

Gold Demand Trends

Q1 2021

Highlights

Global gold ETF holdings fell by 177.9 tonnes (t) (US\$9.5bn).

Western markets drove outflows as US rates rose sharply and the US dollar strengthened.

The US dollar gold price fell 10% during Q1.

The recent downward trend was fuelled in part by ETF outflows and a reduction in net long positioning in the futures market, but strong consumer demand helped to provide support.

Demand for gold bars and coins saw a third successive quarter of growth.

Investment in these products reached 339.5t – the highest quarter since Q4 2016.

Jewellery demand staged a strong recovery from lockdown-stricken Q1 2020.

But it remained relatively subdued on a historic basis – 6% below the five-year quarterly average of 505.9t.

Global central bank gold reserves grew 95.5t in Q1.

Hungary's large purchase (63t) bolstered Q1 buying, more than matching Turkey's substantial sale (31.5t).

Total supply of gold fell 4% y-o-y in Q1.

Mine production growth was outweighed by a drop in recycling, largely in response to weaker gold prices.

For more information please contact: research@gold.org

Q1 saw gold demand of 815.7t

Strengthening consumer demand mitigated the impact of ETF outflows as global economies continued to recover.

Q1 gold demand (excluding OTC) was 815.7t, virtually on a par with Q4 2020, but down 23% compared with Q1 2020.

While the average gold price in Q1 was 13% higher y-o-y, it declined by 4% q-o-q.¹ The opportunity to buy at lower prices, relative to the highs seen last year, boosted consumer demand, particularly as many markets continued to emerge from lockdown and economic recovery lifted sentiment.

Jewellery demand of 477.4t was 52% higher than the very weak Q1 2020. The value of jewellery spending – US\$27.5bn billion (bn) – was the highest for a first quarter since Q1 2013.

Bar and coin investment of 339.5t (+36% y-o-y) was buoyed by bargain-hunting, as well as by expectations of building inflationary pressures.

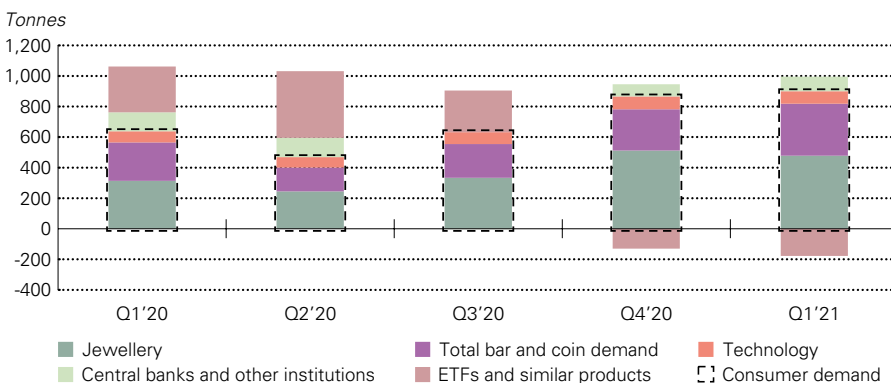
Growth in consumer demand was offset by strong outflows from gold-backed ETFs (gold ETFs), which lost 177.9 in Q1 as higher interest rates and a downward price trend weighed on investor sentiment.

Q1 saw continued healthy levels of net buying by central banks: global official gold reserves grew by 95.5t, 23% lower y-o-y, but 20% higher q-o-q.

Gold used in technology grew 11% y-o-y in Q1 as consumer confidence continued to recover. Demand of 81.2t was just above the five-year quarterly average of 80.9t.

Gold demand held steady despite ETF outflows

Quarterly demand by sector



Source: Metals Focus, World Gold Council

¹ As of 31 March 2021. Based on the average LBMA Gold Price PM in US dollars for each respective period.

Jewellery

Following the shock of 2020, jewellery demand recovered in Q1 but remained subdued compared with previous historical levels.

- Jewellery demand totalled 477.4t in Q1, up 52% y-o-y – a strong improvement compared with the historically weak Q1 2020
- Demand remains muted on a longer-term basis, 6% below the five-year quarterly average of 505.9t²
- India and China were the engines of recovery, generating the vast majority of global y-o-y growth.

Tonnes	Q1'20	Q1'21	Y-o-y change
World total	313.2	477.4	↑ 52%
India	73.9	102.5	↑ 39%
China, P.R.: Mainland	61.3	191.1	↑ 212%

Source: Metals Focus, World Gold Council

Jewellery demand continued to recover in Q1 but has some way to go to return to pre-pandemic levels.

Having been all but decimated by the pandemic between Q1 and Q3 2020, gold jewellery demand recovered towards the end of last year and into Q1 2021. But longer-term comparisons show that it remains relatively subdued, falling short of the quarterly average over the previous five years of 505.9t. And it remains well below average first quarter levels too. Removing the anomalous Q1 2020 total from the comparison, first quarter demand between 2015 and 2019 averaged 540t.

