The strategic case for gold, recent market developments and outlook

SUERF-Baffi Bocconi e-lecture
October 1 2020
Agenda

- A longer-term perspective on supply and demand
- Exploitable gold reserves and recycling
- ESG Issues and gold
- Impact of recent crises on gold
- Outlook

John Reade
Chief Market Strategist
john.reade@gold.org
Evolving the market

World Gold Council

- Leading industry authority on gold for over 30 years
- Proven track record for strengthening market infrastructure, delivering robust data and insights and developing solutions to expand access to gold globally
- Deep relationships with the institutional investor ecosystem, central banks, sovereign wealth funds and industry participants

Gold-backed ETFs
Launched first gold-backed ETF in the US in partnership with State Street Global Advisors

China Market Expansion
Played key role in evolution of the Shanghai Gold Exchange; currently working towards enabling insurance companies to invest in gold

India Blueprint
Led steering committee comprised of financial institutions and industry and trade associations in the development of a blueprint for a proposed Gold Spot Exchange

Responsible Gold Mining Principles
Worked with mining company members, developed a framework setting out expectations for consumers, investors and the downstream gold supply chain as to what constitutes responsible gold mining

Gold Valuation Framework
Developed an academically endorsed methodology to help investors understand how macroeconomic scenarios might impact gold demand, supply and long-term performance
Gold supply and demand
Gold is scarce but the financial gold market is large

Value of above-ground gold and gold derivatives*

Total: ~197,000 tonnes (US$9.6 trillion)

*Data as of 31 December 2019. US-dollar value estimates using the 2019 year-end LBMA Gold Price PM at.
**Represents open interest in COMEX, TOCOM and over-the-counter (OTC) transactions as of 31 December 2019.
Gold supply and demand has grown

- **Gold mine supply** has increased steadily, and **recycling** has grown too.
- **Contributions to demand** have changed significantly in 40 years.
- **Central Banks** have changed their behaviour.
- **Emerging markets** are crucial to gold demand, even after accounting for Developed Market investment.
The make up of demand has changed

• **Gold mine supply** has increased steadily, and **recycling** has grown too

• **Contributions to demand** have changed significantly in 40 years

• **Central Banks** have changed their behaviour

• **Emerging markets** are crucial to gold demand, even after accounting for Developed Market investment
Gold is really an EM story

- **Gold mine supply** has increased steadily, and **recycling** has grown too.
- **Contributions to demand** have changed significantly in 40 years.
- **Central Banks** have changed their behaviour.
- **Emerging markets** are crucial to gold demand, even after accounting for Developed Market investment.
Drivers of gold demand

**Economic expansion**
Periods of growth are very supportive of jewellery, technology, and long-term savings

**Risk and uncertainty**
Market downturns often boost investment demand for gold as a safe haven

**Opportunity cost**
The price of competing assets such as bonds (through interest rates), currencies and other assets, influences investor attitudes towards gold

**Momentum**
Capital flows, positioning and price trends can ignite or dampen gold’s performance
Production and recycling
Mine supply and recycling

- **Gold mine supply** has increased steadily, and **recycling** has grown too.
- **Similar drivers:** Different timescales
- **Peak gold** but more to be found
- **USGS 50,000t means 16 years supply remaining** but its not a real number.
Responsible gold mining principles & ESG
Responsible Gold Mining Principles (RGMPs)

Overarching ESG framework
Developed with strong input from civil society, governments, and supply chain participants

Embraced by World Gold Council members
Committed to full implementation by September 2022

Conformance is externally validated
Requires public disclosure and independent assurance
Gold: ESG portfolio perspective

1. **Climate risk mitigating asset**: gold is likely to perform better than most mainstream asset classes under various long-term climate scenarios.

2. **Can lower the carbon footprint of an investment portfolio over time**: carbon emissions associated with holding physical gold are minimal.

3. **Mechanisms to validate responsible gold production**: gold miners and refiners follow demanding standards, which require external assurance.

4. **Commitment to UN’s Sustainable Development Goals**: gold mining, refining and fabrication contribute meaningfully to socio-economic development globally.
Gold: not just for crises
Gold and recent crises

- Revisiting **Drivers of gold demand** shows how the drivers of gold react to crises
- **3 out of 4:** Boost investment demand at the expense of consumer demand
- Recent crises have shifted contributions to gold demand and could be sustained
- But gold is **Not Just for Crises**
  - Source of returns, diversification and liquidity that benefit your portfolio performance
Gold has outperformed all major assets in 2020

Y-t-d performance of major global assets*


Source: Bloomberg, ICE Benchmark Administration, World Gold Council
Strategic case for gold: returns

Average annual return of key global assets in US dollars*


Source: Bloomberg, ICE Benchmark Administration, World Gold Council
Strategic case for gold: **diversification**

Correlation between gold and US stock returns in various environments of stocks’ performance*

*S as of 31 December 2019. Correlations computed using weekly returns based on the Bloomberg Commodity Index and the LBMA Gold Price PM since January 1971. The middle bar corresponds to the unconditional correlation over the full period. The bottom bar corresponds to the correlation conditional on S&P 500 weekly return falling by more than two standard deviations (or ‘s’) respectively, while the top bar corresponds to the S&P 500 weekly return increasing by more than two standard deviations. The standard deviation is based on the same weekly returns over the full period.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council
Strategic case for gold: portfolio impact

