

# Gold Demand Trends

## Q2 and H1 2020

### Highlights

**Inflows into gold ETFs accelerated in Q2, taking H1 inflows to a record-breaking 734 tonnes (t).** First half inflows surpassed the 2009 annual record of 646t and lifted global holdings to 3,621t.

**The US dollar gold price gained 17% in H1, following a 10% increase during Q2.** The gold price reached record highs in numerous currencies, including euros, sterling, rupee and renminbi among others.

**Investment in gold bars and coins slowed sharply in H1 2020, down by 17% to 396.7t – an 11 year low.** Steep declines in demand across Asia outstripped growth in the West as investors' reactions to the pandemic diverged across the globe.

**H1 jewellery demand almost halved to 572t amid the global disruption caused by COVID-19.** The impact of the pandemic was unsparing and Q2 demand fell to an unprecedented 251t.

**Central banks bought 233t of gold during H1, 39% below 2019's record level.** Buying has become more concentrated, with fewer banks adding to reserves so far in 2020.

The data included in Gold Demand Trends is based on the best and most comprehensive information available to date. However, severe global travel restrictions and high volatility in some areas of gold demand due to the COVID pandemic have presented exceptional challenges to the data-gathering process. This may result in subsequent data revisions as conditions normalise or if more information becomes available.

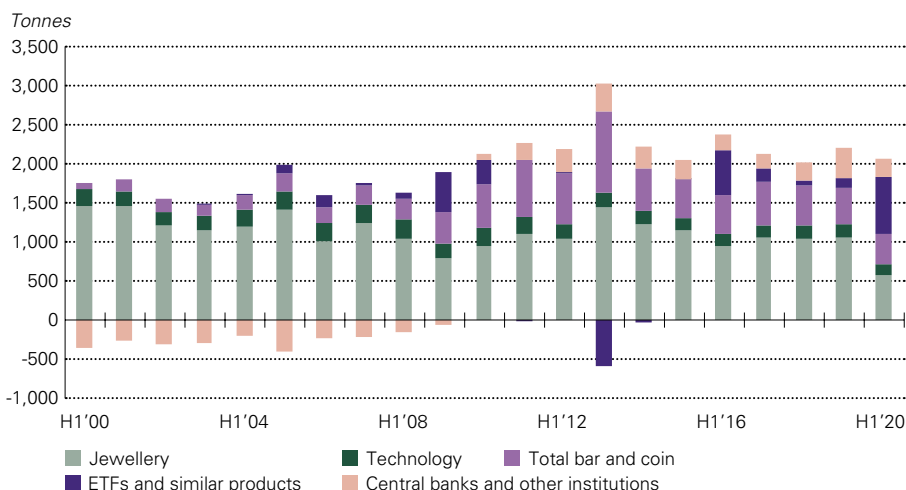
For more information please contact: [marketintelligence@gold.org](mailto:marketintelligence@gold.org)

### H1 gold demand down 6% at 2,076t

#### Record inflows into gold-backed ETFs offset weakness in other sectors, with consumer demand hit by COVID-19

With Q2 gold demand down 11% y-o-y to 1,015.7t, demand for the first half year was 6% weaker at 2,076t. The COVID-19 pandemic was again the main influence on the gold market in Q2, severely curtailing consumer demand while providing support for investment. The global response to the pandemic by central banks and governments, in the form of rate cuts and massive liquidity injections, fuelled record flows of 734t into gold-backed ETFs (gold ETFs). These flows helped lift the gold price, which gained 17% in US dollar terms over the first half, hitting record highs in many other currencies. Total bar and coin investment weakened sharply in Q2, leading to a 17% y-o-y decline in H1 demand to 396.7t. This sector of investment saw a clear East/West divergence in investor behaviour, with most markets across Asia and the Middle East seeing a slowdown in investment, while Western investors increased demand. H1 jewellery demand slumped 46% y-o-y to 572t as markets remained in lockdown and consumers were deterred by the high price and a squeeze on disposable income. Similar factors were behind a 13% fall in gold used in technology to 140t in H1, as end-user demand for electronics collapsed. Central bank buying slowed again in Q2, although the comparison is with a record Q2 2019. The sector added a net 233t of gold in H1. The supply of gold was also impacted by the pandemic, falling 6% to 2,192t as both mine production and recycling were affected by lockdown restrictions.

#### Record ETF inflows offset consumer weakness



Source: Metals Focus, Refinitiv GFMS, World Gold Council

# Jewellery

## First half jewellery demand was hammered by market lockdowns and gold prices reaching record highs in various currencies

- Global jewellery demand almost halved in H1, falling 46% y-o-y to a new low for our series of 572t
- Q2 demand reached a record quarterly low of 251t (-53% y-o-y) as consumers across the globe felt the impact of market lockdown and the resultant economic slowdown
- China – the earliest market to emerge from lockdown – was alone in witnessing a q-o-q recovery from extreme Q1 weakness.

Tonnes	Q2'19	Q2'20	Y-o-y change
<b>World total</b>	529.6	251.5	↓ -53%
India	168.6	44.0	↓ -74%
China, P.R.: Mainland	136.0	90.9	↓ -33%

### Q2 saw a continuation of the hostile global environment for gold jewellery demand.

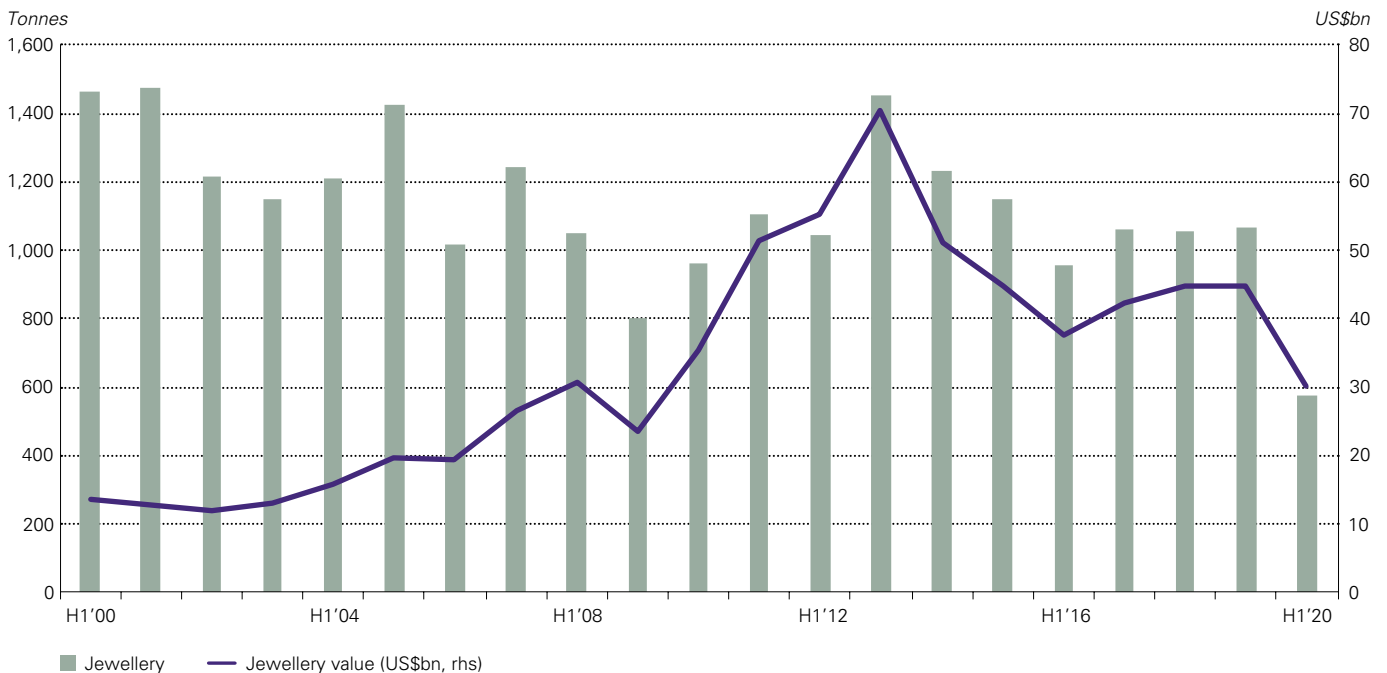
Lockdown restrictions shuttered many markets, and consumers faced the challenging consequences of economic downturn at a time when gold prices were moving from strength to strength, making affordability an issue for many.

