Gold Demand Trends
Q3 2020

Highlights

Quarterly inflows of 272.5t took global holdings of gold-backed ETFs (gold ETFs) to a new record of 3,880t. While the pace slowed a little from H1, sustained inflows throughout Q3 demonstrate the continued motivation of ETF investors to add to their holdings.

The US dollar gold price rose to a record high of US$2,067.15/oz in early August. This was followed by a correction with the price closing the quarter around US$1,900/oz. Record high prices for gold were also seen in various other currencies, among them the rupee, the yuan, the euro and sterling.

Bar and coin investment jumped to 222.1t in Q3 – up 49% y-o-y. Most major retail investment markets saw strong growth though the largest volume increases were seen in Western markets, China and Turkey. This contrasted with continued strong sales in Thailand.

The pandemic further impacted the jewellery sector. Weakness caused by COVID-19 was compounded by record gold prices: Q3 demand fell 29% y-o-y to 333t. While China and India accounted for the largest volume declines, weakness was global.

Central banks generated modest net sales of 12t of gold in Q3. This was the first quarter of net sales since Q4 2010, primarily due to concentrated sales by two banks. Buying continues at a moderate pace, driven by the need for diversification and protection amid the negative rate environment.

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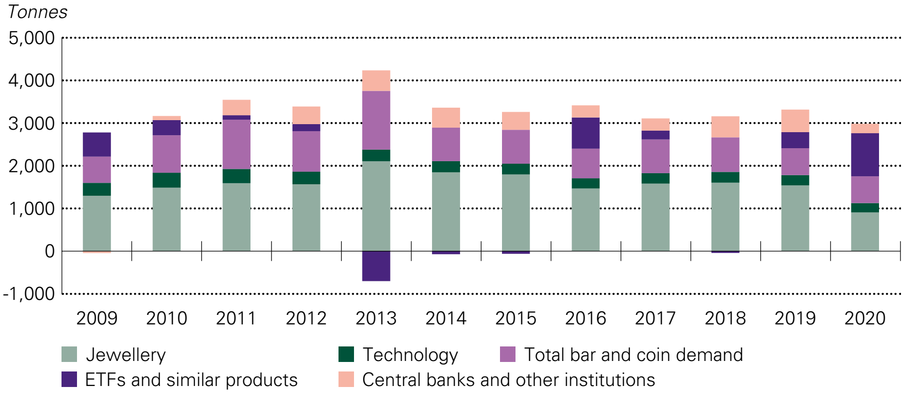
Q3 gold demand 19% lower y-o-y at 892 tonnes (t)

Strong growth in global investment demand for gold in Q3 partly offset weakness elsewhere as COVID-19 remained in the driving seat.

Demand for gold dropped to 892.3t in Q3 – its lowest quarterly total since Q3 2009 – as consumers and investors continued to battle the effects of the global pandemic. At 2,972.1t year-to-date (y-t-d) demand is 10% below the same period of 2019. Although jewellery demand improved from the Q2 record low, the combination of continued social restrictions, economic slowdown and a strong gold price proved onerous for many jewellery buyers: demand of 333t was 29% below an already relatively anaemic Q3 2019. By contrast, bar and coin demand strengthened, gaining 49% y-o-y to 222.1t. Much of the growth was in official coins, due to continued strong safe-haven demand in Western markets and Turkey, where coins are the more prevalent form of gold investment. Q3 also saw continued inflows into gold-backed ETFs, although at a slower pace than in the first half. Investors globally added 272.5t to their holdings of these products, taking y-t-d flows to a record 1,003.3t. Central banks generated small net sales of gold in Q3, the first quarter of net sales since Q4 2010. Sales were generated primarily by just two central banks – Uzbekistan and Turkey – while a handful of banks continued steady albeit small purchases. Demand for gold used in technology remained weak in Q3, down 6% y-o-y at 76.7t. But the sector saw a decent quarterly improvement as some key markets emerged from lockdown. The total supply of gold fell 3% y-o-y in Q3 to 1,223.6t, despite 6% growth in gold recycling, with mine production still feeling the effects of the H1 COVID-19 restrictions.

Y-t-d demand on a par with 2009



Note: Bars represent year-to-date demand for each corresponding year
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Jewellery

Jewellery demand remained in the doldrums in Q3, thwarted by the unprecedented global environment and historical high gold prices.

- Global jewellery demand – at 333t – registered its third lowest quarterly total in our data series back to Q1 2000
- The record high gold prices reached in August deterred consumers
- However, demand improved from the Q2 record low, as most markets saw at least some relaxation in the strictest lockdown measures, and some witnessed a notable shift towards online shopping.

Tonnes	Q3 2019	Q3 2020	Y-o-y change
World total	468.1	333.0	↓ -29%
India	101.6	52.8	↓ -48%
China, P.R.: Mainland	158.1	119.1	↓ -25%

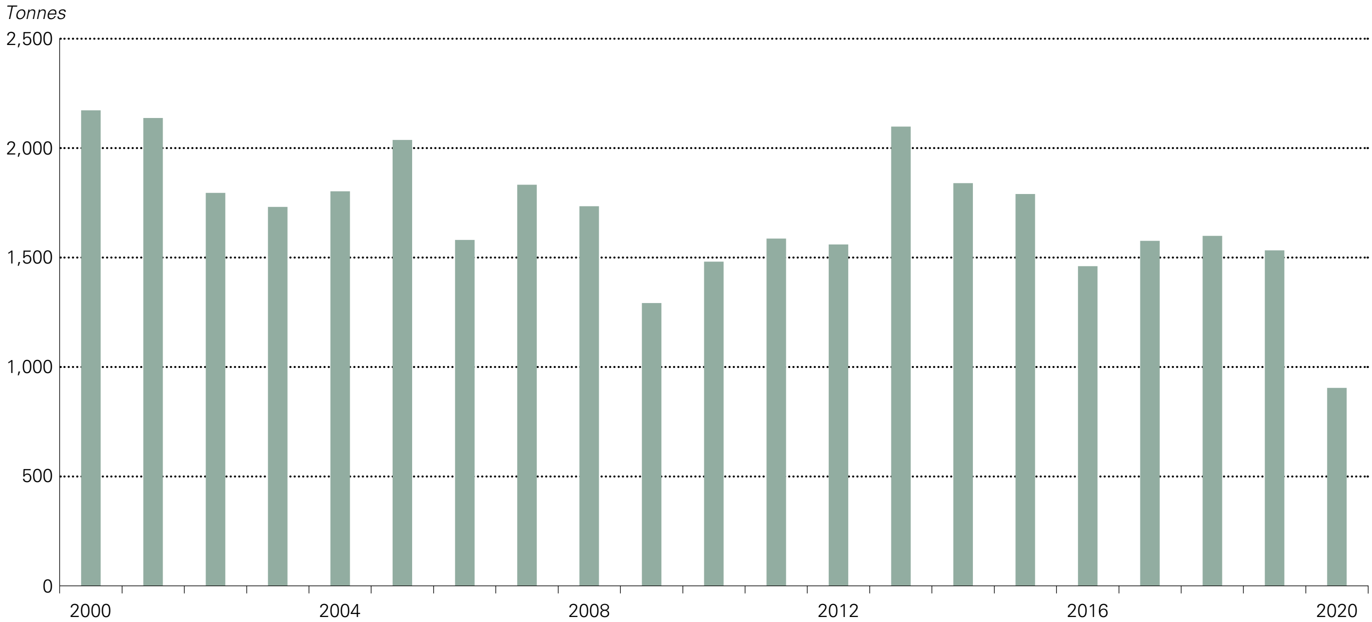
The continued impact of the ongoing global pandemic at a time when gold prices reached a new record high had unsurprisingly negative implications for gold jewellery demand. Global demand was 29% below an already relatively anaemic Q3 2019. In value terms, the comparison was less stark, as the strong rise in the price offset the lower volumes: Q3 jewellery demand was worth US$20.4 billion (bn), down 8% y-o-y.