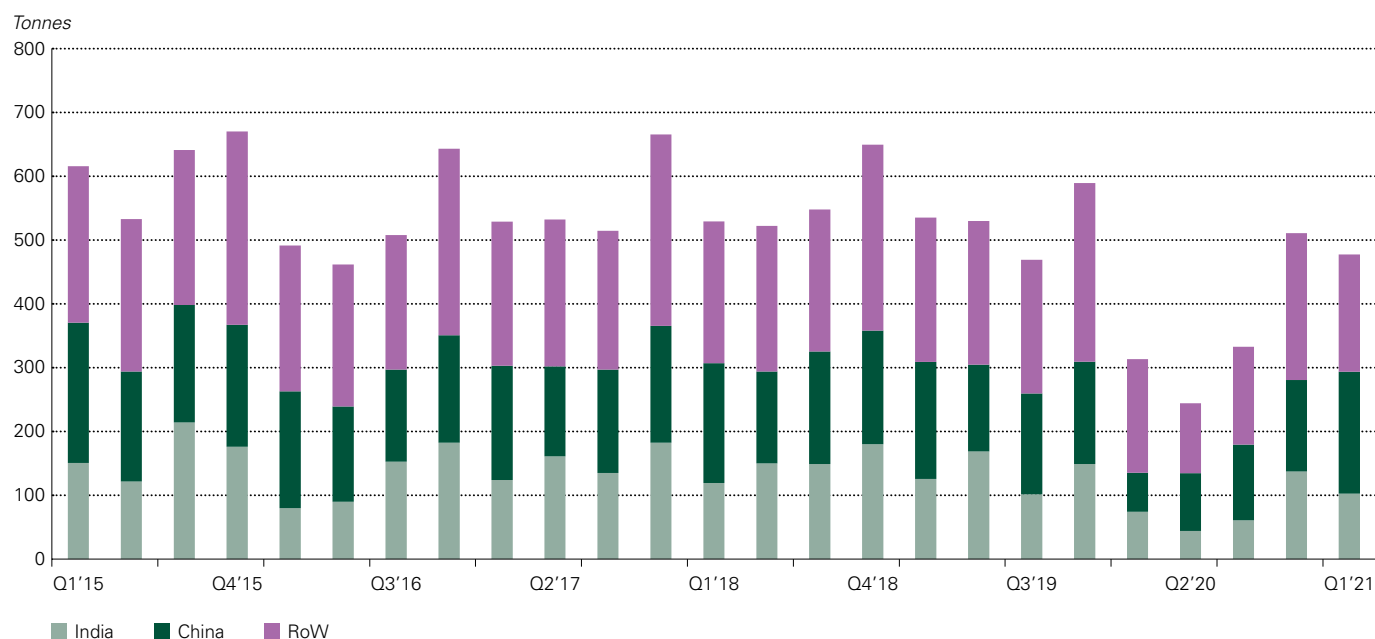
That being said, the usual seasonal Q1 dip was more muted than normal. Q1 is traditionally a seasonally weak quarter for gold jewellery demand, and usually falls from Q4. The quarterly percentage drop in Q1 2021 – of just 7% – was far smaller than we have seen in recent years,³ as consumers continued to make up for lost opportunities in 2020 and benefit from lower gold prices.

Jewellery demand in value terms was well above average levels in recent years.

The value of jewellery spending reached US\$27.5bn – the highest first quarter since Q1 2013 and 25% above the five-year quarterly average of US\$22.1bn.

Strong jewellery demand in China and India underpinned global strength

Quarterly demand by country/region



Note: Data as of 31 March 2021. For an explanation of jewellery demand, please see [notes and definitions](#).

Source: Metals Focus, World Gold Council

² Five-year quarterly averages through this report are calculated as the average from Q1 2016 – Q4 2020.

³ The average q-o-q decline for each first quarter between 2015 and 2019 was 19%.

China

Jewellery demand in China recovered to 191.1t – its highest quarterly total since 2015. Although the 212% y-o-y growth rate was largely due to the comparison with an extremely weak Q1 2020, demand was 4% higher than Q1 2019.

Three main drivers underpinned this strong quarterly result: improving domestic economic conditions; lower gold prices; and sales booms sparked by Chinese New Year (CNY), Valentine’s Day and International Women’s Day.

China’s economy continued to improve, with GDP growth reaching 18.3% in Q1 – the highest on record. Local residents saw their disposable income increase by 13.7% y-o-y, and this buoyant economic picture supported gold jewellery demand. Additionally, the first quarter decline of 8.5% in Au9999 – a proxy of the local gold price – made gold jewellery more affordable for Chinese consumers.