### Gold jewellery demand for H1 of 572t is around half the 10-year average of 1,106t.

Jewellery demand measured in value terms was similarly weak, despite the strength in gold prices over the period; the H1 value of US\$30.1 billion (bn) is the lowest since 2009 – a time when the US dollar gold price was roughly 50% of recent levels.

China and India were the biggest contributors to the decline in H1 demand: their size relative to the rest of the gold jewellery market means weakness in these two countries has an overwhelming impact on global demand.

## Global jewellery volumes crash to record H1 low, with value on a par with 2008



Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

## China

**China's Q2 jewellery demand was down 33% y-o-y at 90.9t.** This took H1 to 152.2t – a 52% decline y-o-y and its lowest since H1 2007, due to COVID-19's lasting impact on consumer wallets.

There was, however, a sizable q-o-q rebound in China's jewellery demand in Q2. With the virus being well contained, the market re-opened in March and the resultant economic upturn helped relieve some pressure on consumer incomes. Nevertheless, demand in H1 remained extremely muted. Most retailers attributed the continued weakness to a combination of high and rising gold prices, falling disposable incomes and an increased preference for lighter-weight gold jewellery products.

**The RMB gold price increased by more than 9% during the quarter, reaching a historic high of RMB403/g in May.** Meanwhile, unemployment was up in 31 of China's main cities, while an index of confidence in consumer future incomes hovered around multi-year lows. And according to the Bureau of Statistics, consumers' recreational expenditure dropped by 36% in H1.<sup>1</sup>

Lightweight, innovative and intricately designed hard-24K gold products continued to grab consumers' attention in Q2. Several factors explain the growth of lighter-weight jewellery. Firstly, the taste of younger consumers continues to shift away from chunky pure gold pieces to lighter-weighted products with trendy designs at more affordable prices. Second, as consumers' limit their expenditure on non-necessities in general amid the challenging economic circumstances, lighter-weight pieces are more budget friendly, especially when local gold prices are surging. And third, retailers are keen to promote these products, given their more attractive margins relative to traditional 24k gold products.

According to our trade partners in the industry, wedding demand could be key to a recovery in China's gold jewellery market in H2. Many Chinese couples have postponed their wedding plans to the second half of 2020 after the strict restrictions imposed on large gatherings in H1. Combined with the fact that October and December are traditionally peak months for weddings, a surge in ceremonies in the second half is widely expected by most jewellers, which should contribute to a more positive second half of the year.

## India

**Indian jewellery demand plunged in Q2 due to nationwide lockdown, lost festival demand and the higher gold price.** Indian jewellery demand fell 74% y-o-y to 44t – the lowest quarterly total in our series by some margin. H1 demand was down 60% to an all-time low for our series of 117.8t.

The strict lockdown imposed in late March ran through until mid-May, encompassing the all-important gold buying festival of Akshaya Tritiya – one of the most auspicious days for buying gold in India. This year, however, the country-wide lockdown meant that physical store sales were not possible, and only those retailers with an online presence were able to cater to demand. *Sales were trivial in comparison with the previous year.*

As restrictions eased mid-quarter, activity started to recover in select regions. June saw a further improvement, with the release of some pent-up demand. However, a lack of weddings and auspicious days in the month, along with recurring lockdowns in certain regions and the high and rising gold price, prevented a meaningful recovery in demand.

**Discretionary spending on gold jewellery shrank due to concerns around economic growth, future income and higher gold prices.** India's GDP growth has been on a downward trajectory since Q1 2019 and this was accentuated by the outbreak of COVID-19. Economic slowdown, job losses and restrictions on store operations meant consumers became more cautious in opening their wallets to buy gold. According to a Reserve Bank of India (RBI) survey, the Consumer Confidence Index fell to a historic low of *63.7 in May from 85.6 in March*, and the one-year ahead confidence index also recorded a sharp fall. Discretionary spending on gold jewellery was further quashed by local domestic gold prices – the average domestic price for Q2 was Rs46,381/10gm – 44% higher y-o-y.

**Jewellers are adopting online channels to boost sales.** The pandemic has disrupted the bricks and mortar business model of Indian gold retailers and has become a catalyst for retailers to adopt online channels to boost sales. While sales via digital channels are still nascent, jewellery retailers are increasingly implementing an *omni-channel strategy integrating both offline and online channel to boost sales.*

<sup>1</sup> According to the Bureau of Statistics, such expenditure includes spending on education, cultural and recreational activities: [www.stats.gov.cn/english/PressRelease/202007/t20200716\\_1776358.html](http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776358.html)

## Middle East and Turkey

Gold jewellery demand in Turkey plummeted 69% in Q2, down to just 3t – the lowest quarter in our series. Jewellery retailers in lockdown, combined with record high local gold prices, put a virtual stop to demand in April and May. June’s reopening saw the release of some pent-up demand, but the rebound was short-lived as gold prices climbed again.

Severe losses across Middle Eastern markets resulted in a 69% drop in Q2 demand for the region, down to 13.6t. The UAE suffered the most drastic y-o-y decline, down 86% to 1.3t, as market lockdown eradicated tourist purchases, while domestic demand was quashed by high gold prices, job losses and the weak economic environment.

Demand in Iran continued to deteriorate as the rial lost further ground against the dollar and the pandemic added to the sanction-hit country’s economic challenges. A 66% y-o-y fall in Q2 demand fed through to a 40% H1 decline, to 10.2t.

