THE PERTH MINT AUSTRALIA | TREASURY

Gold Corporation
(trading as The Perth Mint)
ABN 98 838 298 431

310 Hay Street, East Perth,
Western Australia, 6004,
Australia

A statutory authority under the *Gold Corporation Act (1987)* of Western Australia

Founded in 1899, the Perth Mint is an integrated precious metal operation refining circa 10% of world gold production; servicing investors with legal tender bullion coins and bars and the Perth Mint Depository custodial facility; providing collectors with innovative and high quality numismatic coins; supplying mints with precious metal blanks; and operating a leading Perth tourist attraction.

BLOG WATCH 12 APRIL 2012

OVERNIGHT MOVEMENTS

Perth Mint Spot	Gold USD	Silver USD	Gold AUD	Silver AUD
Closing 11th	$1,663.73	$31.95	$1,619.04	$31.09
Opening 12th	$1,667.00	$31.95	$1,617.98	$31.01
Change	+ $3.27	$0.00	- $1.06	- $0.08

PREDICTIONS

GFMS: "We are expecting still that we are going to see a push above $2,000 in 2013 … gold was expected to trade in a range of $1,530-1,920 an ounce in 2012, with an average price of $1,731 an ounce."

INVESTORS WILL HAVE TO WORK HARDER

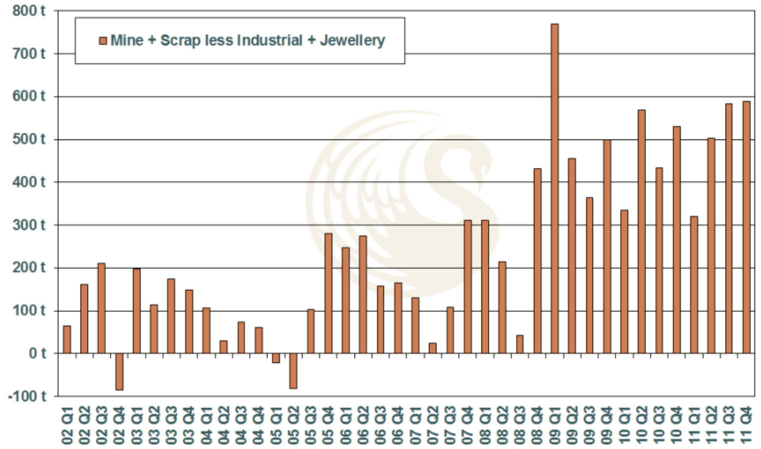
Mineweb had two interviews yesterday in which two different analysts came to the same conclusion on the state of two different markets (gold and silver). Both saw increasing surpluses in the two metals, which meant increasing amounts of money needed to flow into the metal if they are to see prices increase.

By surplus, they are referring to (mine + scrap) supply is greater than (jewellery + industrial) demand. The difference is absorbed by investors. The chart below shows this difference for gold in tonnes on a quarterly basis.

Chart 1: Gold Investor Demand

Investor demand increased dramatically after the financial crisis in 2008.

Source: World Gold Council, Gold Demand Trends report Q1 2002 through to Q4 2011



Philip Klapwijk (GFMS) in this interview with Mineweb said that they were projecting *"a fundamental surplus in the market which in dollar terms could be north of $130 billion"* and a substantial increase in *"the call on the market and the amount that needs to be committed to the market to clear this surplus"*.

Philip feels that this is going to become unsustainable and unless *"there is going to be a massive sea change in terms of those investors that are involved in this market and a massive broadening of participation, there will come a point where the usual suspects won't be enough to buy all this gold, and the price is going to fall."*

On a positive note he believes that speculative investors *"are probably not as leveraged as they were at the end of the third quarter, and therefore the vulnerability of gold to sell off when the market is in risk-off mode is not as great as it was at times last year."*

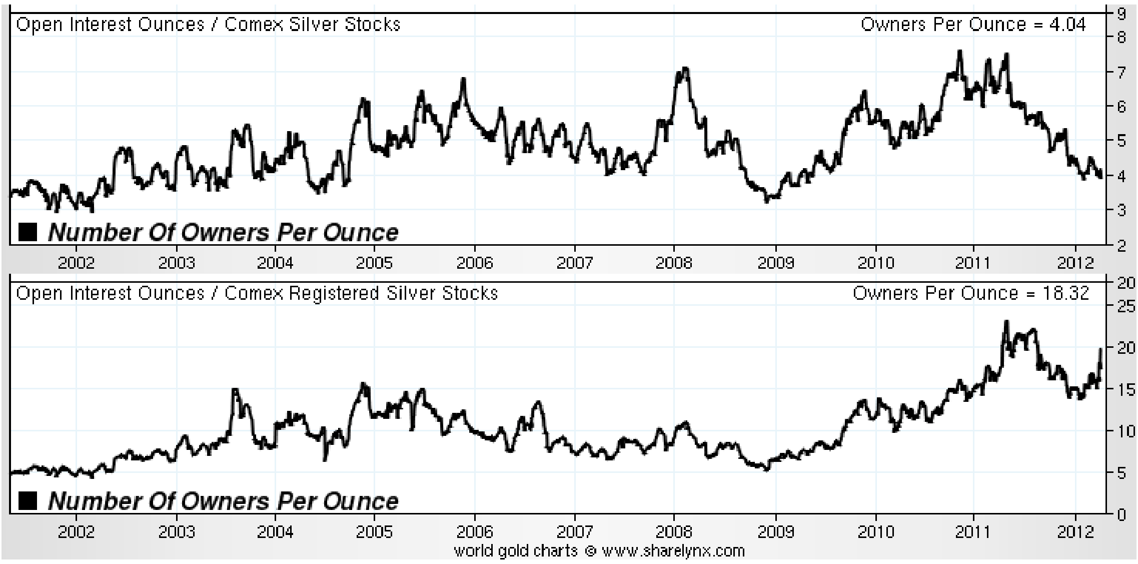
David Jollie of Mitsui (interviewed here by Mineweb) sees a similar situation in the silver market, with demand affected by a weak economy but mine supply up resulting in *"a softer physical market than you have had before"* which will require *"a lot more effort from investors than they had to make last year in order to achieve the same highs."*

