# Recap:

# Getting to grips with gold

October 2020

## Anomalous environment bodes well for gold

Gold has historically been considered a safe haven asset, one investors flock to when equity markets are expected to drop. But the current environment is anomalous, seeing the gold price rallying alongside a rise in equities as several factors are buoying the market for the precious metal. Short of buying the physical gold, access through a physically backed structure is the optimal way for investors to fully benefit from positive developments in the gold market.

Persistent expansionary monetary policy has led to markets being awash with liquidity. While this can cause issues in some areas, in the case of gold, the loose monetary policy sustains the asset class significantly.

James Steel, a precious metals analyst at HSBC outlines: “In the current environment, gold is getting two of the things it needs for strong prices - debt and liquidity. Monetary policy has meant that there is abundant liquidity and rising levels of debt across the globe, with US household debt on the increase as well as growing levels of corporate debt in many other countries.”

These are factors which have a positive impact on the price of gold, especially given it is unusual for both debt and liquidity to be increasing at the same time.

In consequence, there has been heavy investment in the market with ETFs taking in almost 111 million ounces of gold in 2020, up from 81.5 million ounces at the beginning of the year.  A slowdown in jewellery sector has facilitated capacity for this increased investment demand for gold.

The levels of trade on a global level also can support the gold market. “When global trade levels contract, the gold market takes off like a rocket,” notes Steel. Trade levels are currently low and although they may not persist at such profound negative levels Steel believes they’re likely to remain weak for the next couple of years.

According to Steel, the reason gold has been able to rally alongside the equity markets, is because many investors are using their allocation as an insurance policy, as a hedge against the rising equity market. “No one has a really good explanation for the reason why equities have gone up so quickly. So, investors are taking out a small amount of gold in case of a move back within the paper markets.

**JAMES STEEL**
HSBC, Chief Precious Metals Analyst

The views above are those of James Steel, Chief Precious Metals Analyst at HSBC

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## Trouble in futures

Gold trading falls into two main categories: the physical, or spot, gold market, which trades the precious metal itself, and the derivatives market. The latter takes the form of futures contracts which are traded on the Comex exchange in New York. "Historically the relationship between these two markets has been extremely robust with the gold futures trading in line with the spot price.

"This year however, this relationship has broken down completely. At one point, futures prices were trading at more than 4% over the spot gold price," comments Gregoire Blanc, Global Head, Capital Markets & Liquidity, Amundi.

This dislocation was an unprecedented phenomenon driven by three primary factors related to the sourcing, refining and shipping of physical gold. Although sourcing the metal was slightly problematic in light of the lockdown, this issue had little impact on the market itself. What proved more difficult was refining the 400-ounce bars, the size usually held in vaults, into the 100-ounce bars needed to settle futures contracts on the Comex. These difficulties arose following the shutdown of three major refineries in Switzerland as a result of the Covid-19 pandemic. Shipping any 100-ounce bars which were able to be refined over to New York was another challenge, given they are usually transported on commercial flights, many of which were grounded.

Blanc remarks: "All of these elements combined lead to some noise that drove the futures prices up, all while the market for physical gold remained robust and resilient. This suggests futures contracts are not the ideal tool for investors to gain access to the gold spot price."

The Amundi Physical Gold ETC is a fully allocated physical gold product, meaning an investment in such a structure is the closest investors can get to the spot price of gold without buying the metal directly. This ETC does not use any futures contracts so would not have been subject to the pricing issues Blanc describes. Instead, every Amundi Physical Gold ETC share is fully backed by the precious metal itself – which is sourced by an authorised participant (AP) ahead of the ETC shares being created. No new shares are created within this ETC the gold is physically held in the custodian's vault. This in turn means that any sale or redemption in the ETC shares is always supported by physical gold of equivalent value.