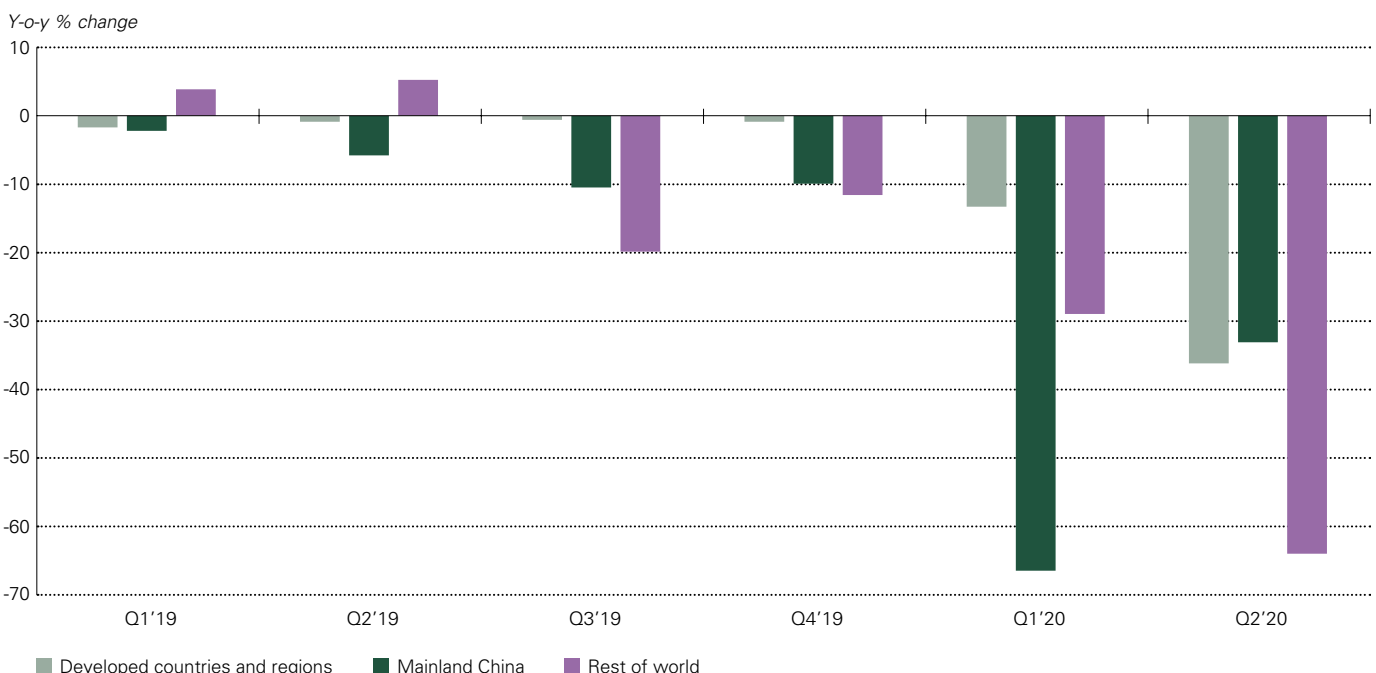
## The West

Gold jewellery demand in the US broke down from its gradual uptrend over recent years, falling a hefty 34% y-o-y to 19.1t, the lowest quarter in our series. H1 demand was down 21% to an eight-year low of 41.9t. Store closures due to COVID-19 were the clear reason for the decline, which was all the more severe for the fact that lockdown encompassed Easter and Mother’s Day, both of which traditionally see a marked increase in footfall to jewellery stores. Demand collapsed in April and May, before recovering in June as stores began to open up. The bounce back was also partly attributable to consumers spending government stimulus cheques on discretionary goods.

Similar to the shift seen in other markets, online retailing stepped in to compensate in part for the collapse in bricks and mortar sales.

Gold jewellery demand in Europe also fell to a new all-time low: Q2 was down 42% y-o-y at just 8.2t. This took the H1 total to 19t, down 29% y-o-y. Perhaps unsurprisingly, given the severity of the COVID-19 outbreak in both markets, Italy and the UK posted the most significant declines: both saw y-o-y falls of 45% in Q2.

## Evolution of the COVID-19 pandemic reflected in y-o-y jewellery demand comparisons



Note: Developed countries comprises all of Europe, US, Canada, Japan, Korea, Singapore, Taiwan Province of China, and all of Oceania.

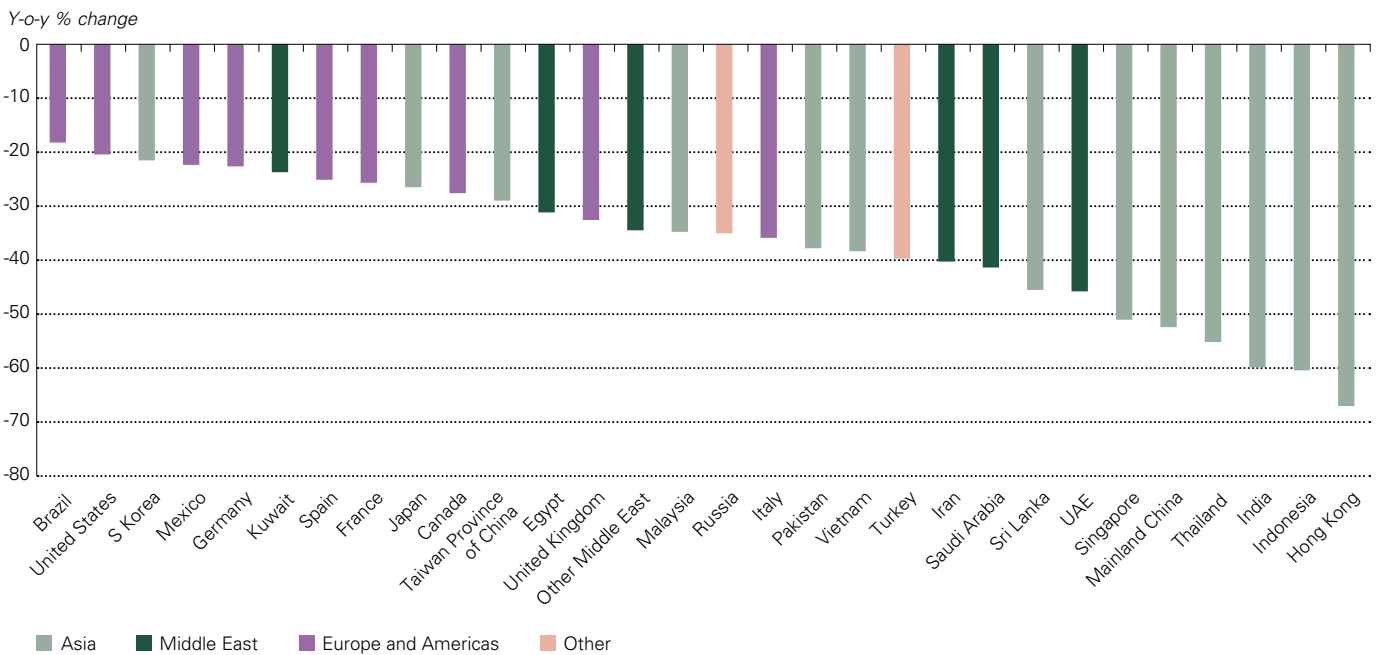
Source: Metals Focus, World Gold Council

## Other Asia

The impact of COVID-19 and the consequent market lockdowns – together with surging gold prices – resulted in sweeping losses across the smaller East Asian markets. Indonesia and Thailand suffered the largest losses in Q2 and H1 as both markets grappled with the impact of the coronavirus pandemic on top of already slowing economies.

Demand in Japan – although weak – was less severely impacted than the rest of the region. A 40% y-o-y fall in Q2 to 2.5t took H1 demand down 27% to 5.6t. Quasi-investment demand for heavy gold chains benefited from the rising gold price.

### Universal double-digit losses in H1 jewellery demand as COVID-19 swept the board



Source: Metals Focus, World Gold Council

# Investment

## H1 global investment demand hit an all-time high of 1,130.7t with a record value of US\$60bn

- Holdings of gold-backed ETFs and similar products reached a record 3,621t by the end of June
- As the COVID-19 pandemic, and the response to it, ravaged the global economy, ETF investors sought the safety of gold
- H1 bar and coin investment by contrast was down 17% y-o-y at 396.7t, although the overall decline masks a divergence in East/West investor behaviour.

Tonnes	Q2'19	Q2'20	Y-o-y change
<b>Investment</b>	295.0	582.9	↑ 98%
Bar and Coin	218.9	148.8	↓ -32%
India	44.5	19.8	↓ -56%
China, P.R.: Mainland	49.5	40.7	↓ -18%
Gold-backed ETFs	76.1	434.1	↑ >300%

Many countries remained under lockdown restrictions in Q2. This took its toll on bar and coin demand, even as the gold price rallied, reaching successive eight-year highs in US dollar terms and breaking new records in many other currencies. It was, for many markets, the best performing asset of H1.