Festival sales were another key factor supporting China’s gold jewellery demand in Q1. January saw the traditional hoarding of gold products ahead of the CNY holiday.⁴ The policy to encourage residents of *major cities to ‘stay put’ for the CNY holiday* freed up travel budgets for discretionary spending, supporting gold demand. And anecdotal reports suggest sales were further boosted by the confluence of the CNY holiday and Valentine’s day, as well as by purchasing to celebrate International Women’s Day (8 March).

Strong demand was reflected in a strong rise in SGE withdrawals, driven in part by gold retailers feverishly replenishing their stocks after the CNY buying binge (as well as the low base from 2020).

China saw the the highest Q1 jewellery demand since 2015 backed by a strong economy

Chinese Q1 jewellery demand compared to GDP growth



Note: Data as of 31 March 2021. For an explanation of jewellery demand, please see [notes and definitions](#).

Source: National Bureau of Statistics, Metals Focus, World Gold Council

4 The 2021 Chinese New Year holiday ran from 11 – 17 February.

Heritage gold jewellery products continued to dominate the market in the first quarter of 2021.

While mass-appeal and relatively plain items maintain their relevance in lower-tier cities, heritage gold products continue to gain market share and feature more heavily in retailer inventories. As mentioned in our previous [Gold Demand Trends](#) report, these products have attracted many high-end consumers. And recently, they have become increasingly popular among young consumers, who have embraced the rise of *'Guochao'* – the exploding trend for hip domestic Chinese brands. Not only is this a reflection of the improving Chinese economy and growing consumer income, but it also shows that Chinese youngsters are strengthening their emotional connection to gold – *a factor identified by consumer research as having been a key barrier discouraging young Chinese consumers.*

Looking ahead, Q2 in China is traditionally a low season for gold jewellery demand, partly as consumer preference veers towards lighter gold jewellery pieces during the hot summer months. We expect this trend to repeat itself in 2021, but also expect that the longer International Labour Day holiday in May,⁵ along with weddings being rescheduled from 2020, are likely to provide some support during the second quarter.

India

Substantial wedding purchases, encouraged by declining gold prices, and improving consumer sentiment buoyed by a pick-up in economic activity, supported Indian gold jewellery demand in Q1.

Demand was 39% higher y-o-y at 102.5t, although it fell short of the 125.4t from Q1 2019. The value of jewellery demand in Q1 grew 58% y-o-y to a first quarter record of Rs431bn. Robust retail demand pushed the local market gold price premium to a 51-month high of US\$7/oz in early March.

The move lower in the US dollar gold price during Q1 was magnified in India, *due to a cut in import duty on gold.* Consequently, the average local Q1 gold price of Rs47,131/10gm, although 14% higher y-o-y, was 6% lower q-o-q and 16% lower than the August 2020 all-time high of ~Rs56,000/10gm. The move below the key psychological level of ~Rs50,000/10gm was instrumental in spurring bargain buying and releasing pent-up demand.

Wedding-related buying supported jewellery demand through Q1, boosted by a degree of pent-up demand from weddings postponed from 2020. Organised retailers ran offers and discounts on making charges to lure consumers towards wedding purchases.⁶ *In its Q1 2021 quarterly update, leading jewellery retailer, Titan, stated that: "Wedding jewellery has been a strong growth driver for the year and its share in overall jewellery revenue has increased meaningfully, compared to last year."*

The outlook for the coming quarter is, however, cautious. As new lockdowns are imposed in various areas of the nation in response to rising COVID-19 cases, *consumer confidence has dipped.* This is likely to impact wedding demand in Q2, although the effect may be tempered by: a) digital and omni-channel retail strategies being developed over the last year and b) some consumers having taken advantage of lower Q1 prices by making early purchases of gold for weddings scheduled in Q2 2021.

Middle East and Turkey

Jewellery demand in Turkey was 5% higher y-o-y at 9t. However, in comparison to a more 'normal' year – Q1 2019 – it was down 6%. Local gold prices dropped throughout January and February, before rebounding sharply with the sacking of the Turkish central bank governor in mid-March, choking off the recovery in jewellery demand. The re-introduction of Saturday lockdowns, as COVID-19 cases spiked, also stifled the recovery in the closing days of the quarter.

First quarter jewellery demand in the Middle East presented a mixed picture. Despite a third quarter of q-o-q growth – helped by lower gold prices – demand over the whole region was 5% lower y-o-y as the impact of the pandemic continued to bite. Y-o-y growth in Saudi Arabia, Egypt and Kuwait was insufficient to offset weakness elsewhere, particularly as tourism in the region remains limited amid global travel restrictions.

⁵ To boost local consumption, the International Labour Day Holiday in China this year will start on 1 May and end on 5 May, *extended by two days compared with previous years.*

⁶ Organised retailers are typically characterised by having a chain of stores with a regional or national presence and a strong brand.