Jewellery demand for the y-t-d totals just 904t, the weakest in our data series by some margin. This is 30% weaker than the equivalent period of 2009 – the next lowest Q1-Q3 total and the time of the Global Financial Crisis (GFC) – when demand reached 1,291.7t.

Although Q3 saw widespread recovery from the depths of the Q2 weakness, economies around the globe remained under the shadow of COVID-19 and this is reflected in the y-o-y figures for jewellery demand. The strong rally in the gold price – which reached record levels in almost all key currencies – further magnified the effect. Between January and end-September, the US-dollar gold price had increased by 25%.

While China and India were major contributors to the global weakness (by virtue of their significance to the market), weakness was virtually universal, with no bright spots of note.

Q1-Q3 jewellery demand falls below 1,000 tonnes



Note: Bars represent y-t-d demand for each corresponding year

Source: Metals Focus, Refintiv GFMS, World Gold Council

Jewellery

China

As China continued to return to post-lockdown normality in Q3, jewellery demand recovered further from its Q1 lows but remained very soft compared with 2019. China saw 119.1t of gold jewellery demand in Q3, a 31% rebound from the previous quarter as the domestic economy continued to recover. The significant 25% y-o-y decline in Q3 was nonetheless considerably narrower than the 52% drop in H1 demand. Y-t-d demand in China totals 271t, 43% below the same period in 2019.

While the rallying gold price discouraged consumers from buying gold jewellery in July, the 10% pullback in the price from the August peak helped lift demand for the remainder of the quarter.

The quarterly recovery was further helped by bridal demand, as many couples postponed their weddings to Q3 and Q4 due to the COVID situation. Weddings that been due to take place earlier in the year were rescheduled as China eased restrictions and began to return to normal. This helped support demand in Q3; both gold withdrawals from the Shanghai Gold Exchange (SGE) in September and conversations we had with our trade partners in the industry indicate that Chinese jewellery retailers were actively stocking up for the anticipated wedding gold jewellery sales boom. We expect this trend to develop further in Q4, having started on a positive note. According to a report by *Suning.com* – one of the largest online shopping platforms in China – their big data system showed a 129% y-o-y surge in September sales of wedding-related products, ahead of the October Golden Week holiday *which was packed with postponed wedding ceremonies* due to the COVID-19 pandemic.[1]

Innovations have caught many young consumers' attention. Recognising the emerging trend of "China Fashion" among young consumers, jewellers increased their efforts to promote products such as *3D/5D hard gold* and enamel-coated heritage gold, both of which offer more stylish, lighter-weight designs at more affordable prices. Meanwhile, demand for rhodium-plated black hard 24K gold jewellery – less conventionally styled items designed to appeal to young consumers – rose markedly. As stated in our recently published *consumer research report*, one of the main barriers preventing young Chinese consumers from purchasing gold jewellery is the lack of styles that appeal. Creating innovative products with different stylish designs could help remove this barrier.

Gifting on Chinese Valentine's day (14 August) was, however, reasonably lacklustre in terms of gold volumes, as popular products were typically light weight; a reflection of the very high gold prices that were prevalent at the time. Some retailers focused their promotional activities on gem-set pieces in the belief that it would take some time before consumers accepted the higher gold price.

Consolidation of the Chinese jewellery retail sector gathered pace in Q3, especially in regions where the impact of COVID-19 on consumer sentiment was severe. National brands were far more resilient in terms of their quarterly performance: Chow Tai Fook and Luk Fook, for example, reported net openings of 261 and 58 stores, respectively.[2]

India

Indian jewellery demand staged a modest recovery from its Q2 record low but remained well below 2019 levels. Demand was 48% lower y-o-y at just 52.8t – the third lowest quarter for Indian jewellery demand in our data series. Not only did Indian consumers have to cope with recurring lockdowns and unprecedented gold prices, but also the inauspicious periods of Pitru-Paksha and Adhik Maas discouraged buying during September (both periods are considered by Hindus to be inauspicious for gold purchases).[3]

As the local gold price breached Rs50,000/10gm – a major milestone for India – casual/impulsive purchases were curtailed in favour of needs-based buying. The prohibitive price level also encouraged a shift to lighter-weight plain gold pieces.

Despite the positive monsoon season, consumer confidence remains heavily impacted by the economic impact of the measures imposed to contain the pandemic. India's GDP contracted by a whopping 23.9% in Q2 2020 and is expected to contract by 12.7% in Q3.[4] Weak consumer sentiment was also reflected in the Reserve Bank of India's consumer confidence survey, which showed the Consumer Confidence Index falling in September 2020 to an historic low of 49.9 from 53.8 in July.[5]

Nonetheless, the weak picture for jewellery demand has not translated into a surge of selling by Indian consumers. Instead, there has been an increasing focus on the use of gold as collateral for loans. Our forthcoming Market Update will explore in more detail the growth of this area of the market.

1 new.qq.com/omn/20200928/20200928A02UN000.html

2 Net store openings: new openings minus store closures.

3 Pitru-Paksha was from 1 September to 16 September. Adhik Maas was from 17 September to 16 October.

4 www.ncaer.org/uploads/photo-gallery/files/1601203901QRE_Press_Release_September_2020.pdf

5 rbidocs.rbi.org.in/rdocs/Publications/PDFs/CCS09102023E6F5FCA08F4C4BAB9F599F5D9DC754.PDF

Jewellery

Middle East and Turkey

Turkey saw a 22% y-o-y fall in Q3 jewellery demand, to 6.5t. While this was a strong rebound from the record 4t low seen in Q2, it is still the second-lowest quarter for Turkey in our data series. Although July saw some easing of restrictions around wedding ceremonies – leading to a small uptick in demand – the record lira price in August quashed the recovery.

Demand was similarly weak across Middle Eastern markets, where weak energy prices and the outflow of Indian expats added to the damaging combination of collapsing tourism and historically high gold prices. Regional demand was down 27% y-o-y to 26.6t. Iran and the UAE led the downturn, with losses of 34% and 30% respectively. In Saudi Arabia, meanwhile, an increase in VAT on jewellery from 5% to 15% as of 1 July was an additional obstacle to demand: it fell 24% y-o-y to 7.2t.[6]

The West

The US market was relatively resilient compared with the global picture, posting a modest 3% y-o-y decline in Q3. Compared with the average of the previous five years, y-t-d demand of 71t is 8% lower. While in-store demand remained anaemic in Q3 as consumers stayed away from shops and malls, online sales took up much of the slack.

Nevertheless, the market remains subdued, particularly as lower income groups – where demand for plain gold basic items are prominent – are suffering more from the effects of the pandemic. While engagement rings have been relatively unaffected by the downturn, demand for wedding bands has reportedly been undermined by the postponement of weddings.

It should be noted that US demand figures could be subject to greater than normal revisions going forward, due to varying levels of uncertainty in the data from different sources amid COVID-19 disruption.

