Dear Reader,

Gold is expected to finish the year on a low, and that’s not a bad thing. It would seem that after much forecasting and expectation of gold prices to balloon upwards, the market is finally separating the noise from the fundamentals; with the pricing of the yellow metal at a period where the market will trade and not speculate. Hopefully regulators in India seeing a much improved current account deficit and lower gold prices will return to relaxing some of their import restrictions to meet local demand. Looking forward to 2014 we expect to continue to report on the growth of consumption in China and physical markets taking over in driving demand. Responsible sourcing of gold and increased supply of recycled gold have been the other major developments of 2013 which will carry forward and continue to generate debate. In Dubai we are proud to have won the Expo 2020 bid and we expect the city of gold to shine.

Franco Bosoni
Director, DMCC Commodity Services

Gold Price Movement (November, 2013)

The average gold price for November 2013 was US$1,277, which is 3% less than the previous month and 26% less than the same period last year. The price of gold went as low as US$1,231 towards the end of November. Gold is on the path of losing its allure and appeal as investors are increasingly trading off the metal for other commodities and shares on the surging US markets.

Strong market speculations are leaning towards the decline of gold price by the end of 2013 compared to its level at the start of the year. If the price of gold continues to decline at this rate, this will mark the first annual fall in value in 13 years. In September, 2011, the price of gold reached a record high of US$1,921 an ounce, this record high was in reaction to the perceived vulnerability to the global economy. Since mid-2013, investors nerves have been calmed as signs of economic recovery in the Eurozone, US and other leading economies are becoming evident, putting pressure on the performance of gold. Famous players, like the gold fund of John Paulson, the hedge fund manager who made billions betting against the US housing market, have been hit hard with the poor performance of gold. The fund declined by 63% this year.

Georgette Boele at ABN Amro said: “The gold bubble has burst… more of gold's previous supportive drivers are about to push the precious metal much lower. As such we expect additional large sell-offs.”

Gold in 2014

Gerhard Schubert, Head of Commodities, Emirates NBD, Private Banking, said the gold market is poised to have a challenging 2014, with a lot of the economic fear factors fading away but not necessarily being resolved. "The fear of accelerated inflation in the US and other major economies cannot be expected to materialize for years to come, and that puts gold on the back foot, when it has to compete with dividend paying equity markets."

Jonathan Barratt, Chief Executive Officer of Barratt’s Bulletin, told Bloomberg “A lot of the risk premium, the safe haven status that gold has, the reason that people bought gold is not there…you can certainly see that in developments in the Middle East as well. We’re losing a lot of the riskier concerns out there and as a result, many people are revising their portfolio. It's evidenced by the draw in the ETF market.”
Asians respond to the fall in gold price

Gold price in November fell to a five-month low, trading below US$ 1,300 an ounce for the most part of the month, this has attracted a large amount of South East Asian (65% from India and China combined) buyers into the market. Despite the drop in price, market reports believe the demand is sluggish and below expectations because of the expectancy of the further fall in price before the end of the year, which would attract more buyers.

It is expected that the weak physical demand would put pressure on the gold prices to fall lower...

India

Demand has not picked up as expected because most consumers believe the price will fall further, which would reduce the import costs.

Despite low demand, premiums on gold jewellery have gone up by 50% to US$ 120 an ounce from US$ 80 as a result of the gold crunch that has occurred because of the government policies and fall in prices.

Bachhraj Bamalwa, director at the All India Gems and Jewellery Trade Federation said, “There is a problem with supply and premiums are very high again at US$ 120, as whatever little was imported has been exhausted.” Source: Reuters.com

The Indian wedding season has started and will progress through till January. Gold is one of the precious metals that play an important part of Indian weddings because of its cultural importance. It will be important to observe how the metal trade performs amidst the current market dynamics.

China

China is on track to become the top gold consumer by the end of the year. In recent years, data from the World Gold Council (WGC) has placed India and China as the two largest consumers of gold. China has been able to rise to this position as a result of the fall in the price of gold and the encouragement by the government for consumers to purchase gold products.

The opening up of China's gold market in 2002, which has actively encouraged households to buy gold in recent years has set China to be the largest gold consumer in 2013.

ANZ Bank forecasts 2013 gold imports to China to reach 1,050 tonnes, topping last year’s record by some 80%.

“We believe caution is warranted in expecting the growth in Chinese gold demand will be repeated next year,” say the banks' analysts, stating a "baseline expectation" of a drop in 2014 imports back to 900 tonnes.

The rate at which gold bullion is moving from West to East out of London, Zurich and New York and into vaults in China, in the long run, might lead to a physical gold supply crunch for trade in the traditional markets.

One of the new products that will be launched in China before the end of November is the interbank swaps trading to further open up the domestic precious metals market. In a statement issued by the National Interbank Funding Center, the swaps will be traded on the Shanghai-based China Foreign Exchange Trade System - the country's biggest spot gold bourse and will handle related settlement and delivery.

"Swaps will be one more tool for banks to manage risks associated with bullion trading and will help broaden China's gold market," said Song Qing, fund manager at Lion Fund Management Co., China's first asset manager to place money in foreign exchange-traded gold funds.

With expectations of prices to fall before the end of the year, demand is expected to grow further. "Consumers are waiting for prices to go down further and are holding off big purchases," said one Singapore-based dealer.

