Investment

Healthy growth in retail investor buying met with hefty outflows from ETFs in Q1; total investment of 161.6t was less than half the 356.4t five-year quarterly average.[7]

- Q1 investment totalled 161.6t, a quarterly gain of 16% but a fall of 71% y-o-y
- Global gold ETFs saw outflows of 177.9t in Q1 as investors reacted to higher rates and a stronger US dollar
- Bar and coin investment was buoyed by the opportunity to buy at lower prices, as well as by expectations of building inflationary pressures.

Tonnes	Q1'20	Q1'21	Y-o-y change
Investment	549.6	161.6	↓ -71%
Bar and Coin	250.5	339.5	↑ 36%
India	28.1	37.5	↑ 34%
China, P.R.: Mainland	37.1	86.4	↑ 133%
Gold-backed ETFs	299.1	-177.9	↓ –

Source: Metals Focus, World Gold Council

Gold investment in Q1 both contributed to – and took direction from – gold's price performance in Q1. The US-dollar gold price lost more than 10% over the quarter, *weighed down by a sharp rise in US interest rates and a stronger dollar.* Analysis based on our *short-term gold return model* indicates that gold's performance in Q1 was primarily influenced by the 'opportunity cost' driver, via the impact of higher interest rates. As expectations of higher inflation continued to mount, the resultant sell-off in bonds lifted yields: the US 10-year Treasury yield was pushed as high as 1.74% in March.[8] Given our recent analysis showing *that gold has become increasingly sensitive to interest rates and inflation over the last year,* the extent of gold's price decline is perhaps not surprising; particularly considering the trend in professional investment flows in the quarter.

Q1 was the *second consecutive quarter of sizable outflows from ETFs:* global outflows over the six months to the end of March totalled 308t. In parallel, *net long positioning in the US futures market* – reported by the Commodity Futures Trading Commission (CFTC) Commitment of Traders report – fell to its lowest level since June 2019. Investment activity through ETFs, OTC and exchanges, driven by higher rates and a stronger dollar, no doubt played a key role in pushing gold to its low for March – below US$1,700/oz.

In contrast strong consumer demand appears to have provided a degree of support in recent weeks. Retail investment in gold bars and coins – along with gold jewellery buying – sustained a healthy pace during the quarter, picking up some of the slack from ETF outflows and OTC investment.

ETFs

Gold ETFs lost 177.9t (US$9.5bn) in Q1 as higher interest rates and price momentum drove sentiment. Global AUM ended the quarter at US$194.5bn, down from US$228bn at the end of 2020.

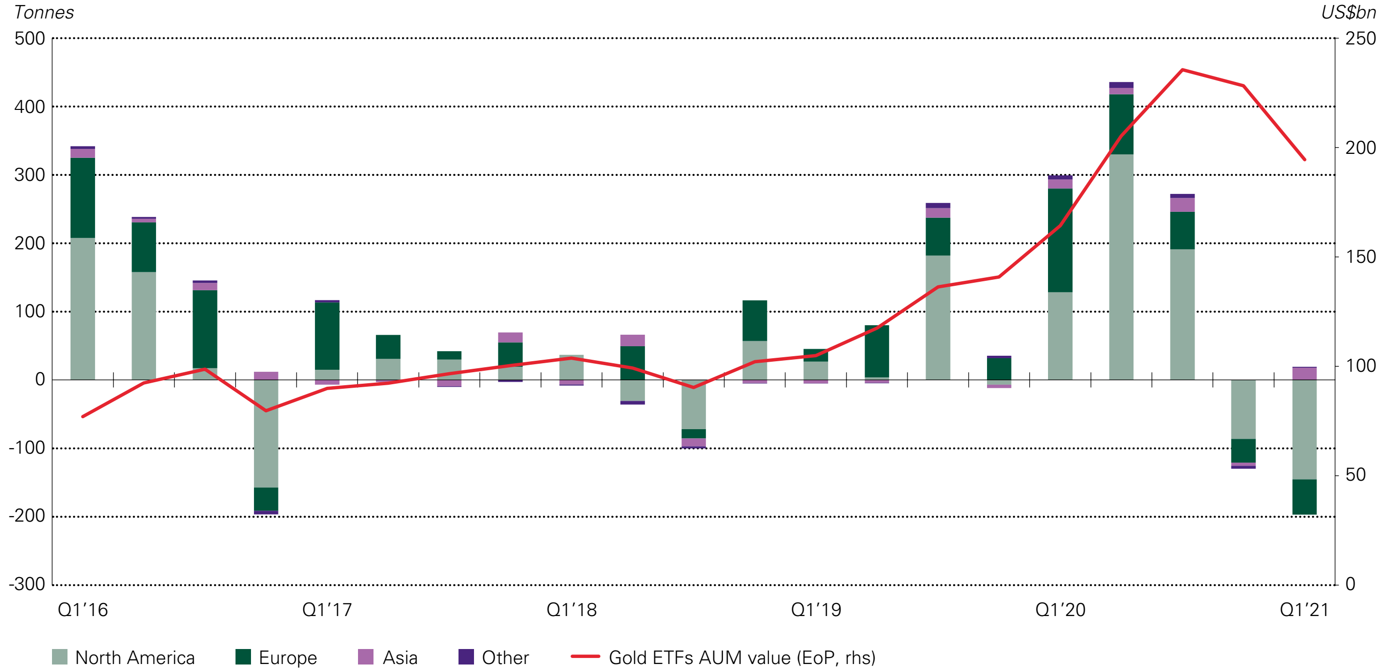
Modest inflows in January (+14t) reversed sharply in February. Outflows quickly mounted through the quarter as inflationary expectations – and, by extension, expectations of higher interest rates – were unleashed. Outflows of this magnitude were last witnessed in Q4 2016, a time when there was a similar re-appraisal of the expected course of US growth and interest rates.