The West

Gold jewellery demand in the US grew 6% y-o-y to 24.3t – the strongest Q1 since 2009. In value terms this equates to a 21% y-o-y increase to US\$1.4bn. With consumer sentiment boosted by the vaccine rollout programme and Federal income support measures, the impact on gold demand was evident. The sector also benefited from a continued diversion of funds that would previously have been spent on travel, restaurant meals, theatre trips, etc. The y-o-y growth rate is all the more notable given that US lockdown restrictions were not widely introduced until late March 2020, meaning that Q1 demand last year was not greatly affected. We would expect the y-o-y comparison in Q2 to more clearly reflect the base-effect impact of the pandemic.

The lingering effects of COVID-19 on consumer sentiment and logistics took their toll on European gold jewellery demand in Q1 – particularly in the UK. Demand across the region fell 8% y-o-y to 9.8t, with modest growth in France (+4%) and Italy (0.5%) outweighed by declines in Germany (-8%) and the UK (-30%).

Other Asia

The smaller East Asian markets saw healthy y-o-y gains, with the exception of modest losses in Japan. Growth in demand was in large part due to a combination of falling gold prices during Q1 and the base effect of a weak Q1 2020, which had been hit by the beginnings of the pandemic and early lockdowns.

Investment

Healthy growth in retail investor buying met with hefty outflows from ETFs in Q1; total investment of 161.6t was less than half the 356.4t five-year quarterly average.⁷

- Q1 investment totalled 161.6t, a quarterly gain of 16% but a fall of 71% y-o-y
- Global gold ETFs saw outflows of 177.9t in Q1 as investors reacted to higher rates and a stronger US dollar
- Bar and coin investment was buoyed by the opportunity to buy at lower prices, as well as by expectations of building inflationary pressures.

Tonnes	Q1'20	Q1'21	Y-o-y change
Investment	549.6	161.6	↓ -71%
Bar and Coin	250.5	339.5	↑ 36%
India	28.1	37.5	↑ 34%
China, P.R.: Mainland	37.1	86.4	↑ 133%
Gold-backed ETFs	299.1	-177.9	↓ -

Source: Metals Focus, World Gold Council

Gold investment in Q1 both contributed to – and took direction from – gold's price performance in Q1. The US-dollar gold price lost more than 10% over the quarter, *weighed down by a sharp rise in US interest rates and a stronger dollar*. Analysis based on our *short-term gold return model* indicates that gold's performance in Q1 was primarily influenced by the 'opportunity cost' driver, via the impact of higher interest rates. As expectations of higher inflation continued to mount, the resultant sell-off in bonds lifted yields: the US 10-year Treasury yield was pushed as high as 1.74% in March.⁸ Given our recent analysis showing *that gold has become increasingly sensitive to interest rates and inflation over the last year*, the extent of gold's price decline is perhaps not surprising; particularly considering the trend in professional investment flows in the quarter.

Q1 was the *second consecutive quarter of sizable outflows from ETFs*: global outflows over the six months to the end of March totalled 308t. In parallel, *net long positioning in the US futures market* – reported by the Commodity Futures Trading Commission (CFTC) Commitment of Traders report – fell to its lowest level since June 2019. Investment activity through ETFs, OTC and exchanges, driven by higher rates and a stronger dollar, no doubt played a key role in pushing gold to its low for March – below US\$1,700/oz.

In contrast strong consumer demand appears to have provided a degree of support in recent weeks. Retail investment in gold bars and coins – along with gold jewellery buying – sustained a healthy pace during the quarter, picking up some of the slack from ETF outflows and OTC investment.

ETFs

Gold ETFs lost 177.9t (US\$9.5bn) in Q1 as higher interest rates and price momentum drove sentiment. Global AUM ended the quarter at US\$194.5bn, down from US\$228bn at the end of 2020.

Modest inflows in January (+14t) reversed sharply in February. Outflows quickly mounted through the quarter as inflationary expectations – and, by extension, expectations of higher interest rates – were unleashed. Outflows of this magnitude were last witnessed in Q4 2016, a time when there was a similar re-appraisal of the expected course of US growth and interest rates.

