for your gold $50 above the price that is trading in London? And the answer is no. So, what I think happened in April, in fact, I think April came down at the end, right to the wire and even traded at small discount to London. And I would not be surprised to see the same thing happened in June. However, between now and June, there's no reason why the difference between spot and futures could trade at $100 or $200. It's a price on the screen. There's no rules around it. However, as we get closer towards the delivery period, then I think it's – personally, I think it's unlikely that the longs will want to take delivery of the huge amount of gold that potentially should be moving towards the COMEX warehouses, and we've already seen COMEX warehouse stocks moving up. So, it's going to be an interesting situation and we'll see how it pans out, but I wouldn't be surprised to see it end up similar to how April went.

Speaker 4:
If I could add something there, Jeremy, as well. I think you're absolutely right when you're focusing on the June delivery and I think you've described it very well. I think in the end, that this – the opportunities that are presenting themselves with high EFP prices will attract more capital into the space. It may not necessarily be from the traditional players. The investment banks would trade gold and maybe some of the trading houses because they have this position on their sales already. But the potential – if anybody did see how $100 differential between COMEX and London… I can hear some traders rubbing their hands in glee at the sound of that – then there are ways that you can trade this. It – they're not straight forward. I mean not everybody knows how to find kilo bars from refineries, how to arrange the transportation and has futures accounts, but these sorts of opportunities would eventually attract new capital, I'm sure. And that's likely to – well, would it return the markets to the situation that it was before when the EFP was deep in liquid and target bound? It might do. I mean, don't forget as well, the cost of kilo bars – of getting kilo bars, and the cost of our freight at the moment is much higher as well. So, the EFP is not going back to $2 again on a regular basis, it's probably – the right number is probably, I don't know, you could always risk capital around – probably around about 8 to 10, to 12, something like that. But, you know, I think ultimately these very high opportunities will attract money into the space.

Speaker 3:
Yep, I agree.

Speaker 2:
I mean just to add on that and some questions that have come through, I mean certainly I think we do expect to see continuing volatility on the EFP, particularly because I'm not sure how this is going to go given how April went. And again, I think to John's point, there are some people saying that they can take some profits by trading in this space because there is volatility there. In terms of the actual stocks underlying. One thing that we, you know – we have reached out to the CME where we can, in terms of the new contract, that the license for the good delivery list and helping them in terms of their depositories getting ready, for 400 ounce bars, et cetera. But one thing to say is that, again, London has record metal stocks. So, you know, the conspiracy theorists will continue to go that 'There's not enough metal.' That is not the case. And as I think we've said a couple of times, COMEX has quite a large amount of stock, and I'd be surprised if we don't see them go through record levels in the coming months. As the COVID crisis, from the logistics perspective, we're not going to see the music turning back on in terms of people moving around the world at the same pace in weeks. It's going to be months before we get there. So–

Speaker 1:
Thanks Ruth, is the case similar for silver EFP's as well? Silver is at a premium of 30 to 35 cents, is there a similarity between what's happening in gold?

Speaker 4:
I think I can answer that quickly. Yes. The logistics that are – the logistical challenges that are affecting gold are affecting silver as well. So, you know, if you look at the wide EFP and silver, it's the same story: logistical challenges and risk appetite to put trade on.

Speaker 1:
So that in place, it will take some more time for the market to get itself resolved?

Speaker 4:
I would expect so.

Speaker 3:
Well, just to – sorry. Just to say I think, you know, maybe it won't get resolved. You know, maybe we're entering a new phase of volatility, of market opportunity, of dislocation. You know, it could be the next few years we're going to see opportunities like this, you know.

Speaker 4:

Those fund managers are rubbing their hands with glee when you say that Jeremy.

Speaker 1:
Okay, one question to Mr John Reed. Is it the right time to invest in gold?

