Seed Weekly

21 August 2019

Gold

More recently gold, when denominated in various currencies, has been moving up and hence attracting investor attention. This is understandable against the backdrop of increased global uncertainty.

Gold Demand and Gold Supply

Over time it is estimated that most of the gold ever mined is still available in some format because it is virtually indestructible. Each year gold becomes available in the form of newly mined gold and in the form of recycled gold (mostly from jewellery). In 2018, gold production rose 1% and in terms of mine production a new record of 3,347 tonnes.

It is estimated that some 192,000 tonnes have been mined throughout history, with half of this mined in the last 50 years. There are an estimated 55,000 tonnes in below ground reserves.

New mine production is running at around 1.6% of available above ground stock of gold and over the years, this rate of increase has been remarkably steady. Chart 1 (below) gives an indication of the location of accumulated gold.

Chart 1: Where is the Gold?

Location	Estimated Tonnes	Percentage (%)
Jewellery	90,718	47.7%
Private Investment	40,035	21.1%
Official sector	32,575	17.1%
Other	26,711	14.1%
Total	**190,039**	**100.0%**

Source: World Gold Council (19 August 2019)

If all the 190,000 tonnes of gold were stacked up together into a cube, this cube would only measure just over 21 metres on each side.

Of the gold held by the official sector (i.e. sovereign states and the IMF), the US holds the most with an estimated 8,133 tonnes. Next is Germany with 3,366 tonnes, the IMF with 2,814 tonnes, and Italy, France and Russia respectively with around 2,400 tonnes each. China has an official 1,926 tonnes and Switzerland has 1,040 tonnes.

South African gold production peaked in 1970 at around 1000 tonnes, and until 2006 they were the largest global gold producer. In subsequent years they have slipped to 8th position, producing less than 140 tonnes in 2018 compared to China's 426 tonnes. China is currently the largest global producer.

Gold Demand

The demand side of the equation is approximately as follows:

- Jewellery (an estimated 2,000 tonnes per annum)
- Technology and dentistry (an estimated 325 tonnes per annum)
- Total investment at an estimated 1000 tonnes
- Central Bank demand at an estimated 650 tonnes

Gold

Investment demand is split into bar and coin demand, as well as demand that goes into ETF (exchange traded funds) and similar products.

Overall demand over the last decade appears to have fluctuated from around 800 to 1,250 tonnes per quarter. This is met from a combination of newly mined gold and recycled gold. Many factors affect the demand side of the equation, not least of which is price.

Gold as A Store of Value

There are a number of factors that count in gold's favour as a steady store of value. One is the relatively low rate of annual supply relative to total available stock of gold. Then its general scarcity, the fact that it is virtually indestructible and that it has no counterparty risk.

All these and more have resulted in gold generally maintaining its purchase power ability over years, decades and even centuries. It is said that throughout history an ounce of gold would always buy a reasonable, but not necessarily luxurious outfit of clothes.

And this is perhaps one way to view the metal - when the price is appreciating in USD or in Rand terms, perhaps it is a case of an ounce of gold being constant and the currency that it is being measured in depreciating in value).

An Investment into Gold

Because gold should be seen as a steady store of value, an investment into gold should be seen as a place to store a portion of one's wealth in real buying power. At times, it might be cheap to convert currency into an ounce of gold, and at other times expensive. Because gold has no yield, it is not easy to independently ascertain its reasonable value.

There are Many Ways that Investors can Access Gold

- **Buy gold coins or bars (i.e. allocated gold)**

  Coins such as the Kruger Rand were first minted in 1967 as an easy means for investors to buy gold globally. Over 50 million ounces have been minted. In that year gold traded at $ 27.50/oz.

- **Buy exchange traded funds**

  - Newgold listed on the JSE stock market as GLD
  - SPDR Gold Shares traded on the NYSE as GLD

  Newgold is structured as a debenture issued by Newgold Issuer (RF) Limited. The company owns physical bullion to back the debentures in an allocated account.

- **Buy the shares that mine the gold; these are more volatile than the gold itself.**

Gold

Conclusion

Over time it is fair to say that gold as a store of value has maintained its purchasing power over not only decades, but centuries. Currently global savings are extremely risk averse and seeking out ultra-low risk investment options, willing even to *“invest”* into negative yielding government bonds.

The opportunity cost of investing into gold is currently very low, making it an attractive alternative.

Kind regards,

Ian de Lange *CA(SA)*
Director & CIO

Seed Weekly

21 August 2019

seed investments

Gold

DISCLAIMER

All illustrations, forecasts, information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. This document does not constitute a solicitation, invitation or investment recommendation. While we endeavour to provide accurate and timely information, all illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only. We make no representation or warranty, expressed or implied, with respect to the correctness, accuracy or completeness of the illustrations, forecasts, information or opinions. No party should act upon such information or opinion without obtaining the appropriate professional and specialised financial, legal and tax advice based upon a thorough examination of a particular situation. Investors should at all times remain aware of the risks involved in the buying or selling of any financial product, and hereby acknowledges the inherent risk associated with the selected investments and that there are no guarantees (Paragraph 6(2)(f) of BN92).

Seed Investment Consultants will not be held liable for any direct or consequential loss or damage suffered by any party as a result of that party acting on or failing to act on the basis of information or opinion provided by or omitted from this document. The Manager retains full legal responsibility for any third-party named portfolio (Paragraph 6(1)(g) of BN92).

Prescient Management Company and the Trustee are registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value of financial products can increase as well as decrease over time depending on the value of the underlying securities and market conditions and past performance is not necessarily a guide to future performance (no guarantee is provided as to the values of any financial product mentioned in this document). The collective investment scheme may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. A schedule of fees, charges and maximum commissions is available on request from the Manager. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. In the event that specific collective investment schemes in securities (unit trusts) are mentioned please refer to the relevant Minimum Disclosure Document in order to obtain all the necessary information in regard to that unit trust.

This document may not be amended, reproduced, distributed or published without the prior consent of Seed Investment Consultants. The laws of the Republic of South Africa shall govern any claim relating to or arising from the contents of this document. Seed Investment Consultants is an authorised financial services provider in terms of the Financial Advisory and Intermediary Services Act (Act No. 37 of 2002).

ADDITIONAL INFORMATION (where applicable)

Performance has been calculated using net NAV to NAV numbers with income reinvested. Full performance calculations are available from the manager on request.

DEFINITIONS (where applicable)

Annualised Return	Annualised return shows longer term performance rescaled to a 1 year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1 year period have been shown.