Western funds were the main source of the outflows: North American funds lost 145.4t over the quarter (-US$8.1bn, equivalent to 6.7% of AUM). Despite these sizable outflows, there were a couple of notable exceptions in both Canada and the US (for more details, see our see our *March ETF monthly commentary).*).At the aggregate level, however, investors in North American funds chose to reduce their holdings of gold ETFs as the focus on rising interest rates diverted attention and investment flows towards risk assets instead, with equity market indices making new highs during the quarter. This was in stark contrast to the retail investment environment in the US, *where bar and coin investment continued at a record pace,* adding 26.3t (US1.6bn) during the quarter (see below).

7 Five-year quarterly averages through this report are calculated as the average from Q1 2016 – Q4 2020.

8 We have recently published in-depth research into gold's relationship with inflation *Investment Update – Beyond CPI: Gold as a strategic inflation hedge | World Gold Council* and interest rates *Investment Update: Rates pose risks but also unlock opportunities for gold | World Gold Council.*

Largest global gold ETF outflows since Q4 2016 pulled back AUM to US$195bn
Quarterly gold ETF demand by region (in tonnes) and total AUM (in US dollars)



Note: Data as of 31 March 2021. Gold ETFs AUM value is calculated by multiplying the end of period (EoP) gold holdings in tonnes by the end of period LBMA Gold Price PM in US dollars. For a listing of the Exchange Traded Funds and similar products, please see *notes and definitions*.

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

European funds lost 51.7t (-US$2.5bn, -2.6%) during the quarter, with funds listed in the UK (-39t) and Switzerland (-11t) accounting for the vast majority of the region's outflows. German-listed funds, by comparison, saw relatively trivial outflows; they lost just 0.6t in the quarter (-US$54.4 million (mn), equal to a 0.2% drop in AUM). Conversations with market contacts suggest that inflation remained the primary driver of sentiment in Germany, particularly after *Bundesbank President Jens Wiedmann warned that inflation was likely to rise to 3% by year-end* and that monetary policy would be tightened 'if the price outlook requires it'.

Inflows into Chinese gold ETFs – of 11.5t – eclipsed those in any other market. Holdings rose to a record high 72.4t, with AUM reaching RMB25.9bn, *fuelled by stock market volatility and a lower gold price.* After a fourth consecutive monthly gain in January, China's CSI300 stock index tumbled throughout the rest of the quarter and the resultant spike in volatility spurred local investor interest in safe-haven assets. Gold was a notable beneficiary: the frequency of online searches using 'gold' as a keyword on Baidu – China's largest search engine – climbed in tandem with stock market volatility. Gold's price performance throughout the quarter may also have encouraged some investors to add to their strategic holdings at a lower price.