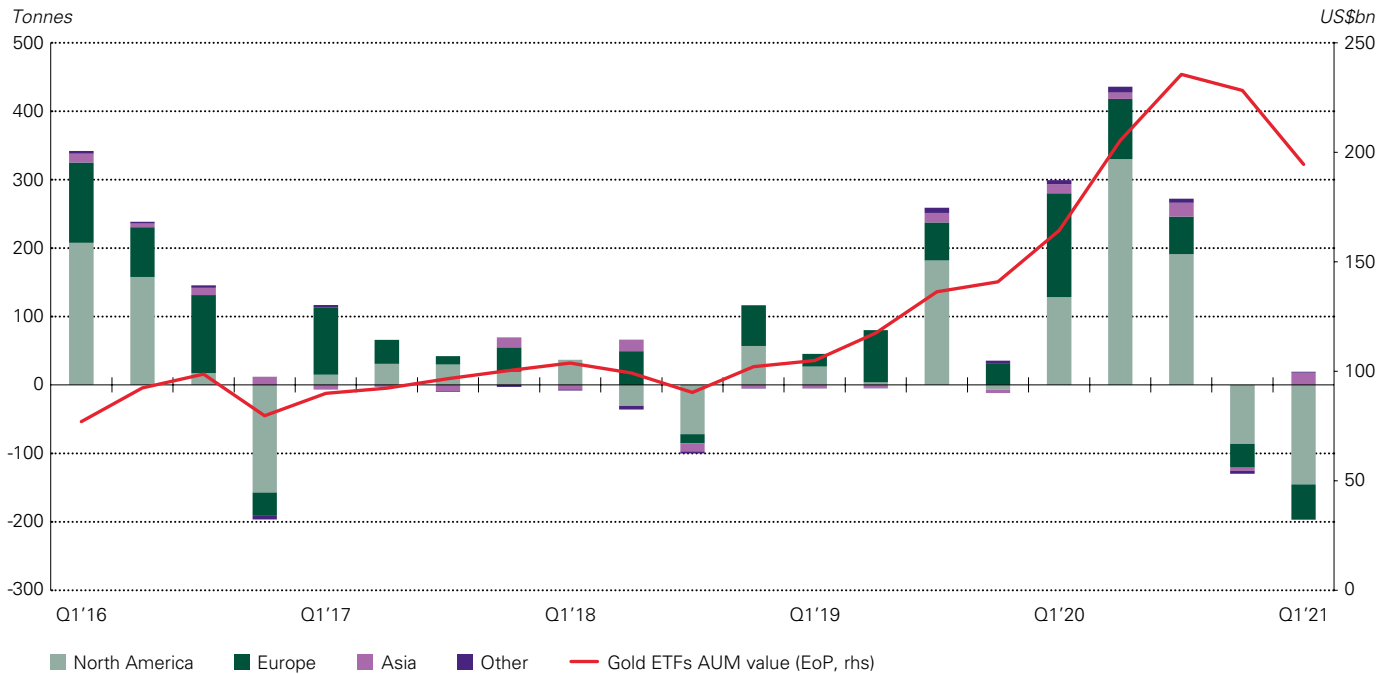
Western funds were the main source of the outflows: North American funds lost 145.4t over the quarter (-US\$8.1bn, equivalent to 6.7% of AUM). Despite these sizable outflows, there were a couple of notable exceptions in both Canada and the US (for more details, see our *March ETF monthly commentary*). At the aggregate level, however, investors in North American funds chose to reduce their holdings of gold ETFs as the focus on rising interest rates diverted attention and investment flows towards risk assets instead, with equity market indices making new highs during the quarter. This was in stark contrast to the retail investment environment in the US, *where bar and coin investment continued at a record pace*, adding 26.3t (US1.6bn) during the quarter (see below).

⁷ Five-year quarterly averages through this report are calculated as the average from Q1 2016 – Q4 2020.

⁸ We have recently published in-depth research into gold's relationship with inflation *Investment Update – Beyond CPI: Gold as a strategic inflation hedge* | World Gold Council and interest rates *Investment Update: Rates pose risks but also unlock opportunities for gold* | World Gold Council.

Largest global gold ETF outflows since Q4 2016 pulled back AUM to US\$195bn

Quarterly gold ETF demand by region (in tonnes) and total AUM (in US dollars)



Note: Data as of 31 March 2021. Gold ETFs AUM value is calculated by multiplying the end of period (EoP) gold holdings in tonnes by the end of period LBMA Gold Price PM in US dollars. For a listing of the Exchange Traded Funds and similar products, please see [notes and definitions](#).

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

European funds lost 51.7t (-US\$2.5bn, -2.6%) during the quarter, with funds listed in the UK (-39t) and Switzerland (-11t) accounting for the vast majority of the region's outflows. German-listed funds, by comparison, saw relatively trivial outflows; they lost just 0.6t in the quarter (-US\$54.4 million (mn), equal to a 0.2% drop in AUM). Conversations with market contacts suggest that inflation remained the primary driver of sentiment in Germany, particularly after *Bundesbank President Jens Wiedmann warned that inflation was likely to rise to 3% by year-end and that monetary policy would be tightened 'if the price outlook requires it'*.