Another differentiating factor of the Amundi Gold ETC is the sustainability dimension. ■

**Gregoire Blanc**
Amundi, Global Head, Capital Markets & Liquidity

For more information about the LBMA's responsible sourcing guidance visit lbma.org.uk/responsible-sourcing

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## Responsible sourcing

As environmental, social and governance (ESG) factors come under the lens across various investment markets, the sustainability aspect of the gold market is also being scrutinised further by investors.

Nicolas Fragneau Head of ETF product specialists, Amundi details: “Responsible investing is one of investors’ main concerns at the moment so it’s a logical next step to see how this can be implemented within gold allocations.”

In 2012, the London Bullion Market Association (LBMA) set up the Responsible Gold Guidance for good delivery refiners. The aim of this was to combat systematic or widespread abuses of human rights, to avoid contributing to conflict, and to comply with high standards of anti-money laundering and combating terrorist financing practice. The guidance was based on the OECD Due Diligence Guidance as well as Swiss and US KYC, Anti-Money Laundering and Combating Terrorist Financing regulations, to guarantees its robustness.

Under the Responsible Gold Guidance, all refiners bringing gold to the LBMA are subject to an annual audit. A minor breach leads to an action request and a new audit must be performed within three months to make sure the breach has been resolved or corrected. A major breach on the other hand means the refiner is excluded from the authorised list of refiners and not allowed to bring gold to the exchange.

Given that gold, as a material, can be recycled almost perpetually, Fragneau highlights that the only way to identify gold which has been sourced sustainably is the 2012 cut off mark, when the LBMA guidance was introduced.

He says: “To make sure that 100% of the gold used to back the investments in the Amundi ETC is responsibly sourced we have decided to only include gold which was mined and refined after 2012. This guarantees that all the gold bars backing our product were mined and refined in a supply chain environment compliant with the LBMA’s responsible sourcing programme.”

As a further example of Amundi’s deep commitment to sustainability, our company-wide voting and engagement programme also incorporates active engagement with mining companies, including those involved in mining precious metals. The engagement with these organisations covers topics such as human rights, water risks, hazardous waste and tailings management.

**Nicolas Fragneau**
Amundi, Head of ETF Product Specialists

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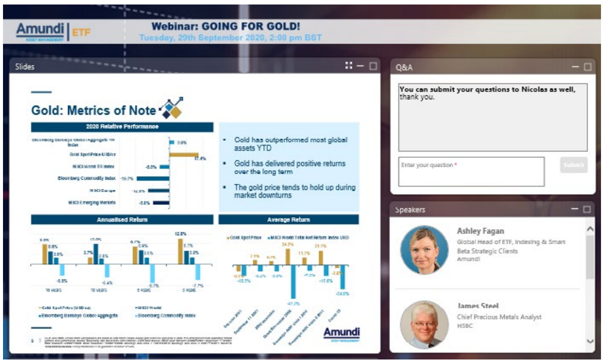
For further information about investing in Gold ETCs with Amundi, visit **www.amundietf.com** or contact us at **info-etf@amundi.com**.

## Key risks of investment in gold.

- Gold is generally more volatile than most other asset classes, making investments in Gold riskier and more complex than other investments, and the secondary market price of the ETC securities may demonstrate similar volatility.
- The issuer may elect to trigger an Issuer call redemption event and redeem all the ETC of a Series early on giving prior notice to investors.
- The value, the secondary market price and an early redemption amount or final redemption amount, as applicable, of the ETC will be affected by movements in the price of the Metal, market perception, the creditworthiness of certain transaction parties and the liquidity of the ETC in the secondary market. The price of the Metal (and, by extension, the price of the ETC) can go down as well as up and the performance of the Metal in any future period may not mirror its past performance.
- The minimum redemption amount of the ETC operates as a minimum repayment amount on the early or final redemption of the ETC. In the event that the Metal Entitlement of the ETC is insufficient to pay the minimum redemption amount to all investors on such early or final redemption, such investors may not receive payment of the minimum redemption amount in full and may receive substantially less.
- The investors are exposed to the creditworthiness of the Issuer, Metal counterparty, Custodian and the APs.

## Webinar Replay

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