



The precious metals market in 2019: Trends, drivers and more scrutiny

By Huw Daniel, President
CIBJO Precious Metals Commission

This report highlights the performance of precious metals and emerging trends in the sector. In a time of increasing uncertainty, investors predictably are seeking safe havens in these commodities, and that has implications on price. However, the outlook for demand is less clear, because the integrity of the gold supply chain has

come under increasing scrutiny, particularly in the United States.

This focus on practices in the gold industry is coming from two different sources. First, the mainstream media is intensifying reportage of “dirty gold” and issues around where and in what way the metal is sourced, and how it is moved through the supply chain.

Most recently the focus has been on the illegal gold



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industry in Colombia. Since the price of metal began climbing in the early 2000s, illegal mining activity has rocketed in country's remote El Bagre region, and now has replaced cocaine as the main source of income from organised crime, with a negative impact on the environment and society.

The United Nations confirms that approximately 66 percent of the gold mined in Colombia, one of Latin America's main producers, has been extracted illegally.

Compounding the issue is gold forgery, allowing questionably sourced gold to enter the legitimate pipeline, where it ends up in reputable global institutions as bullion. Although most media coverage has focused on the use of gold for motherboards in smartphones and other electronic devices, it is not unreasonable to expect that jewellery will also come under the microscope of human rights and environmental activists.

SCRUTINY IN NAME OF NATIONAL SECURITY

Second, the U.S. government has given notice to the jewellery sector about its expectation of supply chain transparency. This was the bottom line of a message delivered at a private meeting with industry leaders in April, as well as at an official State Department event in August. There it was said that, "in order to protect national security," imported goods should be labeled with all of the countries they have passed through on the journey to the American consumer.

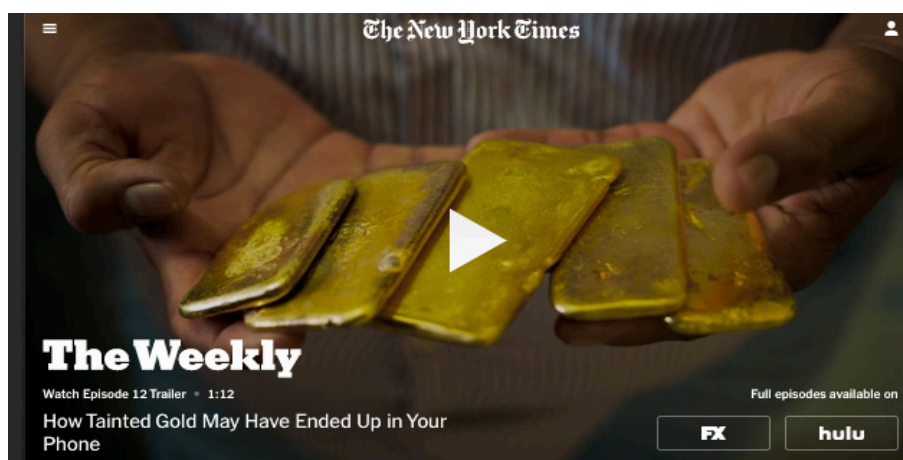
This potential plan would apply to all diamonds, coloured gemstones and precious metals, as well as finished jewellery pieces entering the United States. No specific countries are being targeted, although Venezuela, Iran and "parts of Africa" were mentioned as current concerns.

It is unclear what the enforcement mechanism would be. New policies are certainly possible, but legislation is considered unlikely given the balance of power in Congress. An Executive Order is also anticipated, and that could be imposed with immediate effect because it does not necessarily involve a collaborative process. However, even then there are legal remedies. Agency action is also possible if the government decide to enforce its will via the Treasury Department, employing existing anti-money laundering (AML) laws.

The Jewelers Vigilance Committee, a CIBJO member organisation that provides legal support to the U.S. jewellery sector, continues to work closely with the State Department on policy.

And, one more word on the general subject of legal scrutiny. A civil case was recently filed against Chopard in a Manhattan courthouse, which among other charges challenged the jewellery company's claims of using responsibly and ethically sourced gold. Since no legal definition exists for these concepts, it will be an interesting case to watch.

It should be noted that CIBJO Responsible Sourcing Commission published the first Responsible Sourcing Blue Book this year, which defines a universally agreed-to set of recommended responsible sourcing principles that can be applied by all members of the greater jewellery industry. Based on the OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, the book indicates steps that can be taken at minimal expense and effort for all sizes of companies to apply at their own pace.



Illegal gold mining has garnered increasing attention in the U.S. media, such as this August 30 video report that appeared on the New York Times' online news service.