At 10.3t, jewellery demand across Europe was 17% weaker y-o-y in Q3, although a solid 32% quarterly improvement reflected a release of pent up demand as Q2 lockdowns eased. Collapsing tourism impacted demand in southern Europe particularly, as did widespread delays to baptisms, first communions and wedding ceremonies.

Q3 saw widespread recovery from coronavirus-stricken Q2

Source: Metals Focus, World Gold Council

6 www.eyeofriyadh.com/news/details/zakat-and-income-15-value-added-tax-comes-into-effect

Other Asia

The smaller Asian markets all saw a quarterly recovery in jewellery demand from the extreme weakness of H1. But almost all experienced large double-digit y-o-y declines and demand remained tentative amid fears of a second wave of infection.

Losses were most extreme in Thailand, Indonesia, and Vietnam – all of which saw demand halved from Q3 2019. Thailand's economy remains deeply affected by the virtual halt in tourism since February. Jewellery demand of just 1.4t was reminiscent of the levels seen back in 2009-2011 in the aftermath of the GFC and when the gold price was reaching then-record levels. And, in line with what we have seen in Thailand's bar and coin market, gold jewellery recycling has spiked sharply over the last two quarters, reflecting the economic stress among the middle- and lower-income sections of the population. Vietnam was similarly weak, but the performance of large jewellery retailers far outperformed that of small- and medium-sized operations.

Japan was again relatively resilient, posting a y-o-y decline of just 5% in Q3. This relatively strong performance continues to be attributable to the prevalence of demand for plain, high-karat jewellery with a heavy investment focus. But bridal sales were healthy too, as postponed weddings took place.

Investment

Q3 global investment of 494.6t increased 21% y-o-y, while y-t-d volume increased by 63%

- Bar and coin demand recovered in Q3 to 222.1t, as improved emerging market demand joined still-strong Western investment
- ETF inflows continued in Q3, although at a slower rate than in H1. Additions of 272.5t in Q3 were 5% higher y-o-y
- Holdings in gold-backed ETFs reached a new record of 3,880t in Q3.

Tonnes	Q3 2019	Q3 2020	Y-o-y change
Investment	408.1	494.6	↑ 21
Bar and Coin	149.4	222.1	↑ 49
India	22.3	33.8	↑ 51
China, P.R.: Mainland	42.8	57.8	↑ 35
Gold-backed ETFs	258.7	272.5	↑ 5

Global investment demand for gold (incorporating retail investment in gold coins and small gold bars as well as inflows into gold-backed ETFs) reached 494.6t in Q3. This was 21% higher than the Q3 2019 total.

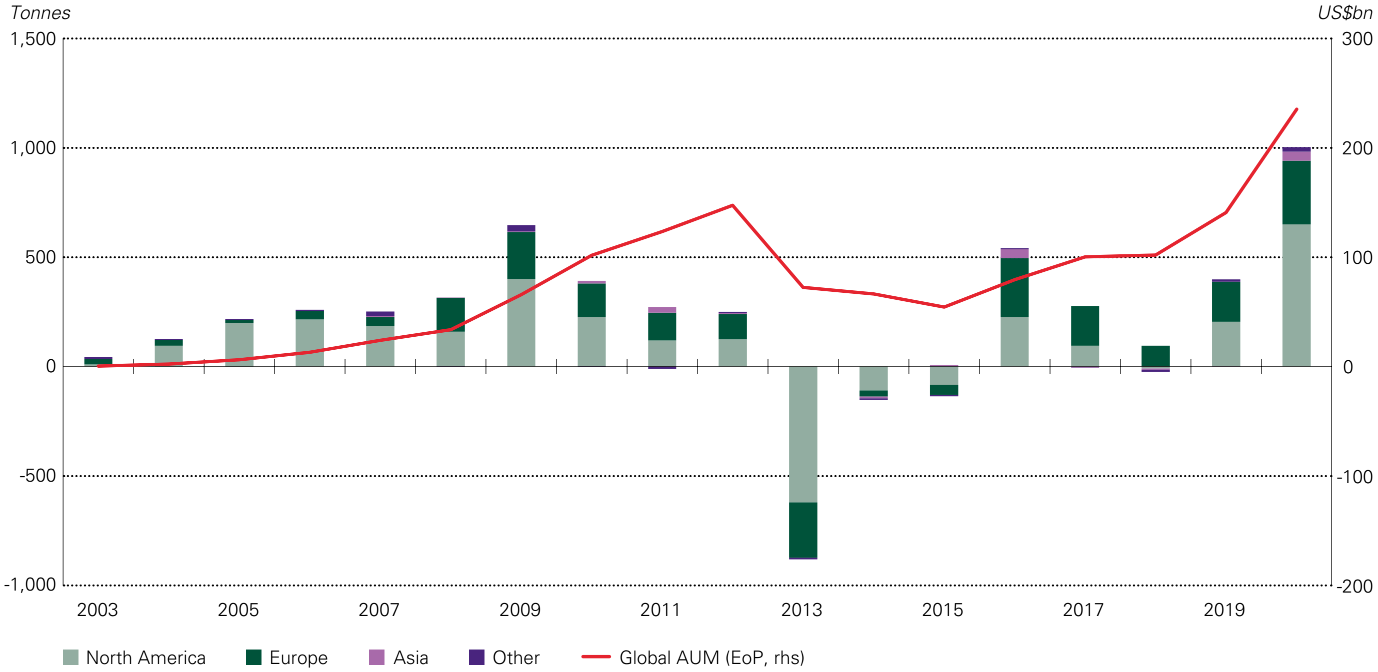
Bar and coin investment saw widespread y-o-y growth, in some contrast to Q2 when disinvestment was commonplace across Eastern markets. Thailand was the most notable exception, where selling of existing gold investments continued apace as a means of relieving the economic hardship arising from the pandemic.

The strong rise in the gold price to record highs in early August attracted a certain degree of momentum investing, while the continued global economic stress due to the global pandemic underpinned gold's role as a risk hedge and protector of wealth. The ongoing low-to-negative rate environment also remained firmly in gold's favour.

ETFs

Holdings in *gold-backed ETFs* hit 3,880t in Q3, another all-time high, as investment into these products grew by 272.5t. Although still substantial, the rate of increase was lower than the first half of 2020, when 300t were added in the first quarter and 431t in the second. During the first nine months of the year in total, 1,003t were added globally: inflows in Q3 marked the eighth successive quarter of net inflows into gold-backed ETFs.

Y-t-d inflows into gold ETFs breach 1,000 tonnes



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

Investment

In value terms, global assets under management (AUM) climbed to US$235.4bn, a sharp increase compared to US$141.1bn at the end of 2019.

Although positive in each month, total inflows were uneven throughout the quarter. July was by far the strongest month with 165.6t added to holdings, as the gold priced trended strongly higher (+11%). But after the price reached a new record high above US$2,000/oz in the first few days of August, before correcting and then consolidating around US$1,900/oz, inflows slowed. August saw growth of only 38.8t, the smallest increase of the year so far. September saw a recovery, with 68.1t added, although this was still much slower than in July, which commanded 61% of the quarter's total inflows.

Some slowing in purchases was unsurprising after the halt in the rapid gold price gains: we had signalled that gold's run was looking unsustainable in the short-term in *a blogpost in late July*. But sustained inflows through the quarter demonstrate that investors remain attracted to gold and we believe that the motivations behind ETF investors' purchases are largely unchanged.