The direction of travel was the same across the rest of the Asian region, albeit to a lesser degree than in China. Net inflows of 3.5t into Indian-listed funds pushed holdings there to 31.8t – the highest since October 2013 – with AUM reaching a 32-month high of US$1.9bn. Heightened stock market volatility and a lower domestic gold price elevated investors interest in gold and encouraged inflows into Indian gold ETFs in Q1.

Bar and coin

A third successive quarter of growth in bar and coin investment saw it reach 339.5t – the highest since Q4 2016. The Q1 total was 36% higher y-o-y and 37% above the five-year quarterly average of 248.5t. Bargain-hunting in key markets, notably China, was a major driver of growth in this sector of demand as the gold price fell back from the 2020 peak. Fear over rising inflationary pressures was an added driver, as economies around the world responded to the massive fiscal and monetary stimulus introduced to combat the worst impacts of the pandemic.

Investment

All three sub-categories of bar and coin demand saw strong y-o-y improvement.[9] Official coin demand grew 22% y-o-y to reach a record high for our series of 95.7t. Reports of record or near-record *sales by some Mints in response to surging demand in Western markets* help explain the strong growth in this element of the market.

China's bar and coin demand totalled 86t in Q1 – 133% higher y-o-y and 21% higher than Q1 2019. Similar to gold jewellery demand, bar and coin investment in the first quarter benefited from improved economic conditions, the 9% decline in the local gold price, and *CNY-related buying.* Investment demand was reflected in *healthy SGE withdrawals.*

The strong rebound in bar and coin demand helped push local gold prices to a premium during the quarter. The Shanghai-London gold price spread climbed rapidly from its 2020 trough, turning positive in January and continuing to rise throughout the quarter amid improved gold consumption – particularly during the CNY holiday week.[10] *Our analysis* shows that, historically, local gold demand has played a key role in driving the spread.

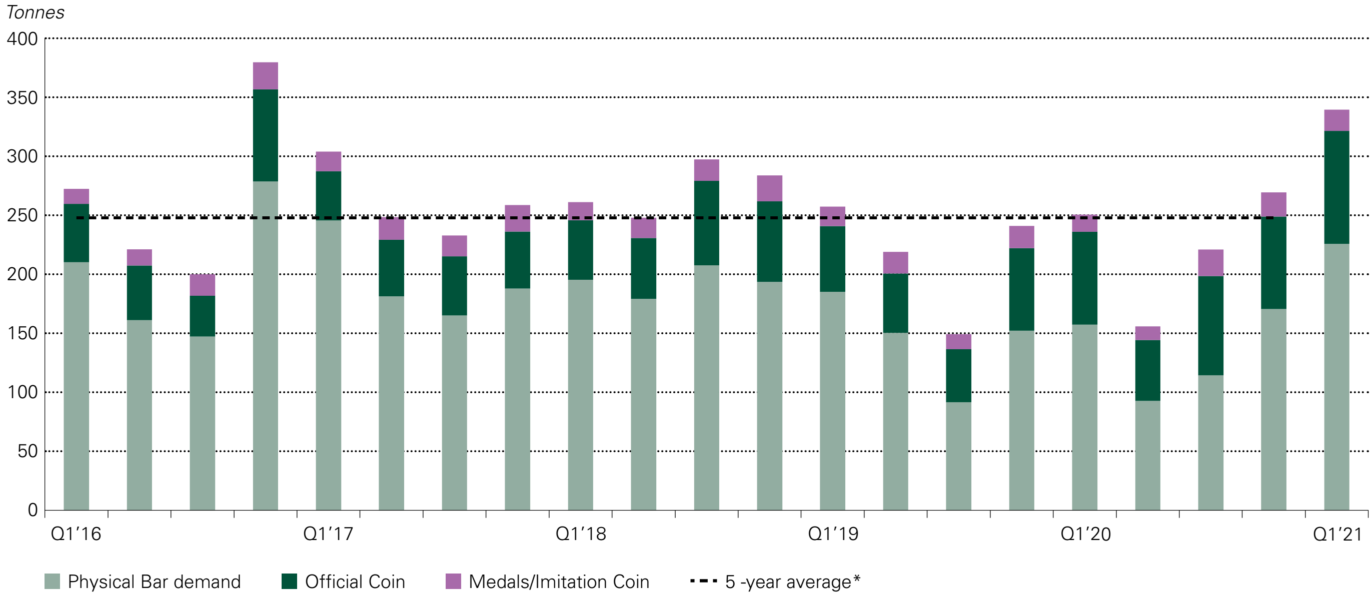
Looking ahead, this element of Chinese demand should draw support from continued economic improvement although momentum could tail off in response to the recent stabilisation in the gold price. Chinese investors may look for a pick-up in price volatility – be that a dip to encourage more bargain-hunting, or a rise to signal potential further growth.