Market Trends

Gold



GOLD DEMAND

Jewellery continues to dominate gold demand, with about 50 percent share, even though it had declined in recent decades. India and China account for more than half of current global demand, in volume terms.

Gold jewellery fabrication slipped by 3 percent in H1 2019, with losses recorded in all the major regions, with the exception of South America.

In China total gold demand fell by 4.7 percent year-on-year during H1 2019, to a total of 335 tonnes, due to the slowdown of the Chinese economy which has impacted consumer sentiment. It is forecast to further contract in H2 as the domestic economy is unlikely to improve significantly in the short term.

Pure gold has gained momentum in China after years of losing share to K Gold (18 karat), thanks to innovative new ancient gold products, using burnished finishes and designs inspired by ancient Chinese design motifs. With pure

gold dominating retail sales this innovation has been broadly adopted in a matter of months.

Indian consumption increased by 12 percent year-on-year in H1 2019, driven by a higher number of auspicious marriage days, together with heavy purchasing during “Akshaya Tritiya,” a major jewellery giving festival. Forward buying in anticipation of higher prices led to a halt in consumption in the month of June. Nevertheless, the H1 2019 remained the best six months since H1 2015.

The Indian government’s 2019-20 Union Budget included an increased import duty on gold by 2.5 percent, which has made the yellow metal costlier by around Rs.800 (\$12) per 10 grams, based on the price prevailing before the hike. With this increase in force, the import duty on refined gold is pegged at 12.5 percent. The government’s move is primarily intended to meet its fiscal target, as revenue realisation has not occurred as expected. The new duty added a hefty \$700 million to \$800 million to the Indian treasury’s coffers. Forecasts for H2 2019 are negative.

Jewellery consumption in the United States slowed in H1 2019, following a year of increases in 2018. After a prolonged period of growth, the jewellery industry in the country is finally slowing. Industry sales growth switched to negative in January 2019 and has continued that trend year-to-date.

U.S. jewellers faced headwinds in H1, with store sales contracting to an estimated \$7.9 billion during Q2. Electronic shopping, which also a significant factor in the gold market, bucked the trend, increasing by another 15 percent in April. Still U.S. gold metal consumption at retail in H1 2019 was



estimated to be down 5 percent at almost 50 tonnes. The outlook for H2 is increasingly mixed.

Europe posted the largest drop of 13 percent, as long-term structural factors, along with slowing economic growth and higher gold prices weighed on consumption.

Swiss gold jewellery fabrication, which is dominated by the watch industry and luxury brands, has performed relatively well so far, up by 7 percent year-on-year in H1, marking the second successive year of growth. That said, the growth rate for the six-month period was substantially slower compared to 21 percent recorded over the same period in 2018, and 15 percent for 2018 as a whole.

The watch industry continued to recover, along with buoyant performance from high-end jewellery, with Swiss watch hallmarking data reporting the number of gold watches hallmarked rising by 34 percent year-on-year in Q1, although jewellery fabrication declined in Q2.

Japan jewellery fabrication picked up in H1 2019, due largely to stock building across the supply chain. This was a function of forward purchasing ahead of higher prices and the rise in consumption tax later this year. If prices track higher, then Japanese jewellery consumption is likely to suffer in the second half of the year.

GOLD SUPPLY

Global mine production rose by 51 tonnes or 7 percent year-on-year during Q1 2019. The largest increase was posted in Oceania and Europe, which increased their combined production by 28 tonnes. The biggest losses were reported in Indonesia and Burkina Faso.

GOLD PRICES

There has been a positive change in sentiment in 2019, particularly in Q2, supported by renewed global economic and political uncertainties, an escalation of the trade dispute between the United States and China and, importantly, a shift in the mood among the world's key central banks towards looser monetary policy.

Gold prices continued their upward trajectory, about 20 percent higher than this time last year, and the highest level since 2013. Recession fears, trade wars, political uncertainty around Brexit and other global issues, and monetary policy of various central banks are likely to keep an upward pressure on prices during H2 2019.

Platinum



PLATINUM DEMAND

Although total demand for platinum is forecast to grow 9 percent in 2019, jewellery, the second largest source of demand after automotive, will remain slightly negative due to the underperformance and out-sized contribution of China.

China's high single digit decline in jewellery fabrication will continue throughout 2019, as the industry transitions to lighter-weight and higher-margin pieces. This new-generation jewellery that leverages negative space and platinum's tensile strength to create designs more in synch



with today's consumer is a necessary adjustment to reverse a five year decline.