1. **Ongoing need to hedge risk.** With the global economy still hobbled by the coronavirus pandemic, the sustainability, *strength and shape of the recovery continues to be questioned*. Although some equity markets have recovered from earlier losses, share strength is narrow, concentrated in stocks that have prospered from the sudden changes in the economy and/or are set to benefit in the recovery. Weakness in US stocks in September may have encouraged the recovery in gold ETF buying seen that month, despite a stronger dollar.

2. **Ultra-low interest rates and widespread fiscal support.** Central bank and government actions to combat a pandemic-driven economic contraction continued during the quarter and with many Northern Hemisphere nations facing rapid increases in reported infections, more of the same looks likely, although the looming US elections appear to be delaying the passage of another stimulus package.

3. **Mixed gold price momentum.** Gold delivered a 25% return in the year to 30th September – proving to be one of the best performing major asset classes – and this strength has been one factor encouraging investors to add gold or increase portfolio weightings. But after gold corrected from its highs in early August, some shorter-term investors monetised gains and reduced positioning.

All regions saw inflows in Q3. North American-listed funds saw by far the largest share, attracting 70% of the global volume inflow. Holdings in the region grew by 190.9t to stand at 2,089.4t (AUM US$126.8bn) by the end of the quarter, accounting for 54% of the global total. Funds in the region saw net additions in each month of the quarter.

European-listed funds accounted for 54.9t, or 20% of global additions during the quarter, but saw net redemptions of 10.6t in August, the first monthly decline in holdings in this region since November 2019. Redemptions from German-listed funds were the main drivers of these outflows, with a 12.5t decline noted in August, slowing to a 1.6t outflow in September. Consequently, German-listed funds reported declines in holdings of 5.7t for Q3, their first quarterly decline since Q3 2017. Based on our conversations with providers, we believe this was largely due to profit taking from longer-standing holders.

Asian-listed gold-backed ETFs saw their highest ever reported quarterly inflows of 20.7t in Q3, taking holdings in this region to an all-time high of 121t by the end of September. Purchases from China dominated, helped by the listing of four new funds in the third quarter, bringing the total of new listings so far this year to seven. Inflows into these new funds contributed to the addition of 13.1t to total China-listed ETFs in the three months to end-September. Indian-listed funds also saw good growth during the quarter, adding 4.6t.

Funds listed in other regions added 6.1t during the quarter, with Australia adding 5.3t of the total. With total gold stocks of 65.4t at the end of the quarter, holdings in other regions are approaching the previous all-time high of 70.6t seen in November 2009.

Gold ETF inflows have continued in October, with North American- and European-listed funds dominating net purchases. Modest inflows into Asian-listed funds have offset outflows from funds listed in other regions.

Investment

Bar and coin

Investment in gold bars and coins in Q3 increased 49% y-o-y to 222.1t. The majority of the countries we track saw sequential improvements in bar and coin demand in Q3 as economies began to emerge from lockdown and the supply chain bottlenecks seen earlier in the year eased. Following this strong quarterly recovery, y-t-d bar and coin demand was flat compared with the same period in 2019, even after the weakness seen earlier this year. The value of bar and coin demand – US$34.9bn y-t-d – has increased sharply due to gold's strong price performance this year.

China's gold bar and coin demand of 57.8t in Q3 represents a significant increase, both on a q-o-q and y-o-y basis. But at the same time, selling back of gold by retail investors also increased due to profit-taking. Despite the strength seen in Q3, y-t-d demand in China is 17% lower than in the comparable period in 2019.

The local gold price hit a record high in the first half of Q3 and attracted widespread attention from retail investors. With the local gold price surging in July and reaching the record high early August, gold generated tremendous attention from investors, contributing to the surge in China's bar and coin sales during the quarter. And according to *our previous analysis*, a rise in the gold price tends to lift bar and coin demand in China during the same period as most retail gold investors are trend followers.

Lingering global uncertainties combined with improved economic conditions in China also helped. A volatile equity market in China alongside geopolitical uncertainties in the third quarter helped lift local safe-haven demand, driving inflows into *Chinese gold ETFs* as well as bar and coin demand. At the same time, a renormalisation of local economic activity, better financial conditions, growth in key indicators such as GDP (+4.9% y-o-y in Q3) and disposable income (+2.8% y-o-y) supported retail demand which has also been historically correlated to positive economic growth.

Large scale disinvestment in Thailand was again reported in Q3, with 45.2t of net sales exceeding the already-high levels seen in the second quarter. Y-t-d, net disinvestment of 80.1t from Thailand is in sharp contrast to the 24.5t of investment seen in the first three quarters of 2019. Demand this year has been hit by a combination of higher prices and the collapse in visitor numbers in a country largely dependent on tourism. Job losses and lower income levels at a time of rapidly rising gold prices prompted a surge of disinvestment as Thai investors used their gold holdings to fund their financial needs.

Japan saw a seventh consecutive quarter of net disinvestment, with investors selling a net 2.3t of gold bars and coins in Q3. Net sales declined marginally compared to the 2.4t seen in Q2, and occurred against a backdrop of good gross purchases and only slightly stronger net sales. To date, net sales of 11.3t in 2020 compares favourably to the 17.1t of selling seen in the first nine months of 2019.

Investment across the rest of the East Asian region was mixed: at 4.8t, bar and coin demand in Vietnam was down 48% y-o-y, while Indonesia saw 5.5t of demand after heavy investor buying more than reversed the net disinvestment of Q3 2019.

Indian bar and coin demand increased 51% y-o-y to 33.8t in Q3, although y-t-d demand remains depressed at 81.6t (-19% y-o-y). Particularly strong investment demand was noted in July and August. Among retail investors, small bars (of 50g denominations or less) were especially popular. Although India continues to experience a particularly difficult time with the coronavirus pandemic, the country has been carefully opening up and access to gold became much easier in Q3.

India's rural economy, normally responsible for about 60% of annual gold demand – is performing particularly well in 2020 after the second successive year of good monsoon rains and higher crop yields supported prices. This has likely helped bar and coin demand outside of the urban areas. We have also heard that large bullion dealers and chain stores with an extensive retail network and online presence have reported strong figures. This suggests that the small investment product business has shifted to cashless trade.

There were also reports of investment demand for kilobars in the unofficial market; the slowdown in real estate and rising gold prices may have prompted unaccounted cash holders to move into gold.

Bar and coin demand in Turkey was again one of the stand-out positives in Q3. Demand increased more than seven-fold to 48.5t, the highest quarterly total on record and after already-strong buying in H1. Over the first nine months of the year, Turkish bar and coin investors have bought 91.8t of gold, nearly treble the amount bought during the same period in 2019. Safe-haven appeal has triggered this surge in demand, with a combination of domestic inflation, negative local real interest rates, lira weakness, and gold price momentum leading to strong interest in gold in Turkey.