David *"see[s] a medium term outlook which is not that negative for the price but in the short term there has to be some concern that the price might fall."*

COMEX WHAREHOUSE STOCKS

Blogger Jesse has a short piece on COMEX registered silver inventory dipping below 30 million ounces, which he sees as a *"dangerous and volatile situation"*. I'm not so sure as there are also 110 million ounces of eligible inventory and this has increased around 25 million ounces since the beginning of this year. While eligible is not for sale, the fact is that holders keep their metal eligible so that they can easily sell it in the future. Accordingly, one has to look at both registered and eligible to get a sense of potential supply.

In addition, inventory levels themselves do not give us a handle on how dangerous and volatile the market may be. What is more important is inventory levels relative to open interest. The charts below from Sharelynx demonstrate this.



The “owners per ounce” shows how many open interest ounces there are for each ounce of inventory. The charts show that while owners per registered stocks has increased to 18.32 (or a 5.45% coverage, if you invert the ratio), it is still below the extremes reached mid-2011.

If we look at total COMEX stocks (registered + eligible), then we are actually at a significant low point, with the 4.04 owners per ounces equating to a coverage percentage of 24.7%. This is plenty of stock and a more likely source for bullion banks, who would not need to *“lease some from SLV as the situation may require”* as Jesse suggests. Reason is that bullion banks would not borrow SLV shares then incur its physical redemption costs when they could just directly borrow from holders of eligible stocks or from the over-the-counter professional market.

For those interested in the situation for gold, the numbers are:

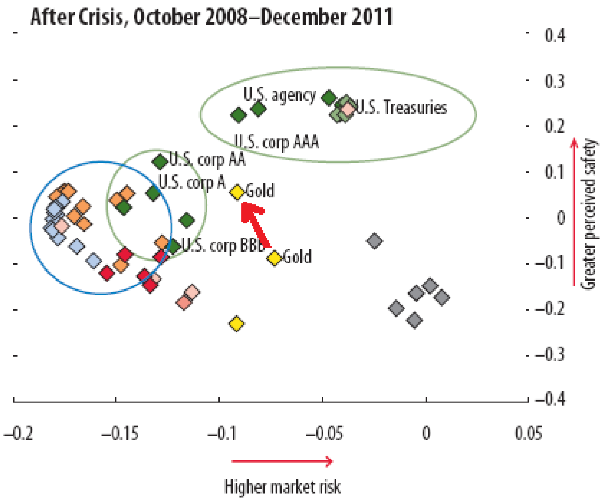
Total stocks: 3.67 owners per ounce (27.2% coverage)
Registered stocks: 16.73 owners per ounce (5.9% coverage)

I haven’t included the gold charts, because Sharelynx is a subscription service, but you can sign up for a free trial here.

Gold as a safe asset

FT Alphaville has a piece on an IMF Global Financial Stability Report. Chapter 3 of that report examines the roles of safe assets in the financial system. You’ll be glad to know that gold is included as a “safe asset”. Interestingly, they note that demand for *“gold, is largely driven by perceptions of its store of value, with less regard to its market risk.”*

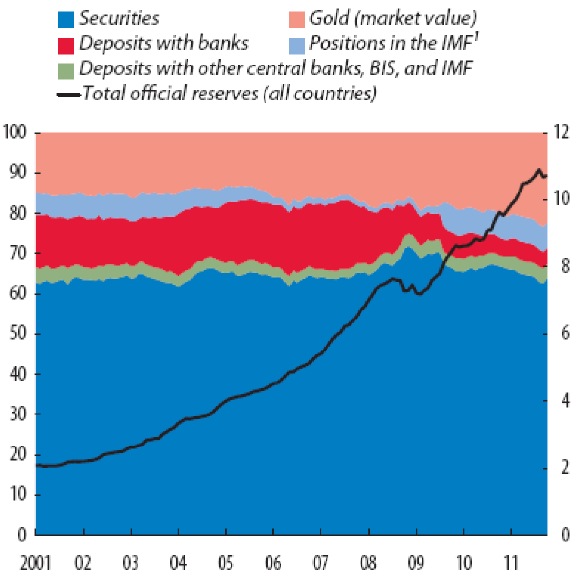
I’ve modified the chart at right from the report to show the shift in perceptions of gold, which is towards less market risk and greater perceived safety.



See the report for the before crisis positions of the other assets, particularly the green diamond US assets, which shifted towards higher market risk (the right) while gold moved to the left.

The report noted that *“AAA-rated and AA-rated OECD government securities accounted for $33 trillion or 45 percent of the total supply of potentially safe assets”* with gold representing 11 percent ($8.4 trillion).

Figure 3.8. Official Reserve Accumulation, by Instrument
(Components in percent, left scale; total in trillions of U.S. dollars, right scale)



Another interesting chart is the one at left which shows gold's increasing share of central bank reserves. This would be driven by both the increases in ounces held as *"reserve managers have reversed their long-term position as net sellers of gold, and have turned into net buyers"*, but more driven by the increase in the gold price itself.

A good advertisement for the portfolio diversification benefits of gold, brought to you by the IMF.

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