Inflows into Chinese gold ETFs – of 11.5t – eclipsed those in any other market. Holdings rose to a record high 72.4t, with AUM reaching RMB25.9bn, *fuelled by stock market volatility and a lower gold price*. After a fourth consecutive monthly gain in January, China's CSI300 stock index tumbled throughout the rest of the quarter and the resultant spike in volatility spurred local investor interest in safe-haven assets. Gold was a notable beneficiary: the frequency of online searches using 'gold' as a keyword on Baidu – China's largest search engine – climbed in tandem with stock market volatility. Gold's price performance throughout the quarter may also have encouraged some investors to add to their strategic holdings at a lower price.

The direction of travel was the same across the rest of the Asian region, albeit to a lesser degree than in China. Net inflows of 3.5t into Indian-listed funds pushed holdings there to 31.8t – the highest since October 2013 – with AUM reaching a 32-month high of US\$1.9bn. Heightened stock market volatility and a lower domestic gold price elevated investors interest in gold and encouraged inflows into Indian gold ETFs in Q1.

Bar and coin

A third successive quarter of growth in bar and coin investment saw it reach 339.5t – the highest since Q4 2016. The Q1 total was 36% higher y-o-y and 37% above the five-year quarterly average of 248.5t. Bargain-hunting in key markets, notably China, was a major driver of growth in this sector of demand as the gold price fell back from the 2020 peak. Fear over rising inflationary pressures was an added driver, as economies around the world responded to the massive fiscal and monetary stimulus introduced to combat the worst impacts of the pandemic.

All three sub-categories of bar and coin demand saw strong y-o-y improvement.⁹ Official coin demand grew 22% y-o-y to reach a record high for our series of 95.7t. Reports of record or near-record sales by some Mints in response to surging demand in Western markets help explain the strong growth in this element of the market.

China's bar and coin demand totalled 86t in Q1 – 133% higher y-o-y and 21% higher than Q1 2019. Similar to gold jewellery demand, bar and coin investment in the first quarter benefited from improved economic conditions, the 9% decline in the local gold price, and CNY-related buying. Investment demand was reflected in healthy SGE withdrawals.

The strong rebound in bar and coin demand helped push local gold prices to a premium during the quarter. The Shanghai-London gold price spread climbed rapidly from its 2020 trough, turning positive in January and continuing to rise throughout the quarter amid improved gold consumption – particularly during the CNY holiday week.¹⁰ Our analysis shows that, historically, local gold demand has played a key role in driving the spread.

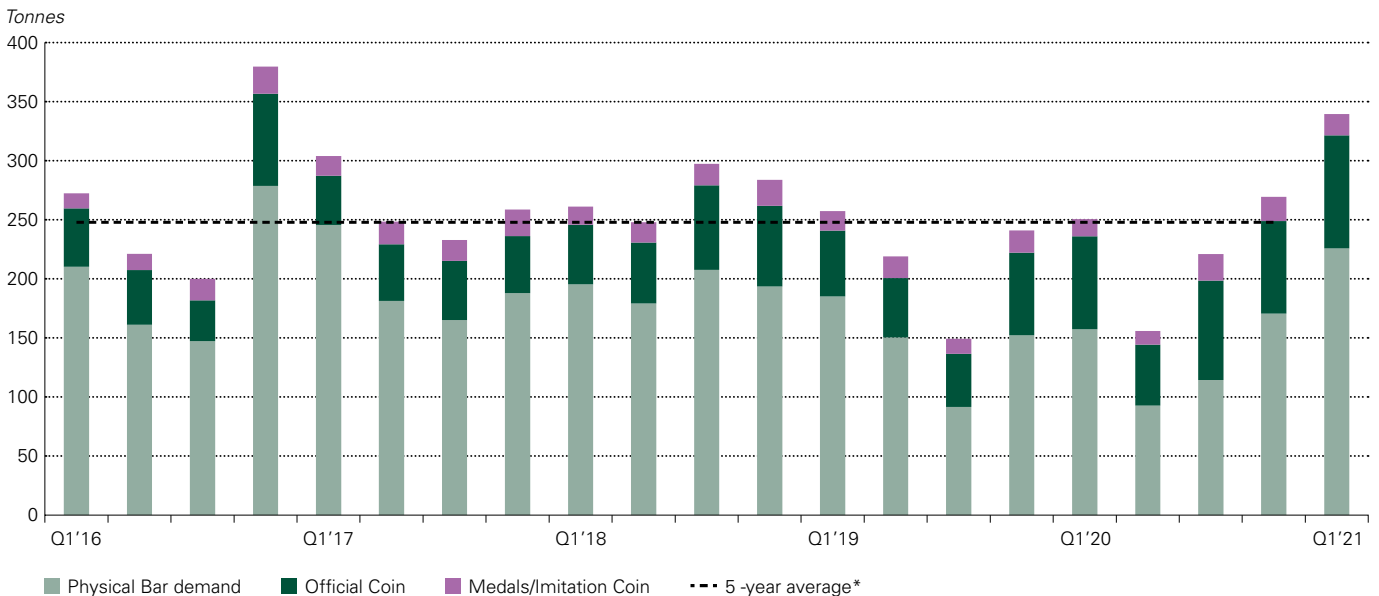
Looking ahead, this element of Chinese demand should draw support from continued economic improvement although momentum could tail off in response to the recent stabilisation in the gold price. Chinese investors may look for a pick-up in price volatility – be that a dip to encourage more bargain-hunting, or a rise to signal potential further growth.