Investment

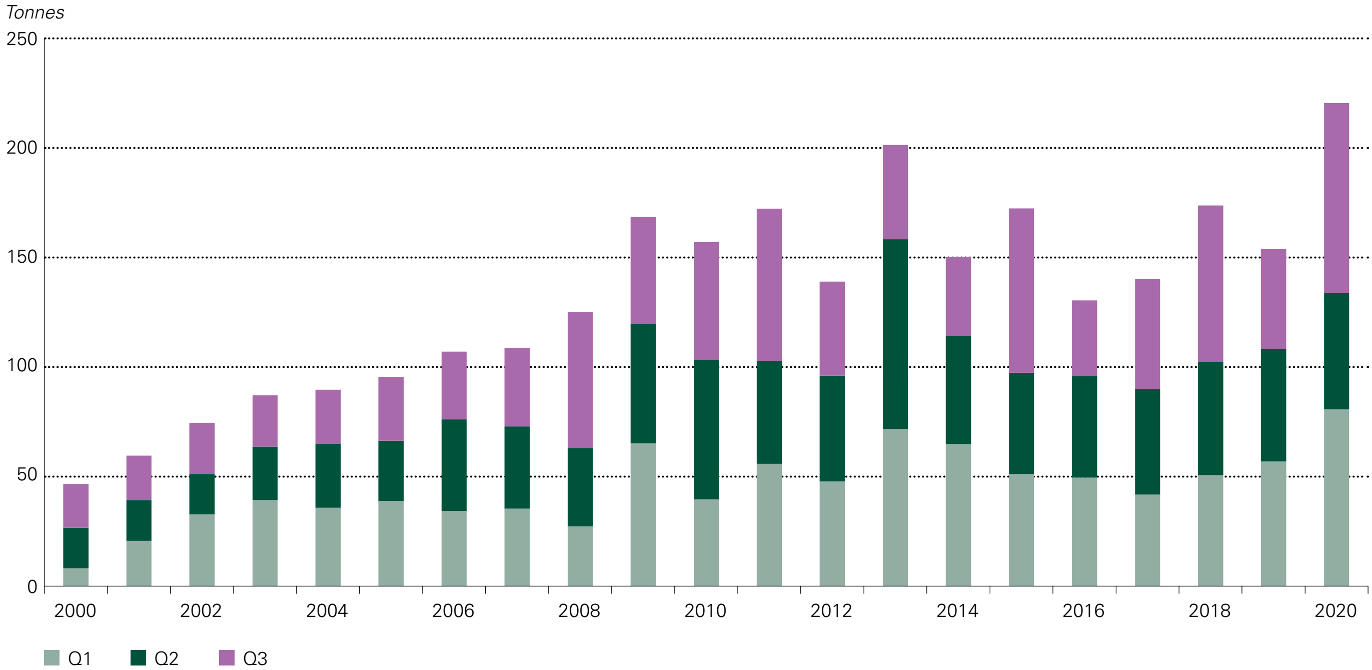
Bar and coin investment in Iran was 24% higher y-o-y, supported by safe haven buying in the face of high local inflation: distress selling prevented net demand from being even higher, as did moves by the central bank to slow gold coin demand. Elsewhere, the Middle East Region saw improved bar and coin investment in Q3 in most markets with Saudi Arabian demand up 10%, UAE up 40% and Kuwait 45% higher y-o-y.

Western investors remained strong buyers of gold bars and coins in Q3, building on the heavy purchases seen in the first half of 2020, even though total purchases slowed slightly compared to Q2. Most of the supply-chain interruptions that had hampered investors' access to physical investment products in Q2 eased during the third quarter, with still-elevated premiums below the highs seen earlier in the year.

Q3 bar and coin demand in the US more than quadrupled y-o-y to 19.2t, higher than the 14.1t seen in Q2 and the strongest quarter since Q4 2016. This took y-t-d purchases to 48.9t, more than treble the demand seen in the same period of 2019. We believe that there was an element of catch-up in the Q3 purchases, as availability of popular one-ounce coins improved, while fractional coins and one-ounce bars remained in short supply. Premiums for one-ounce coins therefore eased during the quarter. Purchases slowed after the correction in gold in early August but picked up again when investors regained confidence that gold was not set to fall further. Aside from the largely economic factors driving gold earlier in the year, some pre-US election buying was reported.

European investors bought 52.1t of gold in Q3, slightly less than the 69.4t purchased in Q2, but 65% higher y-o-y. Germany, with 32.3t of purchases (up 81% y-o-y), Switzerland (10.2t, up 57% y-o-y) and to a lesser extent the UK (3.1t, up 28% y-o-y) and Austria (2.4t, up 128% y-o-y), were the major buyers during the quarter. Negative real – and in some cases nominal – interest rates amid an ongoing economic downturn remained the key driver of European gold demand during the quarter, although the rapid price appreciation in July and early August reportedly deterred some buyers. The pull-back in the prices during August and September saw renewed interest as investors hunted for bargains.

Official gold coin buying surges to a y-t-d record



Source: Metals Focus, Refinitiv GFMS, World Gold Council

Central banks

Central banks were modest net sellers in Q3

- Central banks switched from net buyers in H1 to net sellers of 12t in Q3
- Six central banks increased gold reserves (>1t), but volumes were modest
- Turkey (22t) and Uzbekistan (35t) accounted for the bulk of sales.

Tonnes	Q3 2019	Q3 2020	Y-o-y change	
Central banks and other institutions	141.9	-12.1	–	–

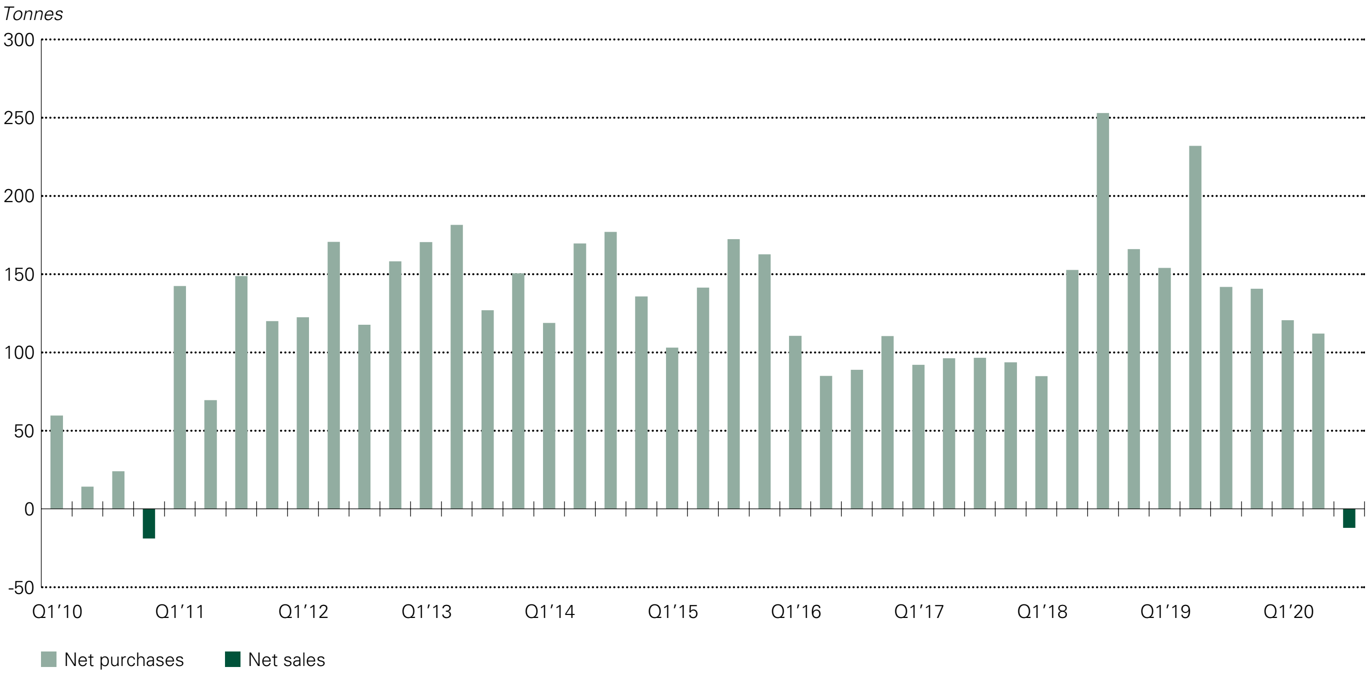
Following continuous quarterly net purchases since the beginning of 2011, central banks switched to being modest net sellers in Q3, reducing global gold reserves by 12.1t. Nevertheless, central banks remain net purchasers on a y-t-d basis, with demand for the first three quarters totalling 220.6t. We continue to expect central banks to remain net buyers in 2020, albeit at a slower pace than in the previous two years.