Performance of a hypothetical average pension fund (PF) portfolio with and without gold*

*Based on performance between 31 December 2009 and 31 December 2019. The hypothetical average US pension fund portfolio is based on Willis Tower Watson Global Pension Assets Study 2019 and Global Alternatives Survey 2017. It includes annually rebalanced total returns of a 42% allocation to stocks (27% MSCI USA Net Total Return and 15% MSCI ACWI ex US), 27% allocation to fixed income (21% Barclays US Aggregate, 3% Barclays Global Aggregate ex US, 1% JPMorgan EM Global Bond Index, and 3% short-term Treasuries), and 30% alternative assets (13% FTSE REITs Index, 8% HFRI Hedge Fund Index, 8% S&P Private Equity Index, and 1% Bloomberg Commodity Index). The allocation to gold comes from proportionally reducing all assets. Risk-adjusted returns are calculated as the annualised return/annualised volatility. See important disclaimers and disclosures at the end of this presentation.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council
Outlook
2020 Outlook: investment drivers

1. Combination of high risk, low opportunity cost and positive price momentum

2. Unexpectedly sharp rally in stocks without underlying fundamentals could lead to pullbacks

3. Low returns and limited risk protection from bonds

4. Potential for inflation…or deflation
Economic recovery may come in various shapes

COVID-19 has had a devastating effect on the global economy

Expectations for a swift V-shaped recovery are morphing into a slower U-shaped or, more likely, W-shaped recovery

Uncertainty levels will remain high and will likely have a long-lasting impact on portfolio performance

Source: WGC, Gold mid-year outlook 2020, July 2020
https://www.gold.org/goldhub/research/gold-outlook-2020-mid-year
QaurumSM valuation tool

*Powered by the Gold Valuation Framework*

Utilises third party independent macroeconomic forecasts

Estimates expected demand and supply based on user’s selection

Calculates implied long-term gold returns

*The hypothetical scenarios included in this brochure are for reference only. The actual scenarios available on Goldhub.com will be updated periodically to reflect pertinent macroeconomic developments.*
Goldhub.com

Data
• Power your investment decisions with best-in-class data sets

Research
• Access to a wealth of material on the role and performance of gold

Tools
• Visualise and build your own analyses with interactive tools

Authority
• Goldhub draws on the World Gold Council’s authority on gold
Disclosures and other important information

© 2020 World Gold Council. All rights reserved. World Gold Council and the Circle device are trademarks of the World Gold Council or its affiliates.

All references to LBMA Gold Price are used with the permission of ICE Benchmark Administration Limited and have been provided for informational purposes only. ICE Benchmark Administration Limited accepts no liability or responsibility for the accuracy of the prices or the underlying product to which the prices may be referenced. Other content is the intellectual property of the respective third party and all rights are reserved to them.

Reproduction or redistribution of any of this information is expressly prohibited without the prior written consent of World Gold Council or the appropriate copyright owners, except as specifically provided below. Information and statistics are copyright © and/or other intellectual property of the World Gold Council or its affiliates (collectively, “WGC”) or third-party providers identified herein. All rights of the respective owners are reserved.

The use of the statistics in this information is permitted for the purposes of review and commentary (including media commentary) in line with fair industry practice, subject to the following two pre-conditions: (i) only limited extracts of data or analysis be used; and (ii) any and all use of these statistics is accompanied by a citation to World Gold Council and, where appropriate, to Metals Focus, Refinitiv GFMS or other identified copyright owners as their source. World Gold Council is affiliated with Metals Focus.

WGC does not guarantee the accuracy or completeness of any information nor accepts responsibility for any losses or damages arising directly or indirectly from the use of this information.

This information is for educational purposes only and by receiving this information, you agree with its intended purpose. Nothing contained herein is intended to constitute a recommendation, investment advice, or offer for the purchase or sale of gold, any gold-related products or services or any other products, services, securities or financial instruments (collectively, “Services”). This information does not take into account any investment objectives, financial situation or particular needs of any particular person.

Diversification does not guarantee any investment returns and does not eliminate the risk of loss. The resulting performance of various investment outcomes that can be generated through allocation to gold are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. WGC does not guarantee or warranty any calculations and models used in any hypothetical portfolios or any outcomes resulting from any such use. Investors should discuss their individual circumstances with their appropriate investment professionals before making any decision regarding any Services or investments.

This information contains forward-looking statements, such as statements which use the words “believes”, “expects”, “may”, or “suggests”, or similar terminology, which are based on current expectations and are subject to change. Forward-looking statements involve a number of risks and uncertainties. There can be no assurance that any forward-looking statements will be achieved. WGC assumes no responsibility for updating any forward-looking statements.

Information regarding QaurumSM and the Gold Valuation Framework

Note that the resulting performance of various investment outcomes that can generated through use of Qaurum, the Gold Valuation Framework and other information are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. WGC provides no warranty or guarantee regarding the functionality of the tool, including without limitation any projections, estimates or calculations.