In a recently released survey by Bloomberg, bullion consumption in the world's second-largest economy will surge 29% in 2013 to a record 1,000 metric tonnes. Source: Bloomberg.com.

PWC’s report on the gold’s global economic impact

Over the years, gold has constantly acted as a hedge against economic uncertainties, a beautification item, store of value and as a cultural affiliation as a sign of wealth. In 2012, the WGC commissioned a research report to Price Waterhouse Coopers (PWC) to estimate gold’s total direct economic contribution to global GDP, estimated at US$ 210 billion (which is similar to the GDP of Ireland or Beijing). This is the first time an evidenced back report has been collated on the contribution of gold to the global economy. The key measure used was gross value added (GVA), which measures the contribution to gross domestic product (GDP), employment and taxes paid. As such, the report provides a baseline assessment of gold’s direct economic and fiscal contribution.
The report covers the following areas:

**Mine Production** – Data from the WGC shows that global mine production was 2,861 tonnes in 2012. The gold mined from the top 15 gold producing countries was 2,177 tonnes in 2012, 76% of the world’s total. Those 15 countries directly generated US$ 78.4 billion of GVA in 2012 – approximately equal to the GDP of Ecuador or Azerbaijan or 30% of the estimated GDP of Shanghai.

The six largest producers were China, Australia, United States, Russia, Peru and South Africa.

**Recycled gold** – Recycling of gold is another major source of gold, accounting for approximately 36% of global supply in 2012. The report linked the gold recycling activity to gold consumption, not production.

The GVA estimate for gold recycling range from US$ 23.4 billion to US$ 27.6 billion.

**Demand for gold** – this category falls into 3 buckets (Jewellery, bar and coin investment, and technology), collectively generated a GVA of US$ 112 billion. The breakdown of the figure as below:

a) Bar and coins, generating GVA US$ 38 billion – is one of the areas of investment that has the most attraction by volume. Post 2008/9 financial crisis, bar and coin demand has surged and now accounts for the largest proportion (82%) of total investment demand in 2012.

b) Jewellery, generating GVA US$ 70 billion – makes up the largest portion of gold fabrication and consumption demand. India and China top the list and account for more than 50% of the global gold jewellery fabrication and consumer demand. Across the major countries, the direct GVA from gold jewellery fabrication and consumption is estimated at US$ 70 billion. India is the leading consumer of gold jewellery; however China’s GVA is higher than India because it adds more value per ounce of gold.

c) Technology, generating GVA US$ 4 billion – the global use of gold in technology amounted to around 408 tonnes. The use of gold for the electronics made up the largest share of use of gold in the technology industry. The United States (US$ 2.3 billion) is the largest consumer of gold for technology purposes followed by China (US$ 644 million) and Switzerland (US$ 349 million).

For a detailed overview of the report, please click [here](#).

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**Market Update**

**UAE gold refineries successfully complete Responsible Sourcing audits**

Dubai Multi Commodities Centre (DMCC) has confirmed that the three UAE-based Dubai Good Delivery (DGD) refineries Emirates Gold Refinery, Al Etihad Gold Refinery and Kaloti Gold Factory have successfully completed their first cycle of independent third-party audits confirming their compliance with DMCC’s Practical Guidance and Review Protocol for responsible sourcing of gold.

Gautam Sashittal, Chief Operating Officer, DMCC said, “We are proud to announce the accomplishment of our UAE-based DGD refineries in successfully completing their Responsible Sourcing audits. It is important for Dubai, as one of the largest physical gold trading hubs in the world, to give industry participants the assurance that they can trade with confidence in Dubai knowing that refineries in the UAE comply with international trade and sourcing best practices. DMCC congratulates Emirates Gold Refinery, Al Etihad Gold Refinery and Kaloti Gold Factory for their efforts and commitment to our Responsible Sourcing initiative.”

**Noor Islamic Bank Offers UAE Gold Bullion Coins in Partnership with DMCC as Profitable and Safe Investment Option for Clients**

Noor Islamic Bank (Noor) has rolled out sales of the UAE gold bullion coins for retail buyers in denominations of one, half, quarter and one/tenth ounce in 99.99 per cent purity (24 karat).

The innovative product offering makes Noor the first Islamic bank in the UAE to offer a fully-fledged product in the precious metals segment. The initiative has been launched in partnership with the Dubai Multi Commodities Centre (DMCC), which designed and launched the UAE gold bullion coins in April 2012.

Omar Anwar, Acting Head of Treasury, Noor Islamic Bank, said, “Gold is primarily a long-term investment that holds the potential to offer multiple returns. However, most investors are wary of gold securities, which do not give the same assurance as physical gold as there is always a question on the ratio of global gold stocks and the issuance of certificates. On the other hand, storing physical gold has always posed a critical concern for investors. With the option of storage facilities, our product effectively extends a safe investment option to individuals looking for profitable yet secure avenues to park their funds.”

Ahmed Bin Sulayem, Executive Chairman, DMCC, said, “We congratulate Noor Islamic Bank on becoming the first Islamic bank distributor of the UAE Gold Bullion Coins. These coins celebrate the accomplishments of the UAE’s visionary rulers. We are proud to see the UAE Bullion Coins further contribute to the growth of the Islamic economy in line with His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai’s Islamic Economic Strategy to make Dubai the Capital of Islamic Finance.”
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