Activity in Q3 reflects two trends: a slowdown in purchases as the year has progressed combined with higher sales which increased during the last quarter.[7]

More buying from familiar faces. Despite the quarterly net sales, six central banks increased their reserves in Q3 by a tonne or more, although total gross purchases were a modest 33t. COVID-19 continued to inflict widespread economic hardship, and this pre-occupied central banks and governments around the world. Uncertainty has been elevated by the pandemic, motivating many investors – including central banks – to seek assets that will diversify and protect the value of their portfolios in times of crisis. Central banks have been particularly hard hit by the low and negative interest rates on sovereign bonds, which make up the largest proportion of reserve assets for many. United Arab Emirates (7.4t), India (6.8t), Qatar (6.2t), Kyrgyz Republic (5t), Kazakhstan (4.9t), and Cambodia (1t) were notable, and familiar, buyers during the quarter.

Sales: sizable but concentrated. Reported gross sales jumped to 78.9t in Q3, with the rise mainly attributable to two central banks: Turkey and Uzbekistan.

Central banks turned net sellers in Q3, the first time in ten years



Source: Metals Focus, Refinitiv GFMS, World Gold Council

7 All country-level figures are based on latest available data reported by the IMF at the time of publication. Aggregate figures are based on proprietary estimates provided by Metals Focus, which may incorporate more up to date information.

Central banks

Turkey reduced gold reserves by 22.3t during the quarter, the first quarterly decline since Q4 2018. Turkey has a range of gold policy tools which can affect the level of official reserves, especially at times of greater demand.[8] Higher domestic gold demand in August and September led to heightened gold trading activity between commercial banks and the central bank, resulting in this decline. But on a y-t-d basis, the country remains the biggest gold buyer, adding 148.7t. Its official gold holdings now amount to 561t and 47% of total reserves. In August, Hasan Yucel, the head of Turkey's Gold Miners Association, indicated that national gold production was expected to increase by 44% this year. He also stated that since 2017 the central bank has been the sole buyer of all domestic output and that will likely continue this year.[9]

Uzbekistan reduced its gold reserves by 34.9t during Q3, bringing y-t-d net sales to 28.6t. Despite the sizable sale in Q3, gold reserves of 307t still account for 56% of total reserves. The country has seen a rise in gold exports this year as it looks to utilise its gold reserves, capitalising on higher prices to combat the economic impact of the pandemic.[10] Tajikistan (9.2t), Philippines (7.8t), Mongolia (2.4t), and Russia (1.2t) were the other notable sellers during the quarter.[11]

8 www.tcmb.gov.tr/wps/wcm/connect/0a520b12-e5de-4948-956a-1a1c4b45b2d0/MonetaryandExchangeRatePolicyfor2020.pdf?MOD=AJPERES

9 In 2017, Turkey introduced legislation giving its central bank the right of first refusal on all domestically produced gold. www.bloomberg.com/news/articles/2020-08-24/turkey-s-record-gold-output-is-all-headed-for-the-central-bank?sref=3W4oJZsn

10 eurasianet.org/uzbekistan-pins-economic-fightback-on-gold-sales

11 www.bloombergquint.com/markets/philippines-central-bank-adopts-policy-of-active-gold-trading

Technology

COVID-19 continued to negatively impact the global economy in Q3, although y-o-y declines in gold demand in the technology sector slowed

- Overall demand in the technology sector fell by 6% y-o-y to 76.7t, a notable improvement from the 16% y-o-y decline in Q2
- The electronics sector recorded a minor fall in gold demand during the third quarter, dropping 6% y-o-y to 62.7t
- Gold used in other industrial applications and dental demand were both down by 10% y-o-y, to 10.9t and 3.1t respectively.

Tonnes	Q3 2019	Q3 2020	Y-o-y change
Technology	82.0	76.7	↓ -6%
Electronics	66.4	62.7	↓ -6%
Other industrial	12.1	10.9	↓ -10%
Dentistry	3.5	3.1	↓ -10%

The volume of gold used in electronic and other industrial applications remained relatively soft compared with 2019 as the technology sector continued to feel the effects of the global pandemic. On a quarterly basis, though, demand improved significantly. Some of the key Asian fabrication hubs in the electronics industry began to emerge from lockdown to ramp-up production, which catalysed a recovery from the record lows seen in Q2. Demand for gold in electronics increased 10% q-o-q, while other industrial and dental applications saw quarterly growth of 32% and 22%, respectively.

It is important to note, however, that overall technology demand in Q3 still saw a small y-o-y decline, and y-t-d demand in the sector is 10% lower at 217.3t. The ongoing uncertainty caused by the pandemic remains a major downside risk over the coming months.

Electronics

Gold demand in the electronics sector fell 6% y-o-y to 62.7t – a recovery on the 12% y-o-y fall recorded during Q2. The rapid quarterly recovery is a consequence of component manufacturers restarting production facilities and their customers restocking. But weak consumer confidence negatively impacted big ticket purchasing worldwide during Q3. While we remain confident that H2 2020 will see stronger demand than H1, the sector's performance will undoubtedly remain heavily influenced by the evolution of the pandemic. Additionally, sanctions directed at companies like Huawei could further hit short-term demand.

The LED sector registered y-o-y losses of around 6%. Weakness in the automotive sector drove the majority of the Q3 y-o-y decline. Compared with the heavy losses reported in H1, however, this represents a healthy quarterly upturn as major LED hubs, such as South Korea and Taiwan (Province of China), retained their 90% utilisation rates within their factories. Biosensors and wearables provided some respite, with devices such as the Apple Watch series 6 utilising new high-end infrared LEDs. There was also a surge in demand for 3D sensors in smartphones. However, as reported previously, the expansion of mini-LEDs remains a threat; this technology (which in some cases uses no gold) is being adopted in a growing range of products and will likely further weaken future gold demand in the sector.

The wireless sector maintained the strength of recent quarters, growing between 2 to 5% y-o-y. 5G infrastructure projects continued to drive demand in the sector, with new 3D sensors in smartphones and Artificial Intelligence (AI) systems also contributing to demand. It should be noted that, while the continuing growth in this sector is undoubtedly positive, in absolute terms the volume of gold used in the wireless sector is considerably smaller than in other areas.