Speaker 4:
Gold should always be a part your portfolio. Pretty much every portfolio benefits from having an allocation to gold. In terms of whether it is a good time to invest in gold now? It depends on your individual circumstances and we don't know price forecasts. What I would say is, it's going to be a very interesting year, and it's going to be a very volatile year, I expect. Investment demand at the moment is more than enough to offset the weakness in consumer demand, that can continue. Certainly, and one of the questions I saw on the group chat before: the actions of central banks and governments to combat the economic effects of this crisis is making gold look attractive to many of the people that bought gold back in the global financial crisis when QE was expected to be. Sorry. So, the point is, is that if people bought gold because they were concerned about the effects of government action or state action during the global financial crisis, if they look at what's happening now, it is a much bigger fiscal and monetary action by the central banks around the world. I would expect them to buy lots of gold. Does that mean it's a good investment? Well as we've heard, there's the potential for a lot of gold to come back to the markets, once the swap down ends. So, as I said in the beginning, this is a – probably the most complicated and challenging and fascinating year in gold that I've seen in my 35-year career. And I'm rather pleased I don't have to make forecasts. So, to just go back to the underlying - the underlying principle is that pretty much all portfolios all the time benefit from having an investment in gold and this year is certainly no different. It's been the best performing major asset this year. And, you know, I think it's a brave man – Som, I'm talking to you – it is a brave man that actually says that equity markets are looking attractive here, because we don't really know how this crisis is going to play out.

Speaker 5:
Yeah, yeah. John. I mean, I'm not saying immediately, but I'm just saying we shouldn't go overboard selling gold. It's very, very important. And I'm telling the jewellery community because I had heard in some discussions that this is going to be the future. You know it's, first of all, languages like that could also put the policy makers on alert here. I'm always conscious of that particular worry in the short run. Everybody's stretched, so it is better to just approach it like any other industry, slow and steady and not just make a big thing. That was my–

Speaker 4:
I understand – I'm teasing. I think the other thing I would say is that the diversification in investments is always a sensible idea. People who put all their eggs in one basket are looking for trouble. Particularly if it's crude oil.

Speaker 2:
I think we've, certainly, we've covered most of the pre-read questions. It's just a question to G at Foretell. Is there anything else?

Speaker 1:
There's a question for you, like you know, on Loco London-based gold futures market, any thoughts?

Speaker 2:
I think from our side we look you know – I think Jeremy's point about metal participants and market participants around the world who have been hedging in a certain way for a long time. Certainly, the last month or so has made them reconsider that. And I think we'll have to wait and see what happens with June. We're really looking to see how we can ensure efficiency, transparency and effectiveness of the London market, so certainly part of that from a strategy side of things is always ongoing.

Speaker 1:
We have Mr Prithviraj Kothari who is the president of India Bullion and Jewellers Association, I would request him to share his thoughts at this point in time. Kothari-ji?

Speaker 6:
Hello everyone. You're listening?

Speaker 1:
Yes, sir. Please go ahead.

Speaker 6:
Yeah, thank you very much for having of us on. I see Ruth, John, Somasundaram, Jeremy. After a long time. See your face and we are very happy to see you for the Indian market – there's a lot of disparity about the market and how its working, how it's – because we are all depending on the international market and every market is shut down. So, how it's happened after the corona? After – what about the Indian markets? Everyone everywhere is of differences of opinions. I wanted to know about what we will do after the corona, the Indian economic market? Can it stay positive? Because a lot of people take the money from the China market because (inaudible) in China. Can you see the Indian market at the time of 2021 or maybe 2020 after this coronavirus? What are you thinking about the Indian market?

Speaker 4:
Som, do you wanna tackle that one?

Speaker 5:
Yeah. Prithviraj-ji, I will take that. It's, obviously, currently the government said they will come with a mega reform package. So, it's not about India versus China, it's about what India itself can do. Anyway, Our GDP as you know, is controlled largely – I think 68% is driven by consumption, so, we cannot afford to let consumption come down – but if we can add manufacturing and services, additional services to it, I think it is going to work. What I hear, I'm sure you also have heard, is that probably, is that they are coming out with a mega set of reforms. It should be good, but I would at this stage desist from putting anything as this country versus that country et cetera. It becomes first of all very difficult and I don't think we should be focused on, one-upmanship here. We should be, actually... the new world is about creating the entire world better. It doesn't matter who suffers and who doesn't, we are seeing that now. We thought it was probably in some corner in China and suddenly we are locked at home. So even economically we can't have any nation suffering at the cost of others or gaining at the cost of others. So, I would probably put a thing... India has a huge potential. I believe, as John rightly said, I'm still bullish. Our second half could actually swing back tremendously because of (inaudible) production has been reported to be great. But as we all know, we just have to wait and see how this works out. But I'm very optimistic for the second half. As long as if the moment we know how this lockdown is going to be unlocked, I think there'll be a lot of clarity. At this moment, we are in the midst of a crisis. Whenever in the midst of a crisis like this, it's very difficult. You know your mind is always really negative. That's the way I put it.