Japan, the second largest market for platinum jewellery, will experience a slight increase in retail consumption as both consumers and trade respond to the historically low platinum prices, with substitution for 18-karat white gold, and a shift to heavier pieces in wedding bands and Kihei chains.

Like Japan, the United States has responded well to the platinum price, with mid to high single-digit growth forecast for 2019.

India remains the fastest growing market for platinum, forecast to grow more than 20 percent in 2019. Platinum has found a sweet spot, being favoured by younger affluent consumers while offering the trade attractive margins compared to gold. PGI's Men of Platinum, an ambitious new initiative to secure a stronghold in the burgeoning men's jewellery category, was launched at the IJS 2019 jewellery show in Mumbai.

PLATINUM SUPPLY

Total platinum supply is expected to rise by 4 percent this year, mostly due to the refining of mined metal built up in the processing pipeline in South Africa in 2018.

In fact, 2019 represents the year of peak supply for mined platinum, as leading producers have scaled back on capital expenses and pursued efficiencies to mitigate the impact of lower metal prices. Potential power disruptions and industrial action in the second half of 2019 could risk reducing South African mining supply.

With demand projected to increase by more than supply, the annual 2019 market balance is forecast to remain in narrow surplus.

PLATINUM PRICES

With platinum reporting a structural surplus almost every year since 2010, gold is likely to remain the key driver behind price.

Sentiment has strengthened in 2019, driven by the upward pressure on gold, as well as by increases in demand for platinum for investment and automotive, in addition to emerging demand from fuel cell electric vehicles.

Platinum is forecast to be the best performing of the major precious metals in 2019, with numerous analysts predicting an average \$850.71 per troy ounce of platinum for the year, 5.1 percent higher than the price in the opening half of January 2019.

Platinum prices are forecast to trade in a range of \$430 or 50 percent of the average price, which in terms of overall annual volatility would represent very a large fluctuation, both positively and negatively.

Palladium



PALLADIUM DEMAND

Palladium demand is mainly a function of the state of the market for gasoline auto-catalyst systems, which convert emissions of hydrocarbons, carbon monoxide and oxides of nitrogen from gasoline engines into less harmful carbon dioxide, nitrogen and water vapour. Market gains in 2018 were mainly due to significant growth in palladium loadings on gasoline catalyst systems in Europe, and the deficit in supply versus demand is widening in 2019 because of stricter emissions legislation being imposed globally.

In the absence of consumer marketing in jewellery, palladium has retreated primarily into being an alloy in white gold and platinum, dropping to 157,000 ounces in 2018, from more 270,000 ounces in 2014, with jewellery now accounting for only 1.5 percent of total gross demand.

Japan and Europe are the primary sources of demand, with a small business in wedding bands in the United Kingdom and Germany, and some residual stocks of pair rings in China's lower tier cities.

PALLADIUM SUPPLY

Russian government selling during the 1990s and 2000s led to the accumulation of large market stocks of palladium, some of which were held in vaults in the United Kingdom and Switzerland, as part of the market clearing system. This inventory has been depleted since 2007, and the market has now entered its eighth consecutive year of deficit.

PALLADIUM PRICES

With worsening market liquidity, the palladium price has risen from a low of under \$850 in August 2018 to more than \$1,600 per ounce in 2019.

Silver



SILVER DEMAND

2018 was a challenging year for silver, seeing a decline of 3 percent in demand, while supply increased only marginally. 2019 is expected to see a return to growth.

India will continue to be one of the largest markets in 2019, following nearly 225 million ounces of imports in 2018, which was more than 35 percent higher than the amount registered in 2017.

Global jewellery demand is expected to grow in 2019, with Thailand leading the pack. In the United States, silver jewellery remains a popular alternative to lower karat gold items, especially among female self-purchasers.

SILVER SUPPLY

Mine production is forecast to decline 2 percent in 2019. A small rise from silver recovered in gold mining is forecast, while all other primary and by-product production is expected to fall, resulting in a market in balance.

SILVER PRICES

The silver price is expected to strengthen in 2019, with an average price of \$16.75, which represents a 7 percent increase over the 2018 average price, as reflected in the LBMA Silver Price index.

PRECIOUS METALS AT THE 2019 CIBJO CONGRESS

The Steering Committee of the CIBJO Precious Metals Commission has been putting the final touches to the proposed 2019 edition of the Precious Metals Blue Book. The document will be discussed and reviewed at the CIBJO Congress in Bahrain in November.

The Steering Committee meeting is scheduled to take place on Sunday, November 17, from 2:30 PM to 4:30 PM.

The official session of the Precious Metals Commission is scheduled to take place on Tuesday, November 19, from 4:30 PM to 5:30 PM.

SOURCES

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