Indian retail investment improved for the third consecutive quarter. Bar and coin demand grew 34% y-o-y to 37.5t – the strongest first quarter in India since 2015. Investment benefited from factors similar to those supporting jewellery demand: a lower domestic gold price coupled with improving economic indicators.

A reduction in custom duty on gold, together with an appreciating rupee throughout much of the quarter, magnified the impact of the lower US-dollar gold price: the domestic gold price corrected by 5.6% and 5.2% in February and March respectively, with these pullbacks being viewed as a buying opportunity by retail investors. Small bars (of 50g and 100g denominations) were reported particularly popular in Q1.

Retail bar and coin demand jumped to 17-quarter high and above five-year average

Quarterly bar and coin demand by region



Note: Data as of 31 March 2021. *Average is the five year quarterly average between Q1'16 and Q4'20. For an explanation of total bar and coin demand, please see *notes and definitions.*

Sources: Metals Focus, World Gold Council

9 The three sub-categories of bar and coin demand are: Physical bar demand, Official coin demand and Medals/imitation coin. For definitions of these three categories, see: *Notes and definitions | World Gold Council.*

10 For this calculation, we use the LBMA Gold Price AM to SHAUPM because the trading windows used to determine them are closer to each other than those for the LBMA Gold Price PM.

Indian official imports of gold surged during the quarter – jumping to a decade high of 164t in March, *only the third time that they have surpassed 150t in a given month.* Robust consumer demand, combined with stock building among the trade ahead of key festivals (including Akshaya Tritiya in May), were the primary drivers of the strong rise in imports. These factors were also reflected in a strengthening of the local market premium, which rose to a 51-month high of ~US$6/oz in March, having been in sharp discount for much of 2020.

Looking ahead, the prospects for Q2 in India are less certain as fresh lockdowns attempt to deal with the second wave of COVID-19 currently affecting the nation. That said, the trade is better equipped to weather a further lockdown, having adopted digital and omni-channel retail strategies in 2020, and attempts by central government to avoid a full national lockdown may mitigate the impact on gold demand.

Bar and coin investment in Turkey rocketed to 44.3t in Q1, almost double that of Q1 2020 (+23.3t). Investors jumped at the chance to add to their holdings at lower gold prices amid expectations that domestic political turbulence would weaken the domestic currency and cause local prices to rebound. In the event, those expectations were well founded: the sudden sacking of Turkey's central bank governor in mid-March resulted in a sharp sell-off in the lira and a rebound in the domestic gold price.

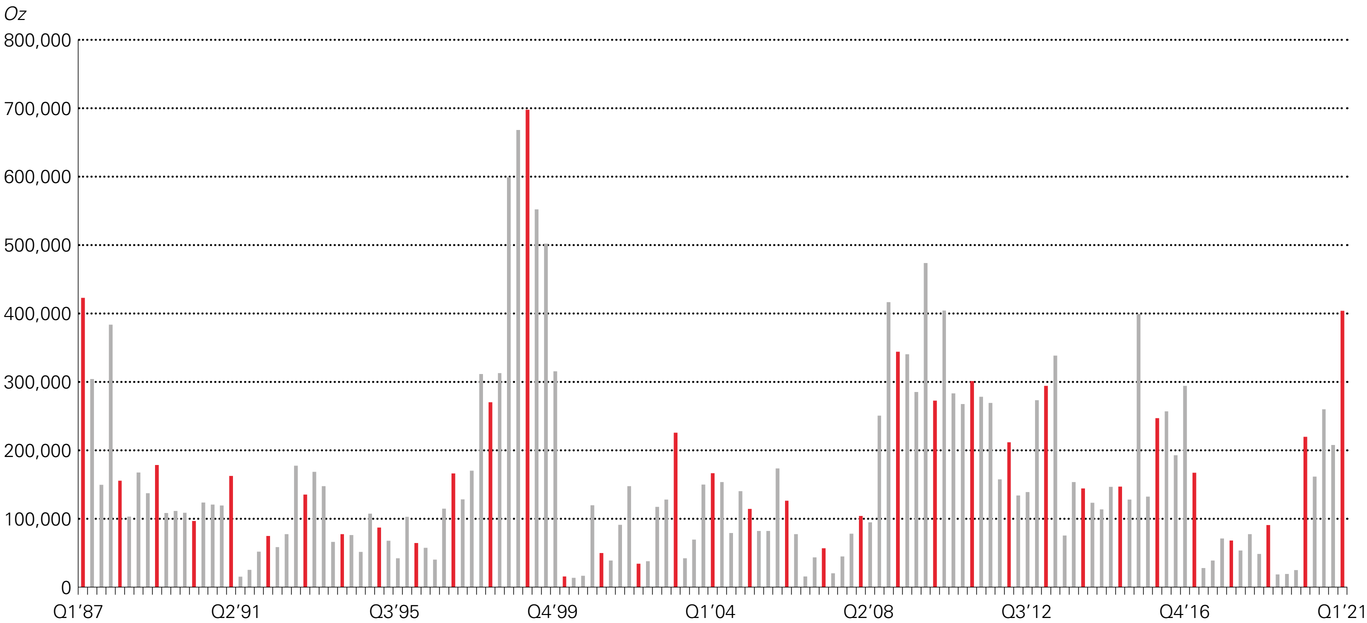
In value terms, Q1 bar and coin investment in Turkey reached Tl18.8bn – the second highest quarterly value on record and more than the total value for the first half of 2020 (Tl14.8bn).