The memory sector, which has remained largely unaffected by COVID-19 to date, was flat during Q3. The sector saw steady ongoing demand from data storage, PCs and laptops as more workers were equipped to work from home. In China, demand has also generally been strong with companies such as Huawei building stock to prepare their inventories for 2021. However, some pressures have been noted: higher adoption of competing technologies that use less – or no – gold has been reported (for example, copper wire substitution and increasing use of flipchip packaging) along with the broader threat of weakening consumer spending, which can have a direct impact on the memory sector given such chips are ubiquitous in consumer electronic devices.[12]

Finally, the Printed Circuit Board (PCB) sector recorded a y-o-y decline of between 2 to 5% in Q3. High speed computing applications were positive and are projected to provide support to the sector into 2021. However, this was offset by the ongoing weakness of the automotive sector and general sluggishness in smartphone shipments. Constrained consumer spending remains a major concern and this is likely to further impact demand in the sector over the coming quarters.

Mirroring our research in Q3, Taiwan (Province of China) – which represents a relatively small percentage of electronics fabrication – was the only fabrication hub in the world to record an increase in demand during the quarter, of 1.9%. Japan (-9.5%), Mainland China and Hong Kong (-3.6%), South Korea (-0.9%) and the US (-5.3%) all saw declines.

Other industrial and dentistry

Demand for gold used in other industrial and decorative applications was 10% down y-o-y at 10.9t. The main reason for the weakness was the challenging global economic backdrop, against which demand for luxury gold-plated accessories has remained cautious. Fragile demand in India for *jari* – gold thread used in traditional clothing – was again a significant contributor to the decline.

Dental demand for gold fell 10% y-o-y to 3.1t as the high gold price accelerated the structural shift to other materials. Furthermore, it is possible that demand in the sector declined due to patients being unable to access dental treatments amid coronavirus restrictions.

Finally, gold's role in the medical diagnostic sector continues to gain importance as new COVID-19 tests are developed. While this application has limited impact on demand due to the small quantities used, gold is a critical component of these tests and is playing an increasingly important role in fighting the pandemic.[13]

12 Flipchip packaging is a method of connecting semiconductors that eliminates the need for bonding wire in some devices.

13 www.gold.org/goldhub/gold-focus/2020/10/pressurised-covid-19-testing-systems-catalyse-search-new-solutions

Supply

Total supply declined 3% y-o-y in Q3 despite growth in gold recycling

- Total gold supply equalled 1,224t (-3% y-o-y) in Q3
- Mine production of 884t was 3% lower y-o-y but marks a substantial recovery from Q2
- Recycled gold rose 6% in Q3, to its highest quarterly level since Q4 2012.

Tonnes	Q3 2019	Q3 2020	Y-o-y change	
Total supply	1,265.6	1,223.6	↓	-3%
Mine production	915.3	883.8	↓	-3%
Net producer hedging	-4.2	-36.2	–	–
Recycled gold	354.5	376.1	↑	6%

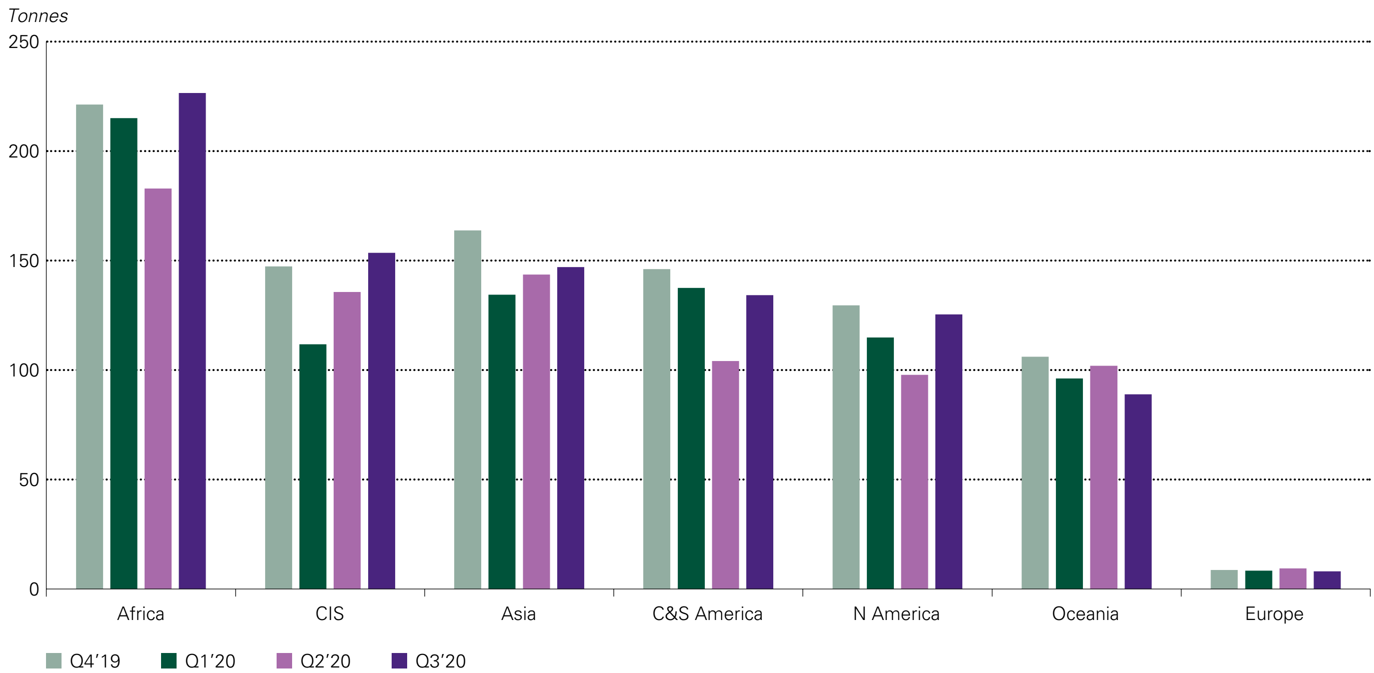
Total supply fell 3% y-o-y in Q3 to 1,223.6t. Mine production was 3% lower y-o-y as the industry continued to feel the effects of the H1 COVID-19 restrictions. Recycled gold supply increased 6% y-o-y, with recycling channels reopening as consumers and retailers emerged from lockdown. On a y-t-d basis, total supply remained 5% lower than the same period last year due to the disruption caused by the pandemic.

Mine production

Mine production continued to lag behind last year's levels in Q3, despite activity resuming at many operations affected by widespread suspensions during H1. Mine production totalled 883.8t, 3% below the 915.3t supplied to the market in Q3 2019. But this represents a swift recovery in production from the 10% y-o-y drop witnessed in Q2, as the industry heads back towards pre-lockdown levels. Y-t-d, mine production has totalled 2,477.4t, 5% lower y-o-y, highlighting the resilience the industry has shown in the face of the pandemic.

While many economies have gradually emerged from their full lockdowns, COVID-19 restrictions continued to exert some influence on mining activity during the quarter.

Most regions saw a quarterly recovery in mine production in Q3



Source: Metals Focus, World Gold Council

Supply

Some of the most heavily affected mining regions in Q2 staged a recovery in Q3. US production was 12% higher y-o-y due to greater output from existing projects such as Nevada Gold Mines. In West Africa, mine production in Burkino Faso jumped 29% y-o-y, as the ramp up of the Sanbrado and Wahgnion projects boosted aggregate output. Ghana's production was 1% higher y-o-y in Q3 due to output from Obuasi, which restarted production in December 2019. In Tanzania, the 5% y-o-y rise in production was primarily due to North Mara, where for much of Q3 2019, operations at the mine were suspended following a prohibition notice relating to the mine's tailing facility.