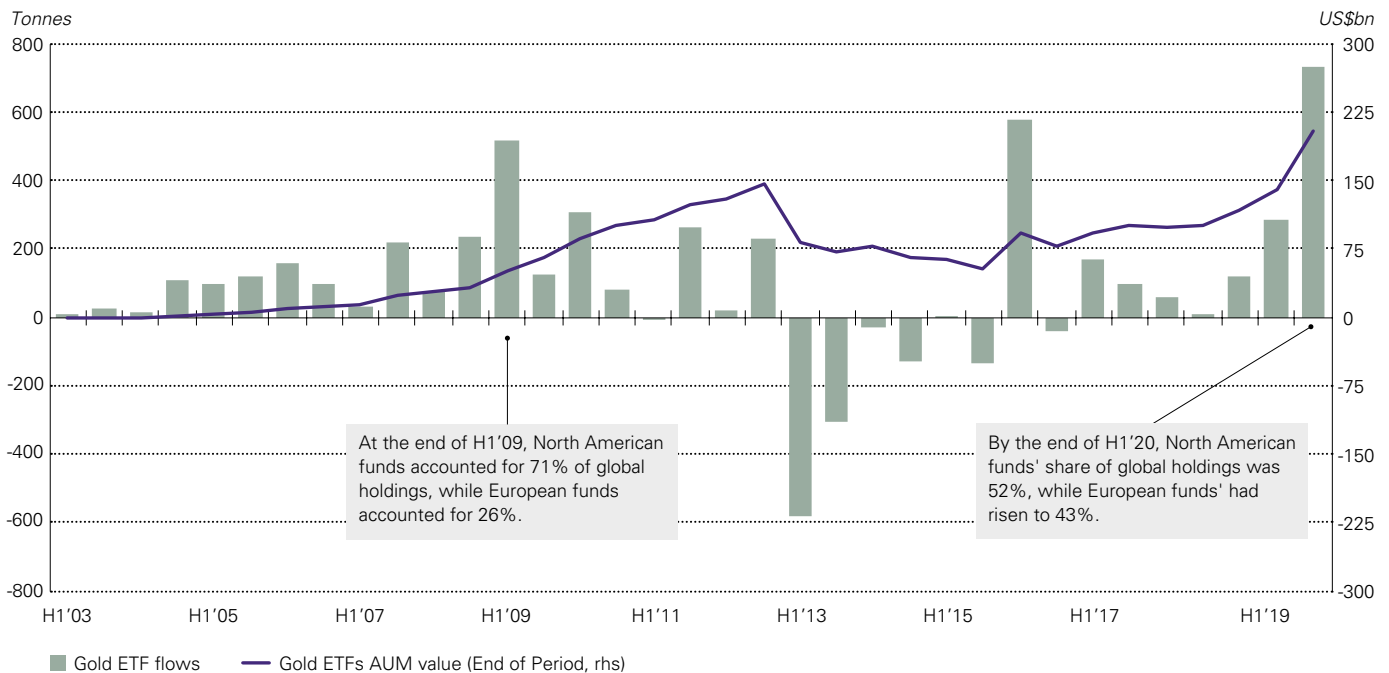
The profit-taking motive dominated sentiment in the East, while safe-haven buying and momentum investment took centre stage in Western markets, where investors added to their holdings amid economic uncertainty and expectations of further price gains. Consequently, Asia and the Middle East saw marked y-o-y declines in bar and coin demand, which contrasted with substantial growth in Europe and North America.

## ETFs

### Global investors added record amounts of gold-backed ETFs to their portfolios in the first half of 2020.

Inflows into these products reached 734t by the end of June, taking total global holdings to a new record high of 3,621t, with AUM hitting a record US\$205.8bn.

## Investment flooded into gold-backed ETFs in record size



Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

# Investment

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Q2 saw inflows of 434t (AUM US\$23.4bn), almost matching the Q1 2009 quarterly record of 465.7t seen during the depths of the Global Financial Crisis.

The conviction behind the inflows seen during 2020 so far, we believe, stemmed from three key factors:

1. **A growing need to hedge risk.** Mounting expectations for the global economic recovery to be 'U'- or 'W'- rather than 'V'-shaped are supporting demand for gold as a risk-diversifying asset. And while stock markets across the globe have enjoyed a recovery from the Q1 sharp correction, valuations in some areas are arguably getting a little frothy – throwing the spotlight on gold's properties as a hedge to balance investment in riskier assets.
2. **The continued ultra-low interest rate environment.** Concerted expansionary policy measures and asset purchases by global governments and central banks have kept interest rates at historically low levels. This has the dual impact of reducing the opportunity cost of holding gold, while supporting the case for gold as an inflation-hedge among investors focused on the possible inflationary implications of ballooning government debt.
3. **Positive price momentum.** Gold generated returns of 17% in the first half of the year – even allowing for the sharp retracement during March, when many investors were forced to use gold for liquidity. The US dollar gold price rose to its highest for eight years (reaching record highs in some currencies) and attracted momentum-driven inflows on the back of these gains, which in turn contributed to continued price strength. Momentum is one of the key tactical drivers that helps to explain gold's performance and has been supportive of investment demand during 2020 to date.

All regions saw consistent monthly inflows throughout Q2. But North American-listed funds were by far the strongest, attracting more than 75% of global volume inflows during the quarter. Holdings in the region grew by 329.5t (US\$18bn), to stand at 1898.4t (AUM US\$107.9bn) by the end of H1. This accounts for 52% of the total volume of gold held in global gold-backed ETFs.

European-listed gold ETFs saw inflows of 86.7t (+US\$4.4bn). The region's growth was heavily concentrated in the UK: 53t (US\$2.9bn) was directed into UK-listed funds, with gains in April and May being slightly offset by small outflows in June. Germany (+20.1t) and France (+14.5t) were the region's other main growth markets.

Holdings of Asian-listed gold ETFs reached a new high of 102.2t after they added 9.2t during Q2. Three new Chinese gold ETF products were listed in the second quarter, expanding the number of Chinese-listed funds in our dataset to seven. According to their descriptions, the newly-listed funds (ICBC Credit Suisse Gold-backed ETF, First Seafront Gold-backed ETF and China Asset Management Gold-backed ETF) are similar to the existing products in that they are at least 90% backed by Au9999, the physical gold contract at Shanghai Gold Exchange.

Meanwhile, gold ETFs listed in other countries grew by 8.7t in Q2, to reach a new high of 59.3t (US\$457mn). In fact, this group of ETFs recorded the strongest H1 growth in holdings, increasing by 23.3%.

So far, July has seen a continuation of the momentum in ETF inflows, with North American and European funds again attracting the bulk of these. Asian-listed funds have seen only fractional growth, held back by minor outflows from funds listed in China. This was mainly a result of Chinese investors diverting their attention to the strong-performing equity market, with the CSI300 stock index soaring more than 13% over the first three weeks of July.

# Investment

## Bar and coin

**Investment in gold bars and coins in Q2 fell 32% y-o-y to 148.8t.** This resulted in the weakest H1 retail investment for 11 years, of 396.7t. The value of H1 bar and coin demand, however, grew by 4% y-o-y to US\$20.8bn, reflecting the far stronger gold price compared with H1 2019. Market lockdowns were an obstacle to bar and coin investment, although this was less of an issue in markets where online investment is more established.