Speaker 4:
I have something else as well is that we are genuinely in unprecedented times. The global economy has never faced such a challenge as this in a peace time environment. But, also, look what's happened previously during world wars, when we've seen massive destructions of economic capacity, we've seen much bigger depths, we've seen trades frozen. Economies bounce back from these things and they generally bounce back pretty hard. We are going to have a bigger stock of government debt at the end of it and we all get to have a big stock of unemployed people, which will need to get back into work. So, don't underestimate the challenges here. It's going to be a very strange economy, for a good couple of years. I don't think many people are expecting now a V shaped recovery and economic activity anywhere but, in the end, very few people will have died as a consequence of this – in proportion anyway – and we'll all be back ready to work, consume and do as we've done in the past. It's just going to take us a while to get there and it's going to be an uncertain road until we get to that point. And it's a sort of common potential of the Indian economy, I think you're absolutely right. Potentially, the global economy remains good, but we just need to be able to operate it. And, you know, we'll have a better idea of how that's going to play out over the next few months, whether everyone's going to be back at work by Q3 or whether we're going to be in and out of formal employment for longer than that. It's really difficult to judge at the moment.

Speaker 6:
Thank you.

Speaker 2:
I think that's taken us up to our hour. I don't know from G, from Foretell, if you want to say some final words or if there's a final question for us.

Speaker 1:
I think we have covered most of the questions. Maybe one question to Mr John Reade, like you know the last question, which I thought: the U.S. and few other central banks are on ridiculous currency printing spree thinking that they can print their way out of the problem, once all this settles where do you think gold will stand? Your views on this?

Speaker 4:
Gold is a mainstream financial asset, and at the end of this process, gold is going to remain a mainstream financial asset. I think that investors will look more fondly towards gold as a consequence of what the governments and central banks have done. And on the other hand, as we've said so far as well, we're going to see less consumer demand because the price is more – is higher – and people will have had genuine financial distress. So, I mentioned before as a joke, but I am actually quite pleased that I don't have to make a forecast at the moment. I think that gold's role is an important financial asset enforced during this crisis, as it has been already. But where it would be in terms of price predictions? Well, we'd have to ask one of the people that contributed to the survey for that. But not me.

Speaker 2:
I think we actually had an update on that survey today – webinar that went live, I think at the same time. So, I don't know actually the summary data on that, but I'll be happy to share it with the group.

Speaker 4:
Yeah that would be useful.

Speaker 2:
It's a tough time, certainly, to forecast. One thing I would say, in terms of crisis, it's a very different crisis from 2008, you know, different things at play here. You know, and yes, but I would say that there's been a lot of steps taken to make the banks a lot more secure. So, it isn't the banks who are struggling this time, hopefully that there can be more help on that side. And you know, the hope is some of the positives that the world can bounce back quicker in terms of when the music does turn back on. But it's sort of what the damage was during lockdown. And I just hope that we focus on some of the, you know – it is unprecedented, but hopefully it's made people recognize the interconnected nature of markets. I mean the gold market; we could see that in terms of people having a preference for different types of – different shapes of bar – and what that has done to things like the EFP. I would say the hope is learning from this and seeing where we can come together as a global market and as a global community.

Speaker 1:
Thank you very much. Any final words from Mr Jeremy East and other speakers before we wrap it up? John Reade, I know–

Speaker 4:
I just wish you all the very best through these difficult times and to stay safe and to, you know, focus on getting you and your families through this acute period. We've got a lot time to do other stuff afterwards, but for now, I think, you've got to focus on health and then prosperity you can worry about afterwards.

Speaker 1:
Thank you, Mr P R Somasundaram?

Speaker 5:
Ah no Srivatsava. Thanks very much. Nothing from me.

Speaker 1:
Crowell, final word from you?

Speaker 2:
Just to say – echo John's thoughts. Please look after yourselves and your families. And I hope to see you all when we can meet again safely. Very soon.

Speaker 1:
Thank you so much. It was wonderful listening to each one of you. Thank you, Ms Ruth. Thank you, Mr John Reade. Thank you, Mr Jeremy East. Thank you, Mr P R Somasundaram and thanks to all the participants who are come here and stayed with this and end this discussion. Thank you very much to one and all. Thank you.

Speaker 3:
Thank you.

Speaker 1:
Cheers. Thanks.

Interested in contributing?

For information, suggestions, or comments about content of LBMA Webinars, or our Virtual Summit, please contact:

Tayler Birch
Events Coordinator
events@lbma.org.uk
Tel: 07388 798 992

1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF
Tel: +44 (0)20 7796 3067 www.lbma.org.uk

April 2020