Most Q3 declines in production were unrelated to COVID. Papua New Guinea output fell 40% y-o-y in Q3; production at Porgera, the country's second largest gold mine and which produces ~600koz annually, has been suspended since April.[14] Chinese gold production registered another decline in Q3, down 3% y-o-y. Continued implementation of stricter environmental policies, which first came into effect in 2017, and consolidation in the industry are the primary drivers of these declines. Production in Russia was 13% lower y-o-y in Q3, largely due to lower grades and the comparison with record-high production levels in Q3 2019. And despite COVID-19 mining restrictions being lifted in June, South African production was 12% lower y-o-y in Q3 as underground mines required additional time to return to full production.

As we noted in Gold Demand Trends Q2 2020, the disruption caused by COVID will likely lead to a fall in annual gold production in 2020. But with most of the affected operations now having returned to normal production levels, the pandemic is not expected to have a significant impact going forward.

Net producer hedging

After shifting to net de-hedging in Q2, gold producers are estimated to have reduced the global hedge book by an additional 36.2t in Q3. The recent two-quarter de-hedging now outweighs the net hedging seen in Q1 by 27.8t.

While the US dollar gold price hit an all-time high during Q3, prices were already at record levels in many key producer currencies. As prices have risen throughout the year, miners have wanted to fully benefit, prompting accelerated deliveries and the winding up of some hedge books.

Recycled gold

Recycled gold supply rose by 6% y-o-y in Q3, to 376.1t. This is the highest quarterly total since Q4 2012 (394.2t), when recycling jumped due to the economic impact of the GFC and the gold price hitting a then-record high of US$1,895/oz. Interestingly, however, on a y-t-d basis recycled gold now stands at 944.5t, virtually flat y-o-y and, thus far, remains significantly below the levels seen between 2009 and 2012.

But it is the difference in recycling between Q2 and Q3 which is the most telling story. Recycling activity increased across all regions in Q3, causing the global volume to jump 31% q-o-q and highlighting the change to a more recycling-conducive environment. The rise in recycling during Q3 was primarily driven, we believe, by three key factors:

- **Easing of restrictions.** As economies across the world gradually emerged from lockdown, normal recycling channels were re-established. Consumers were able to leave their homes and retailers were permitted to resume business, albeit under stricter social distancing guidelines. This enabled the release of pent up supply that likely built during the first half of the year.
- **Weak economic environment.** The economic distress caused to economies around the world by the pandemic also fuelled some selling back. Consumers, understandably concerned with the current and future economic picture, looked to use gold to access liquidity where required. Weaker jewellery demand in markets such as India also led to higher levels of unsold inventory being recycled by jewellery retailers.
- **High and rising gold prices.** Recycled gold is highly sensitive to the gold price, and high and rising gold prices during the quarter supported the increase in recycling. Some consumers saw this as an opportune time to lock in profits on their gold holdings.

14 www.mining.com/papua-new-guinea-lashes-out-at-barrick-for-halting-porgera/

Supply

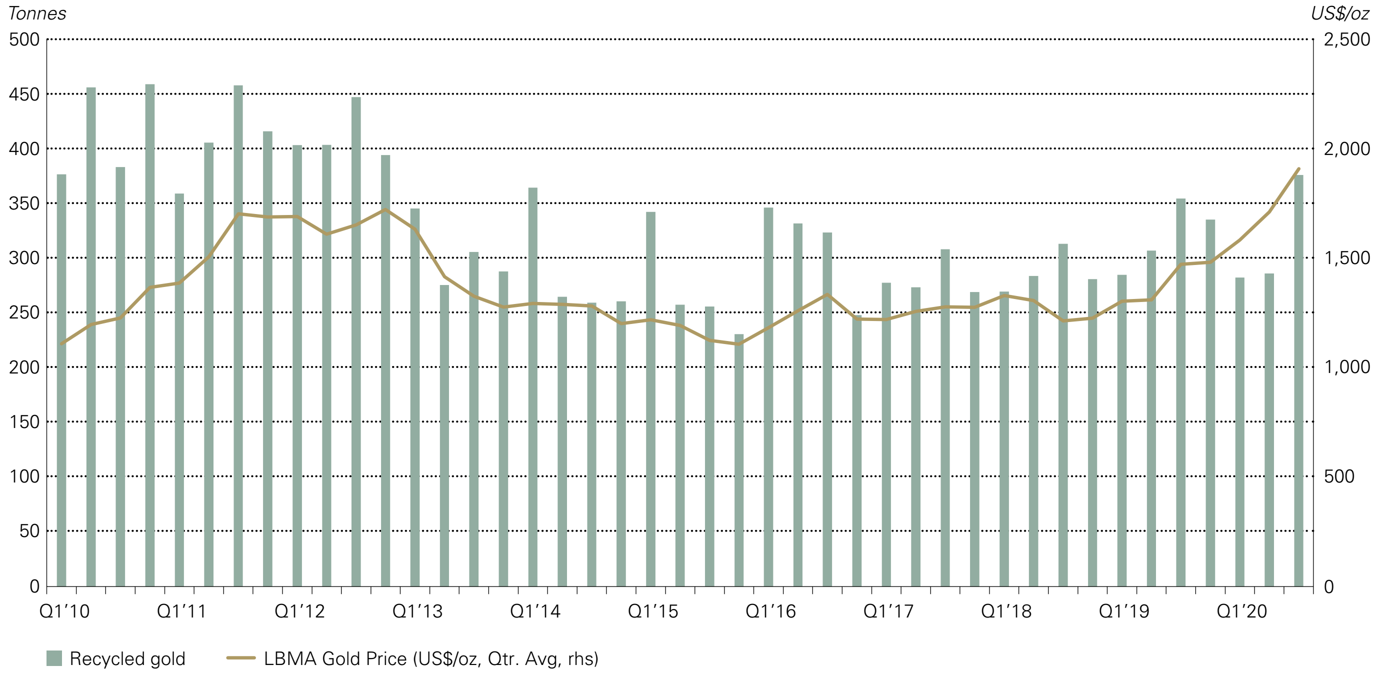
Recycling rose in some markets while remaining subdued in others. India saw higher recycling y-o-y in Q3, although distress selling was not a major contributing factor. Since lockdown restrictions have eased Indian consumers have increasingly opted to pledge gold to obtain loans, reducing the need to sell. Elsewhere in Asia, Thailand continued to witness significantly higher recycling volumes due to the higher gold price and the weak state of the economy. In China, higher gold prices were the key driver to recycling growth.

In the Middle East, Turkey saw a y-o-y decline in recycling as concerns around the depreciation of the lira, negative interest rates and lingering political uncertainty generated a reluctance to sell gold assets. In Iran, distress selling due to economic hardship saw recycling rise y-o-y, while in Egypt selling back rose in response to the increasing gold price.

In North America, a marginal 2% y-o-y decline in recycling masked a 32% jump in q-o-q activity. The emergence from lockdown later than other markets, which coincided with record gold prices, meant the initial wave of selling back fell in Q3. In Europe, higher prices were again the key driver of higher recycling, +9% y-o-y.

It should be noted that, in certain markets, consumer price expectations remained positive despite the increases already seen this year. This may signal that not all near-market supplies have been fully exhausted and may be elicited in the future if the positive price trend continues.

Recycling escalated in Q3 as lockdowns eased and the gold price rose



Source: ICE Benchmark Administration, Metals Focus, Refinitiv GFMS, World Gold Council

About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors.

We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, China, Singapore and the USA, the World Gold Council is an association whose members comprise the world's leading and most forward thinking gold mining companies.

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