

Russian Bullion Seminar

Moscow, 24 of November 2011

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Рынок драгоценных металлов

Москва, 24 ноября 2011

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Precious Metals – Update

Jonathan Spall



It's Come A Long Way



Source: Barclays Capital Commodities research.

A Very Long Way...

“Indeed, for both private and official investors, gold is now a rather risky asset with a nil or low return...For private individuals to hold gold on this basis is their own foolish affair. For central banks and governments to hold it as a reserve asset is a betrayal of the public on whose behalf they are acting.”

The Financial Times (16th April 2004) Leader article “Going, going, gold” Gold Price \$400

A Perfect Storm

- Distrust of hedging
- Producer buybacks
 - From >105 million ounces to <5 million ounces
- Attractions of alternative investments
- The ETFs
 - 2,175 tonnes – world's 6th largest holder of gold
- Political implications of central bank gold sales/purchases
- Growing wealth in Asia – India and China
- Economic turmoil
- Low interest rates
- Perceived lack of political will
 - What is Europe? Federalism? Free trade area?
- Alternative safe havens?

A Sanity/Reality Check

- Gold was \$250 in 2000
- Gold traded \$1,920 in 2011
- GLD was briefly the largest of all ETFs – bigger than S&P
- How much more distrust of government?
 - Would revolution be next?
- Buying gold at \$1,045 may be easier than buying it at \$2,000
 - Undue attention and “paying the top”
- Investors have had x years to get long ($11 > x > 5$) – why now?
- Every day gold mining companies sell 10 tonnes of gold (320,000 ounces)
- Safe havens do not move by 6% in a single day
- “Risk On” or “Risk Off”?
- Is it still a numbers game?

Speaking For Central Banks?

"We have been implementing a programme of raising the share of gold in the reserves for several years... we are acquiring huge volumes... we are not planning to step away from this path."

Alexei Ulyukaev First Deputy Chairman, Central Bank of Russia

October, 2011 Gold Price \$1,630

It's Not All Over

“Sir Mervyn King, the Governor of the Bank of England, suggested the EU leaders’ emergency measures can buy time but cannot resolve the fundamental threats to European economic stability.”

The Daily Telegraph,
26th October, 2011 Gold Price \$1,715

A Final Thought

“We have gold because we cannot trust governments.”

*President Herbert Hoover to his successor
Franklin D. Roosevelt in 1933*

GLOBAL OUTLOOK 2012 ZURICH

Precious Metals

Silver

Silver – The Performance



Source: Barclays Capital research.

2011 – A Year Of Records For Silver

- Silver is both a precious metal and an industrial one
- Silver price reached just shy of \$50 – highest in over 30 years
- “Physically-backed exchange-traded products (have) grown to record levels.”
Barclays Capital Research
- “...expect fabrication demand to grow...to a record high.” Barclays Capital Research
- “We forecast (silver) coin sales to hit another record in 2011 at 3.4k tonnes, up from 3.2k tonnes in 2010.” Barclays Capital Research

2011 – A Year Of Records For Silver

- Silver volatility reached some of its highest levels ever (1 week at 120% in September 2011)
- “The silver market is set to deliver yet another surplus, with mine supply setting its eighth consecutive year of record output, and scrap supply setting its second year of record supply.” Barclays Capital Research
- “The market is still in surplus...to grow to a record high.” Barclays Capital Research
- Silver is often mined as a base metal by-product
- 70% of silver is mined as a by-product (36% lead/zinc mines, 22% from copper)

GLOBAL OUTLOOK 2012 ZURICH

Precious Metals

Platinum

Platinum – The Performance



Platinum

- Platinum is both a precious metal and an industrial one
- Platinum trades at a premium to gold
- Barclays Capital research “forecast primary and secondary supply to rise in 2011 but remain unconvinced of aggressive growth from mine supply.”
- 80% of world’s primary platinum supply is from South Africa
- “The supply side remains less than secure as the cost of production has risen, ore grades have fallen and uncertainty persists surrounding constrained power supply.”
Barclays Capital Research
- Eskom continues to warn of tightness in power supplies – \$1507 (22/1/08) to \$2290 (4/3/08) – 52%
- “We expect demand growth to outpace that of supply, driven by the auto, electrical, and chemical sectors. But the market is also dependent on investment demand, and should this weaken, the balance could swing into surplus.”
Barclays Capital Research

Platinum Versus Gold – The Performance



Getting In Touch With Precious Traders

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Barclays Capital Credentials In Precious Metals

- The legal entity transacting precious metals is Barclays Bank PLC
- Barclays has teams of analysts monitoring both the fundamental and technical aspects of the precious metals markets
- Barclays has precious metal trading specialists based in Sydney, Tokyo, Hong Kong, Singapore, London and New York
- Barclays has 24-hour market-making capacity for precious metals based around the hubs of Singapore, London and New York – one of only two banks that have this global capacity
- Barclays works all orders in-house – thus ensuring confidentiality and flexibility
- Updates on execution can be provided throughout the trading day
- While it is usual for gold to be quoted against USD, Barclays can quote for metals against any freely tradable currency
- Barclays is a full market-making member of the London Bullion Market Association (LBMA)
- Barclays is a full market-making member of the London Platinum and Palladium Market (LPPM)
- Barclays is one of five banks constituting the London Gold Fixing
- Barclays is a clearing bank for gold and silver
- Barclays can arrange to have gold shipped to vaults around the world



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