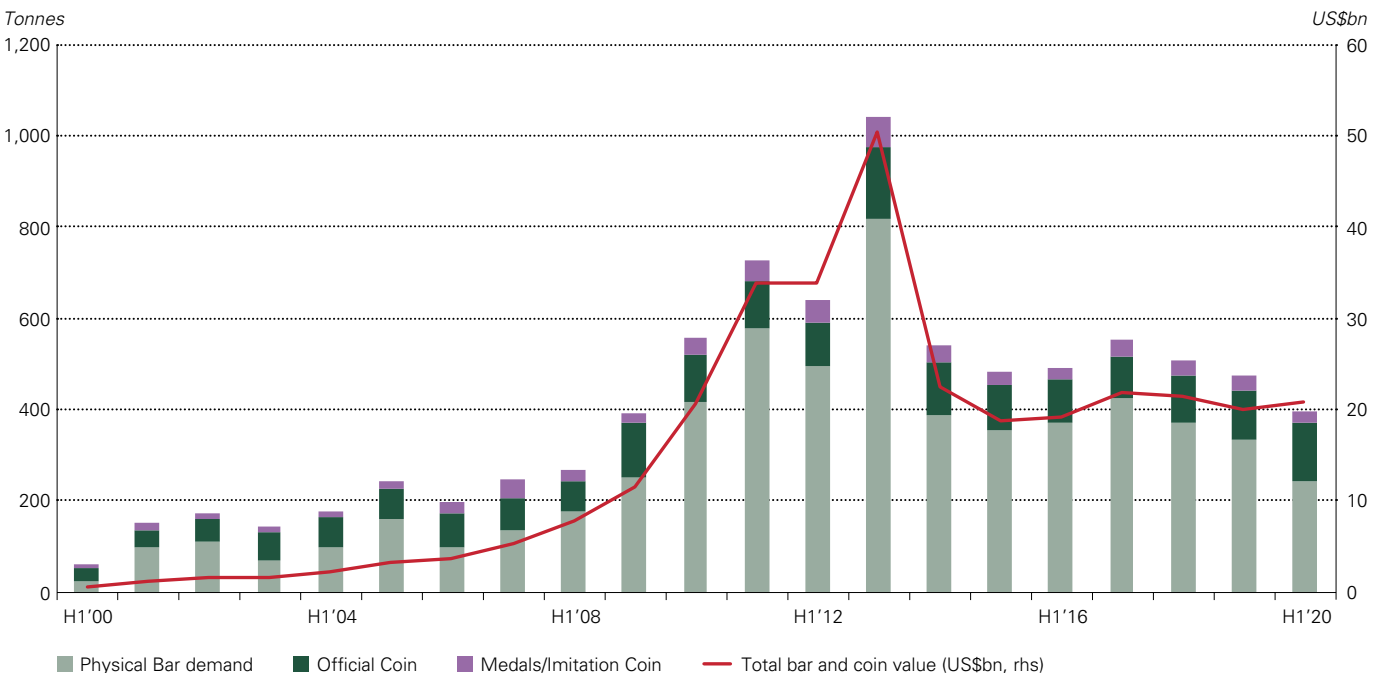
**China's bar and coin demand remained soft compared to 2019 despite a q-o-q rebound as the country emerged from lockdown.** While Q2 demand witnessed a modest 10% q-o-q rise, it was still 18% lower y-o-y at 40.7t. And the extent of Q1 losses meant H1 bar and coin demand of 77.7t fell short of H1 2019's relatively modest 120.6t (-36%) y-o-y.

Q2 GDP growth rose to 3.2% (from -6.8% in Q1), relieving the pressure on Chinese investor incomes to some extent. *Our analysis* suggests that consumer expenditure in China is positively correlated to gold bar and coin sales. But economic concerns are far from over. *Money supply growth and currency depreciation are the side effects of the government's expansionary measures.* Concern over the economic impact of these measures supported safe-haven demand for gold, particularly considering it was the best performing asset in China in H1.

While a rising gold price is generally a deterrent for gold jewellery demand, an upward gold price trajectory tends to draw investors' attention, and this helped to improve bar and coin demand in Q2. The sharp and relatively volatile gains in the local price during April and May discouraged bar and coin demand. But by mid-June, investors had gained confidence in the steadily rising price, leading to a resurgence of demand, although there were also bouts of selling-back.

**Disinvestment in Thailand wiped out the previous year's demand: investors sold 40.6t of gold.** Thailand was the biggest contributor to the y-o-y decline in bar and coin investment in both Q2 and H1, as demand was hit by the double-whammy of record gold prices and a tourism-dependent economy ravaged by the global pandemic. Job losses and lower income levels at a time of rapidly rising gold prices prompted a surge of disinvestment as Thai investors used their gold holdings to fund their financial needs.

## Gold bar demand restrained by supply chain bottlenecks amid coronavirus disruption



Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

# Investment

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**Japan saw a sixth consecutive quarter of net disinvestment, with investors selling a net 2.4t of gold bars and coins in Q2.** The modest scale of the disinvestment reflects the limited access to physical outlets due to the state of emergency imposed in response to the pandemic. Net investment in H1 2020 was - 8.9t compared with - 9.3t in H1 2019.

Investment across the rest of the East Asian region was similarly influenced by the high and rising gold price, market lockdown conditions and the resultant economic squeeze.

**India recorded the weakest H1 for gold bar and coin demand on record of 47.8t (-39% y-o-y).** Demand for bar and coin faced hurdles in the quarter as retail shops and bullion dealers were closed until mid-May due to the nationwide lockdown. The fact that lockdown was in place during the key gold-buying Akshaya Tritiya festival dented demand. Investment began to recover alongside the gradual re-opening of the market from 18 May onwards. The record gold price had the dual impact of encouraging some investors to add to their holdings, while others were more inclined to take profits.

During the lockdown India saw growing interest in digital gold, albeit that this remains a very small part of the total market.<sup>2</sup> But the challenging conditions experienced in 2020 so far may result in steady growth in this area of investment demand.

**Investors in Turkey continued to focus on gold's role as a safe haven and inflation hedge: H1 bar and coin demand of 36.8t was the strongest for seven years.** Despite the lira gold price hitting record highs, investors used pullbacks as buying opportunities and added 13.5t to their gold investments in Q2. Negative real interest rates on lira investments, the prospect of high inflation and high price expectations all underpinned the strength in demand.

Strict lockdowns across much of the Middle East region weighed on bar and coin demand throughout those markets. Where investors were able to trade, distress selling largely offset investment fuelled by price gains.

Amid the uncertainty of the global pandemic, Western investors focused on gold's safe-haven role while also being attracted by the strong price gains. Despite the strength of investment, supply chain constraints – notably the Q2 closure of some mints and refineries – may have prevented the full extent of retail demand from being realised in some markets.

**Q2 bar and coin demand in the US more than quadrupled y-o-y to 13.8t.** This resulted in a near-trebling of H1 demand to 29.3t. Gold's price strength drew considerable investment in Q2; however, the July breach of US\$1,800/oz triggered profit-taking and the market has seen more robust two-way activity so far in Q3. The strength of US bar and coin investment reflected that of gold ETFs, with investors across the spectrum appearing to have been similarly motivated by concerns over the economic impact of coronavirus and the rising gold price.

**European investors amassed 137.4t of gold bars and coins in the first half of the year – the highest H1 total since 2010.** The bulk of this growth came from Germany, Austria and Switzerland, although UK investors also sought the safety of gold. The rush for gold, at a time when capacity was constrained and supply chains squeezed by lockdown measures, pushed up premiums on small bars and coins.

<sup>2</sup> Internet Investment Gold - informally referred to as digital gold in India - allows investors to buy physical gold online, have it stored in professional vaults and take possession of it should the need arise. For more details please refer to <https://link.edgepilot.com/s/0edc7c30/kOeKd-n2DECN79StdEkjpw?u=http://www.gold.org/what-we-do/investing-gold/how-buy-gold/internet-gold>

# Central banks

## Central bank demand reached 233t in H1, as buying fell below record-setting pace

- Central bank net purchases totalled 233t in H1 2020, 39% lower y-o-y<sup>3</sup>
- This is 6% below the 10-year H1 average of 247t as volume of demand remains robust
- Buying has become more concentrated, with fewer banks adding to reserves so far in 2020.