Lower gold prices were the primary driver of growth in retail investment across many markets in the Middle East, although weakness in Iran drove a 5% y-o-y drop for the region. Lower gold prices and a tentative return of tourism to some markets generated strong double-digit growth across much of the region, with markets up between 20% to 30% y-o-y. The exception was Iran, where demand fell 30% y-o-y to 6.2t. A few factors explained this weaker performance, key among them the fact that currency moves meant that local gold prices did not dip as far as expected and this limited the opportunity for bargain-hunting.

Investment demand for gold bars and coins in the US jumped 77% y-o-y to 26.3t – more than double the five-year quarterly average of 12t. This was the strongest quarter in the US since Q2 2016 was 27.1t and more than the annual total for either 2018 (26.1t) or 2019 (19.7t).

US gold Eagle Coin sales were very strong during Q1

Gold American Eagle coin sales by quarter*



*To end March 2021. Note: Red bar indicates sales in Q1 of each year.

Source: US Mint, World Gold Council

Investment

We have *reported on the recent exceptional strength of US retail investment interest,* with demand fuelled by persistent near-zero interest rates, fears of inflation – particularly given massive government stimulus – continued uncertainty as to the long-term impact of the pandemic, and restricted opportunities to splurge on travel and other discretionary expenditure. Reports suggest a blinkered mindset among US investors during the quarter, with investment activity almost solely focused on buying and very little on selling-back or profit-taking. Conversations with market contacts revealed relatively long delivery lead times for gold investment products, indicative of tight market conditions in part due to the strength of demand. Activity *somewhat decelerated in March and latest figures for April show a continued slowdown,* but this is likely to be due largely to slowing production of bullion coins as *the Mint shifts production towards newly-designed coins,* due to be released mid-year.

First quarter bar and coin investment in Europe was robust at 65t – 35% higher than the five-year quarterly average of 48.2t. On a y-o-y basis, demand was 11% lower compared with Q1 2020 – a period during which the coronavirus outbreak and heightened concerns over Brexit had boosted demand.

Investors across the region responded positively to the price drop during Q1 but other factors also played a role, including negative real (and in some cases nominal) interest rates. Coin sales were reportedly particularly strong in Q1, in part a reflection of the logistical bottlenecks that impacted the supply chain in Q1 2020 as the pandemic initially took hold.

Retail investment in smaller markets across the East Asian region saw widespread growth, driven by bargain-hunting as the gold price weakened from its 2020 peak. In Vietnam, bar and coin investment grew 10% y-o-y to 13.5t – the highest level for more than four years. Strong demand for gold chi rings (24k rings and pendants bought as a quasi-investment) and Saigon Jewellery Company tael bars pushed local premiums sharply higher.

Thailand saw a return to positive net investment in Q1 (+6.2t) as did Japan (+5.4t). And in South Korea, a strong recovery pushed demand to its highest since 2010 at 5.8t – just eclipsing the previous high of 5.7t in Q3 2020.