Indian retail investment improved for the third consecutive quarter. Bar and coin demand grew 34% y-o-y to 37.5t – the strongest first quarter in India since 2015. Investment benefited from factors similar to those supporting jewellery demand: a lower domestic gold price coupled with improving economic indicators.

A reduction in custom duty on gold, together with an appreciating rupee throughout much of the quarter, magnified the impact of the lower US-dollar gold price: the domestic gold price corrected by 5.6% and 5.2% in February and March respectively, with these pullbacks being viewed as a buying opportunity by retail investors. Small bars (of 50g and 100g denominations) were reported particularly popular in Q1.

Retail bar and coin demand jumped to 17-quarter high and above five-year average

Quarterly bar and coin demand by region



Note: Data as of 31 March 2021. *Average is the five year quarterly average between Q1'16 and Q4'20. For an explanation of total bar and coin demand, please see notes and definitions.

Sources: Metals Focus, World Gold Council

⁹ The three sub-categories of bar and coin demand are: Physical bar demand, Official coin demand and Medals/imitation coin. For definitions of these three categories, see: Notes and definitions | World Gold Council.

¹⁰ For this calculation, we use the LBMA Gold Price AM to SHAUPM because the trading windows used to determine them are closer to each other than those for the LBMA Gold Price PM.

Investment

Indian official imports of gold surged during the quarter – jumping to a decade high of 164t in March, only the third time that they have surpassed 150t in a given month.

Robust consumer demand, combined with stock building among the trade ahead of key festivals (including Akshaya Tritiya in May), were the primary drivers of the strong rise in imports. These factors were also reflected in a strengthening of the local market premium, which rose to a 51-month high of ~US\$6/oz in March, having been in sharp discount for much of 2020.

Looking ahead, the prospects for Q2 in India are less certain as fresh lockdowns attempt to deal with the second wave of COVID-19 currently affecting the nation. That said, the trade is better equipped to weather a further lockdown, having adopted digital and omni-channel retail strategies in 2020, and attempts by central government to avoid a full national lockdown may mitigate the impact on gold demand.

Bar and coin investment in Turkey rocketed to 44.3t in Q1, almost double that of Q1 2020 (+23.3t). Investors jumped at the chance to add to their holdings at lower gold prices amid expectations that domestic political turbulence would weaken the domestic currency and cause local prices to rebound. In the event, those expectations were well founded: the sudden sacking of Turkey’s central bank

governor in mid-March resulted in a sharp sell-off in the lira and a rebound in the domestic gold price.

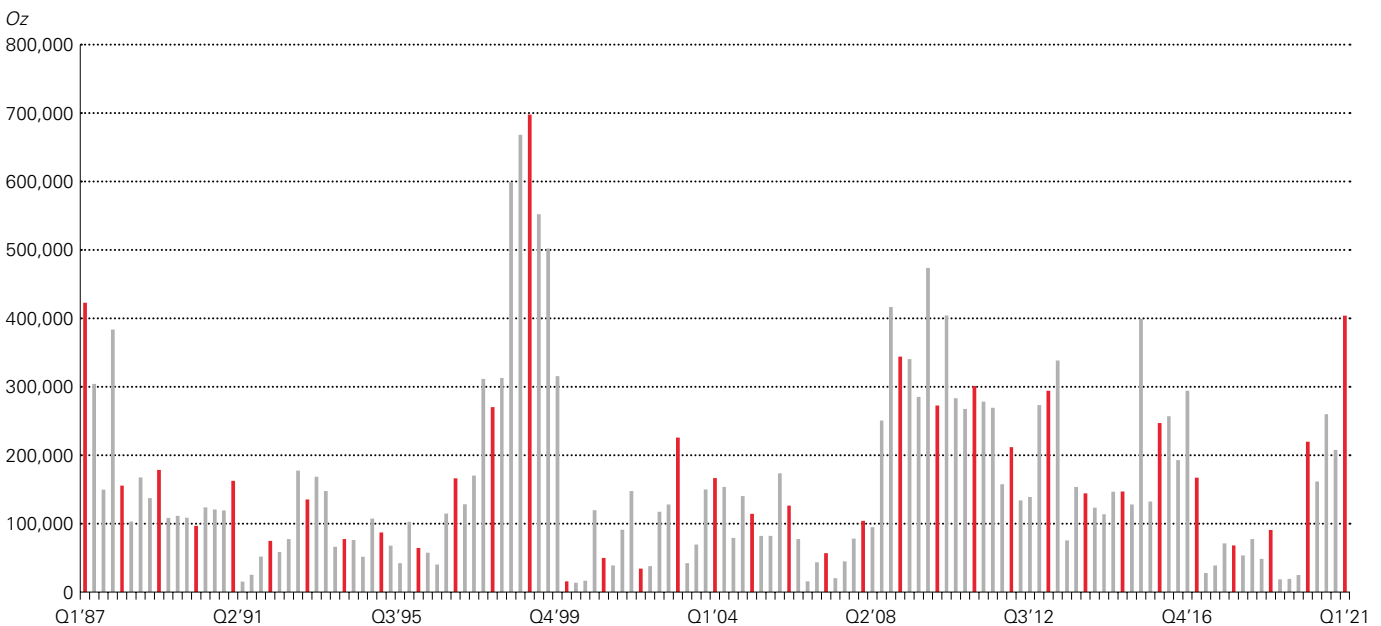
In value terms, Q1 bar and coin investment in Turkey reached T118.8bn – the second highest quarterly value on record and more than the total value for the first half of 2020 (T114.8bn).