Tonnes	Q2'19	Q2'20	Y-o-y change
<b>Central banks and other institutions</b>	231.7	114.7	↓ -50%

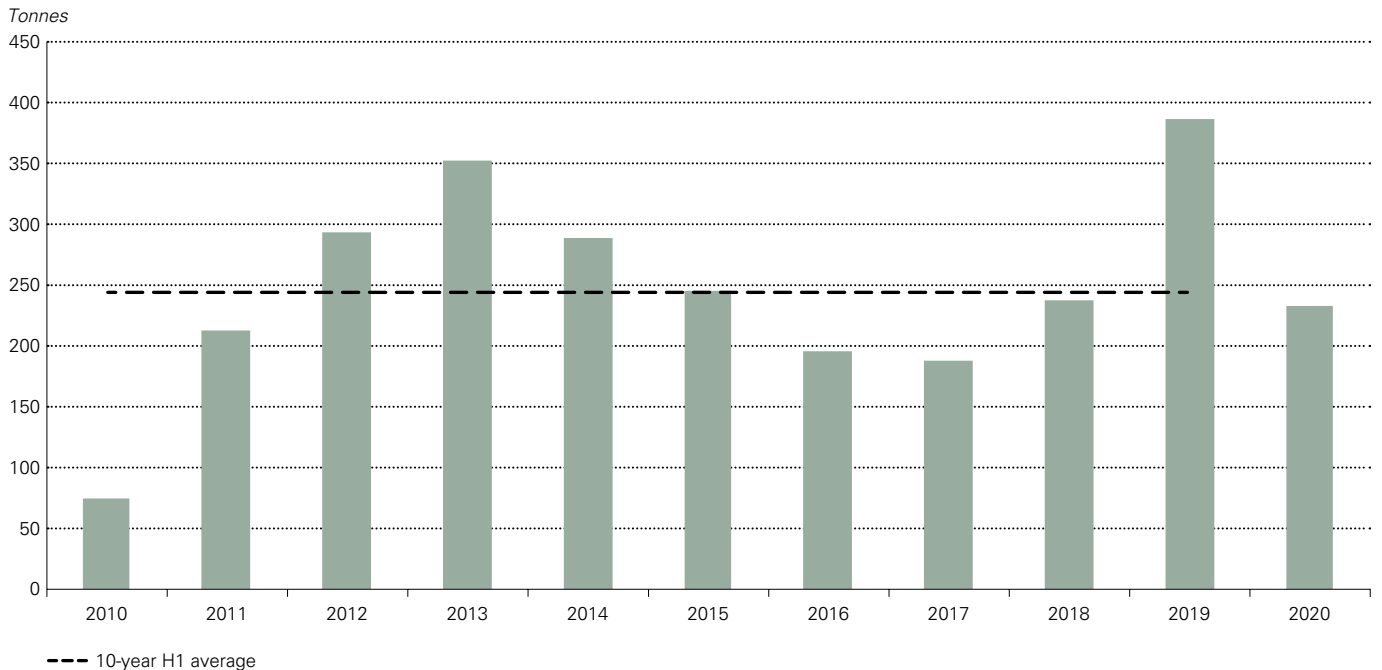
Amid unprecedented disruption to all aspects of life in H1, global central banks bought 233.4t of gold on a net basis. This is 39% lower than the 385.7t seen in H1 2019 – the highest level of H1 net purchases in our records going back to 2000. But H1 2020 demand was only 6% below the H1 average of 247.1t going back to 2010, when central banks became net purchasers on an annual basis.

## The continued buying is broadly in line with our 2020 Central Bank Survey.

20% of respondents indicated that they intend to buy gold in the next 12 months (compared with 8% in 2019), citing factors related to the economic environment – such as negative interest rates – as reasons for their positive sentiment. We expect central banks to remain net purchasers in 2020, but in volumes below those of the two preceding years.

While the coronavirus outbreak took hold in Q1, sending shockwaves through financial markets, Q2 proved to be just as – if not more – tumultuous. Economies across the world were marked by continued lockdowns and widespread uncertainty over the ultimate impact of the pandemic. Amidst these gloomy conditions, central bank net purchases totalled 114.7t (-50% y-o-y), 15% below the five-year quarterly average of 134.6t and well below the ~165t quarterly average in both 2018 and 2019. Q2 also marked the first quarter since Russia – a major gold buyer since 2014 – *suspended its gold purchasing*.

## Central bank buying slowed in H1 to just below average pace



Source: Metals Focus, Refinitiv GFMS, World Gold Council

<sup>3</sup> Revisions to recent quarterly data are largely due to improvements in the measurement of Turkish gold reserves.

# Central banks

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Q2 purchases were also more concentrated than we have seen in recent years. During the quarter, six central banks increased their gold reserves by a tonne or more.<sup>4</sup> This compares with an average of nine over the last 12 quarters. Turkey remained the largest gold buyer by some distance. Turkish gold reserves grew by 97.8t, accounting for 85% of the quarterly global total, taking its gold reserves to 583t (38% of total reserves). Y-t-d net purchases total 170.5t, while net purchases since May 2017 – when it resumed buying – now exceed 450t. Ecuador (7.5t), India (4.7t), Uzbekistan (4.7t), and Czech Republic (1.2t) were the other significant, and familiar, buyers during the quarter.

Turning to net sales, H1 2020 saw a rise in the number of banks reducing their gold reserves by a tonne or more compared to H1 2019 (seven versus two). But despite this, the absolute volume of gold being sold remains modest: in H1, gross sales totalled 42.5t.

<sup>4</sup> Based on available data at time of publication.

# Technology

## COVID-19 continued to negatively impact the entire technology supply chain, leading to further significant falls in gold demand in Q2

- The electronics sector recorded a large fall in Q2 demand dropping 14% y-o-y to 55.6t, and gold used in other technology applications was 33% lower y-o-y at 8.4t
- Dental demand continued its decline with a 30% y-o-y fall to just 2.6t, the first time demand has slipped below 3t in a quarter
- Gold used in technology for the first half of 2019 was down 13% at 139.9t.

Tonnes	Q2'19	Q2'20	Y-o-y change
<b>Technology</b>	80.7	66.6	↓ -18%
Electronics	64.5	55.6	↓ -14%
Other industrial	12.5	8.4	↓ -33%
Dentistry	3.7	2.6	↓ -30%

Overall, demand in the technology sector in Q2 fell 18% y-o-y to 66.6t, a record quarterly low. While COVID-19 continues to severely impact the sector, there are signs of a partial recovery in the second half of 2020 as electronics fabrication hubs begin to emerge from lockdown and restart production. However, the shock of the crisis remains far-reaching and unprecedented, and as a consequence, forecasts may be revised in the coming weeks and months.

### Electronics

**Gold used in electronics in Q2 fell 14% to 55.6t y-o-y, taking H1 demand down 11% to 114.5t, the lowest since 2002.** As reported in Q1, declines of this magnitude are a direct consequence of weak consumer demand for end products, and of the widespread lockdowns and production facility shutdowns that have been enforced around the world. However, some parts of the sector have shown resilience and the gradual, relatively early end of lockdown in key production hubs such as Taiwan and Mainland China may feed through to a limited recovery in H2 2020, as discussed in more detail below.

**The memory sector remained largely unaffected by COVID-19 in Q2, recording a 5% y-o-y increase.** The pandemic created opportunities and additional demand – particularly for cloud computing and data storage, both of which require considerable numbers of memory chips. Looking forward, however, the forecast is less positive. The spike in demand due to greater homeworking needs is set to dissipate, while consumer electronics demand is likely to remain weak and some substitution threats remain (for example the potential use of silver wire in place of gold). Some major US firms are likely to place significant orders during Q3 to support memory projects that were hindered by supply chain issues in the first half, but some of this additional demand could be met by existing stocks of components that were manufactured prior to lockdown.

**The LED sector registered a slight recovery from Q1, but was still down 15% y-o-y.** Emerging out of lockdown, factories in South Korea and Taiwan were reportedly back to 90% utilisation rates, but weak automotive and consumer electronic demand continued to temper end-user purchasing. Technology challenges to gold demand also remain, with Apple reportedly planning a new iPad launch during Q4 2020 using mini-LED technology, which uses less gold than traditional LED solutions.

**The Printed Circuit Board (PCB) sector recorded a 4-8% y-o-y decline in Q2.** Taiwan's emergence from lockdown led to a 5-10% increase y-o-y, but Mainland China and South Korea both registered declines of between 5-8% y-o-y. 5G and artificial intelligence applications both remained strong during the quarter, but the ongoing trend of miniaturisation continues to pose a threat to demand. Constrained consumer spending remains a dark cloud on the horizon, and this is likely to further impact demand in the sector over the coming quarters.

**The wireless sector saw robust momentum, with a 25-30% y-o-y increase in demand.** Growth has been driven by the acceleration of infrastructure projects in many countries, and this strength is expected to continue via a range of applications: 5G deployment, 3D sensor technology and aerospace projects show particular promise. It should be noted that, while the growth in this sector is undoubtedly positive, in absolute terms the volume of gold used in the wireless sector is considerably smaller than in other application areas.

Taiwan, which represents a relatively small percentage of electronics fabrication, was the only fabrication hub to record an increase in demand during the second quarter (+7%). Demand fell in Japan (-5%), Mainland China and Hong Kong (-7%), South Korea (-2%) and the US (-29%).

## Other Industrial and dentistry

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Other industrial and dental applications registered significant falls of 33% y-o-y to 8.4t and 30% y-o-y to 2.6t, respectively. This was primarily a consequence of lockdowns being imposed around the world. The most notable impacts were felt in India, where gold thread used in traditional clothing collapsed during lockdown, and a marked fall in the production of plating salts for luxury accessories in Italy.

# Supply

## Total supply was down 6% in H1 due to coronavirus-related disruption

- Total H1 supply declined 6% to 2,192t due to disruption caused by the coronavirus outbreak
- H1 mine production fell 5% to 1,604t – the lowest first half level since 2014 – while recycling saw a similar y-o-y decline to 590t
- Total supply fell 15% y-o-y in Q2, led by a 10% drop in mine production as many operations remained suspended due to lockdowns.<sup>5</sup>

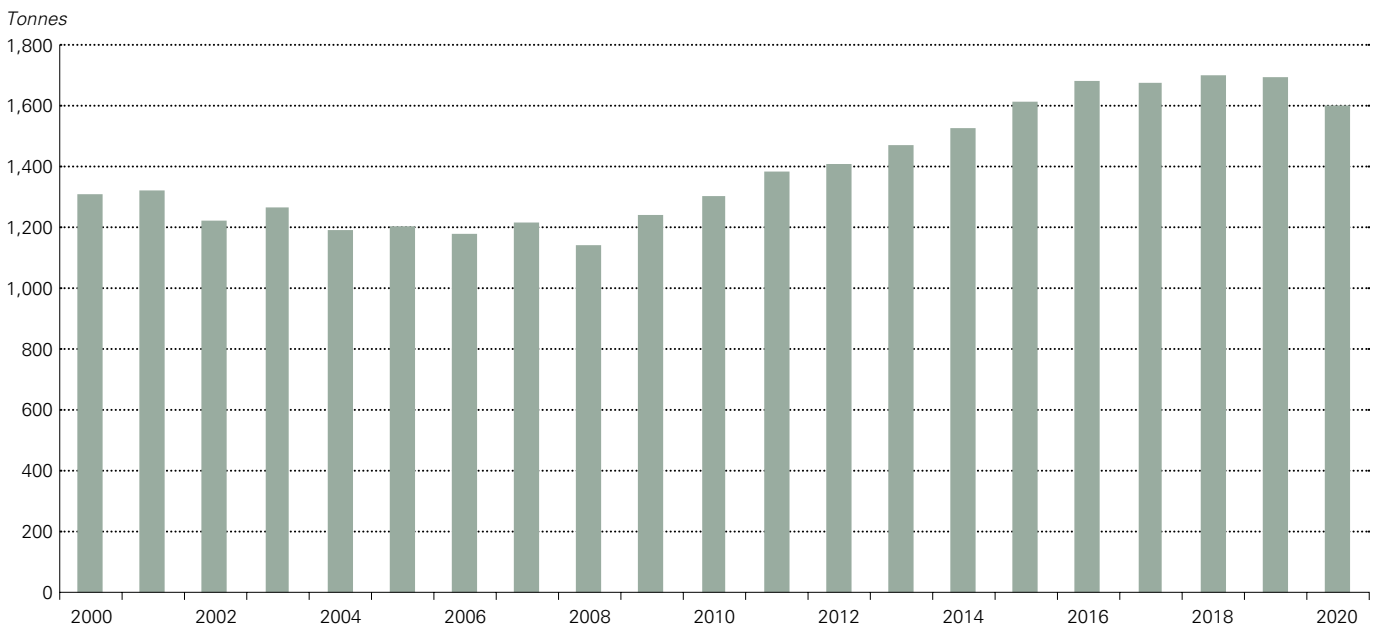
Tonnes	Q2'19	Q2'20	Y-o-y change	
<b>Total supply</b>	1,220.8	1,034.4	↓	-15%
Mine production	863.2	776.8	↓	-10%
Net producer hedging	47.0	-28.0	–	–
Recycled gold	310.6	285.7	↓	-8%

During H1, the supply side of the gold market showed significant resilience in the face of ongoing issues stemming from the COVID-19 pandemic. Current estimates put total supply at 2,192.2t, 6% lower than H1 2019. Both mine production and recycled gold registered y-o-y declines of 5% in H1, but these falls were modest by comparison to the scale of disruption caused.

## Mine production

**Mine production fell 5% y-o-y in H1, to 1,603.6t, its lowest H1 level since 2014.** Strict coronavirus lockdowns in key mining nations throughout H1 were the main cause of the decline. Mining operations in China – the world's largest gold-producing nation – were most affected during February as the country grappled with controlling the spread of the virus; however, the majority of mines returned to full production towards the end of Q1 as the situation eased. This led to an overall decline of 9% y-o-y in Chinese H1 mine production. But in other key producing nations, such as Peru, South Africa and Mexico, lockdowns were imposed much later in Q1 and extended well into Q2. Mine production fell to 776.8t in Q2 from 863.2t in Q2 2019 (-10% y-o-y).

## Coronavirus-hit gold mining sector saw H1 slowdown in production



Source: Metals Focus, Refinitiv GFMS, World Gold Council

<sup>5</sup> Due to the challenging environment, data for Q2 is provisional and may be subject to future revisions.

## **Lockdowns had a significant impact on gold mining in Q2.**

In Mexico, gold mine production fell 62% y-o-y as mining was suspended for 60 days during the quarter, although some operations were granted exemptions. In South Africa, the phased lockdown meant that underground mining, which accounts for most gold production within the country, was prevented from ramping up to full production until 1 June. As a result, South African gold production fell 59% y-o-y. Lockdowns from mid-March meant that gold mining in Peru was suspended until early May, leading to a 45% y-o-y decline in Q2 mine output. In Papua New Guinea, mine production was hit by the suspension at Porgera, the country's second largest gold mine, following the government's decision not to renew its mining lease.

## **While declines in production dominated the picture in Q2, some producers registered increases.**

In Russia, Q2 mine production grew by 15% y-o-y as production stabilised at projects that have recently come online, such as Nataika and Bystrinsky. In Europe, Finland's largest mine, Kitilla, saw the largest increase in production in Q2, up 54% y-o-y. But this is primarily due to a low base effect, as the project underwent a planned maintenance shutdown in Q2 2019. In Bulgaria, production rose by 37% y-o-y in Q2, although absolute levels remain low. This increase was due to additional output from the Ada Tepe project, which reached commercial production in August 2019. In West Africa, Burkino Faso gold production rose 10% y-o-y in Q2, as the first pour at the Sanbrado project and continued ramp-up at the Wahgnion project boosted aggregate output.

The impact of the lockdowns not only curtailed production at certain projects, it also increased all-in sustaining costs (AISC). In Q1 – the latest data available – the quarterly average AISC rose to US\$980/oz, 4% higher q-o-q and 7% higher y-o-y. Although AISC rose, the larger increase in the gold price allowed higher-cost mining projects to become profitable.

Despite lockdowns gradually being eased, the disruption seen in H1 will likely have a lasting impact on annual production in 2020. As many restrictions on activity have only recently been lifted it will likely take some time before global gold mining returns to full production.

## **Net producer hedging**

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**It is estimated that gold miners hedged a total of 18.3t in H1 on a net basis.** The US dollar gold price rose by 10% during the quarter, climbing to levels not seen since Q3 2012, and the rise was even greater in some currencies – notably Australia – where the local price hit another record high. And revised data shows that the most notable hedges during Q1 occurred in Australia, where several miners extended their US dollar hedge books. Of these, the most prominent came from Saracen Minerals and Northern Star Resources, with both adding to their hedge books during the quarter following their joint acquisition of the Kalgoorlie Super Pit in Q4 2019.

Initial estimates for Q2 show 28t of net de-hedging, however this is subject to future revision as more information is published by mining companies.

## Recycled gold

**Recycling, like mine production, was impacted by strict lockdowns across the globe.** Recycled gold supply amounted to 570.2t in H1, 5% lower y-o-y. In Q2 specifically, gold recycling fell 8% y-o-y, to 285.7t. While this is a relatively small change at the global level, it masks more significant changes at a regional level seen in Q2, once lockdowns began to lift.

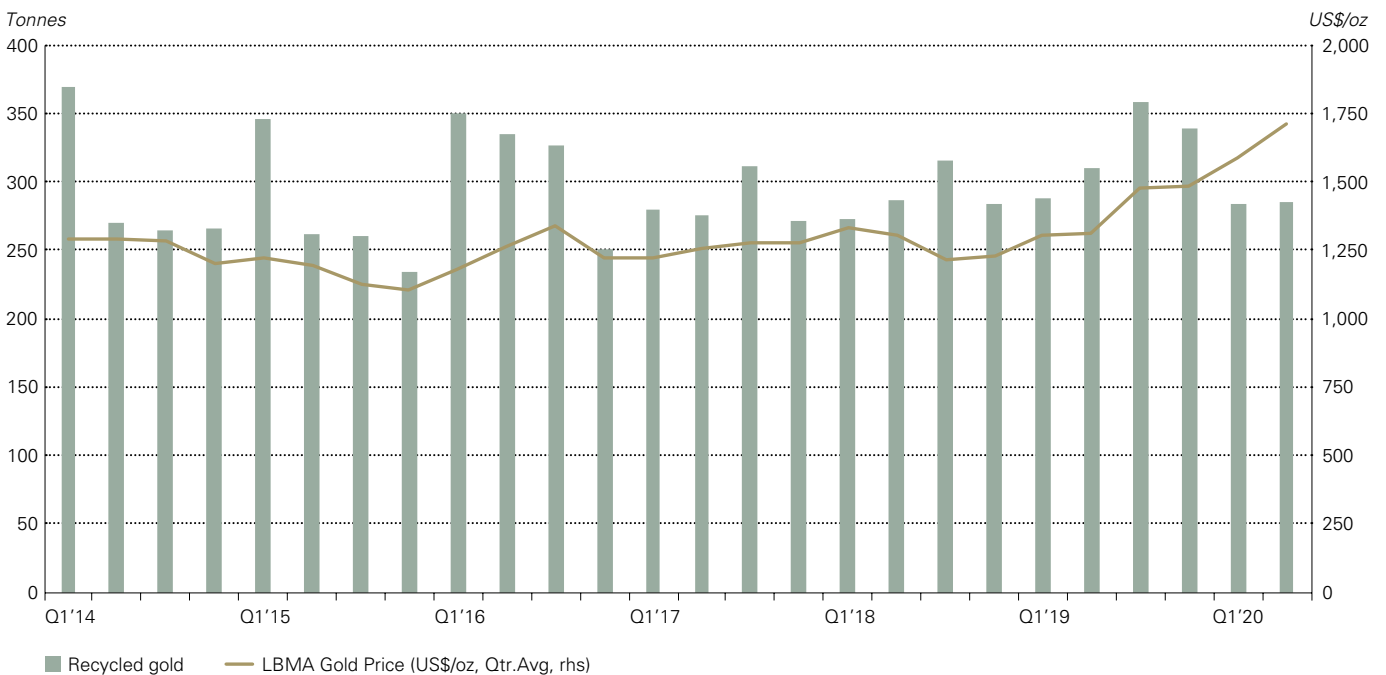
**Gold recycling remained subdued, with many key regions still grappling with the outbreak.** In South Asia, and India specifically, strict lockdowns continued to prevent significant levels of recycling through the usual channels, as consumers were housebound and retailers were closed. Furthermore, many consumers in India opted to use their gold holdings as collateral to obtain loans for their financing needs, rather than selling. And another important factor is that the rural economy, which accounts for the lion's share of gold demand in India, has performed strongly this year, reducing the need for distress selling of gold.

In the US, continued high infection rates, particularly in the key recycling centres of New York and Los Angeles, meant that activity fell significantly below normal levels. Similarly, in the Middle East, lockdowns led to a y-o-y decline in

recycled gold in the region. In Iran, which has suffered particularly high infection rates, consumers were reluctant to leave their homes leading to less recycling. Interestingly, in Turkey, expectations of yet further gold price gains were also a factor influencing consumers not to recycle gold in sizeable volumes.

**But some regions are seeing recycled gold levels rise.** The largest increase in recycling levels was seen in East Asia, particularly in Thailand. The lifting of lockdown restrictions released a wave of selling back, with consumers looking to take advantage of higher prices and fund some day-to-day expenses. This might also be a result of pent-up supply that built during the lockdowns; April saw the highest recycling levels, while May and June remained elevated. In China, with the market returning to normal at the beginning of Q2, recycled gold supply also increased during the quarter as the gold price rose. This was not limited to jewellery consumers; retailers also looked to replace old 24K jewellery inventories with lighter jewellery pieces. Europe was the only other region to see an increase in recycling during the quarter, mostly from Southern European markets as the local gold price reached a new record level.

## Recycling activity was subdued by market lockdowns, despite pockets of growth



Source: Metals Focus, Refinitiv GFMS, World Gold Council

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## About the World Gold Council

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The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors.

We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, China, Singapore and the USA, the World Gold Council is an association whose members comprise the world's leading and most forward thinking gold mining companies.

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## Further information

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