Lower gold prices were the primary driver of growth in retail investment across many markets in the Middle East, although weakness in Iran drove a 5% y-o-y drop for the region. Lower gold prices and a tentative return of tourism to some markets generated strong double-digit growth across much of the region, with markets up between 20% to 30% y-o-y. The exception was Iran, where demand fell 30% y-o-y to 6.2t. A few factors explained this weaker performance, key among them the fact that currency moves meant that local gold prices did not dip as far as expected and this limited the opportunity for bargain-hunting.

Investment demand for gold bars and coins in the US jumped 77% y-o-y to 26.3t – more than double the five-year quarterly average of 12t. This was the strongest quarter in the US since Q2 2016 was 27.1t and more than the annual total for either 2018 (26.1t) or 2019 (19.7t).

US gold Eagle Coin sales were very strong during Q1

Gold American Eagle coin sales by quarter*



*To end March 2021. Note: Red bar indicates sales in Q1 of each year.

Source: US Mint, World Gold Council

Investment

We have reported on the recent exceptional strength of US retail investment interest, with demand fuelled by persistent near-zero interest rates, fears of inflation – particularly given massive government stimulus – continued uncertainty as to the long-term impact of the pandemic, and restricted opportunities to splurge on travel and other discretionary expenditure. Reports suggest a blinkered mindset among US investors during the quarter, with investment activity almost solely focused on buying and very little on selling-back or profit-taking. Conversations with market contacts revealed relatively long delivery lead times for gold investment products, indicative of tight market conditions in part due to the strength of demand. Activity somewhat decelerated in March and latest figures for April show a continued slowdown, but this is likely to be due largely to slowing production of bullion coins as the Mint shifts production towards newly-designed coins, due to be released mid-year.

First quarter bar and coin investment in Europe was robust at 65t – 35% higher than the five-year quarterly average of 48.2t. On a y-o-y basis, demand was 11% lower compared with Q1 2020 – a period during which the coronavirus outbreak and heightened concerns over Brexit had boosted demand.

Investors across the region responded positively to the price drop during Q1 but other factors also played a role, including negative real (and in some cases nominal) interest rates. Coin sales were reportedly particularly strong in Q1, in part a reflection of the logistical bottlenecks that impacted the supply chain in Q1 2020 as the pandemic initially took hold.

Retail investment in smaller markets across the East Asian region saw widespread growth, driven by bargain-hunting as the gold price weakened from its 2020 peak. In Vietnam, bar and coin investment grew 10% y-o-y to 13.5t – the highest level for more than four years. Strong demand for gold chi rings (24k rings and pendants bought as a quasi-investment) and Saigon Jewellery Company tael bars pushed local premiums sharply higher.

Thailand saw a return to positive net investment in Q1 (+6.2t) as did Japan (+5.4t). And in South Korea, a strong recovery pushed demand to its highest since 2010 at 5.8t – just eclipsing the previous high of 5.7t in Q3 2020.

Central banks

Central banks began 2021 with net purchases of 95t.

- Central banks bought a net total of 95t of gold in Q1, 23% lower than Q1 2020
- Hungary (+63t) was the quarter's largest buyer, while Turkey remained the biggest seller (-31.5t)
- We reaffirm our expectation that central banks will be net purchasers in 2021.

Tonnes	Q1'20	Q1'21	Y-o-y change	
Central banks and other institutions	124.1	95.5	↓	-23%

Source: Metals Focus, World Gold Council

Following a relatively inconsistent H2 2020, central banks started 2021 with healthy net purchases. Globally, central banks bought 95.5t on a net basis during the quarter, 23% lower y-o-y. However, this is 20% higher q-o-q and in line with quarterly net purchases last seen between 2016 and 2017.

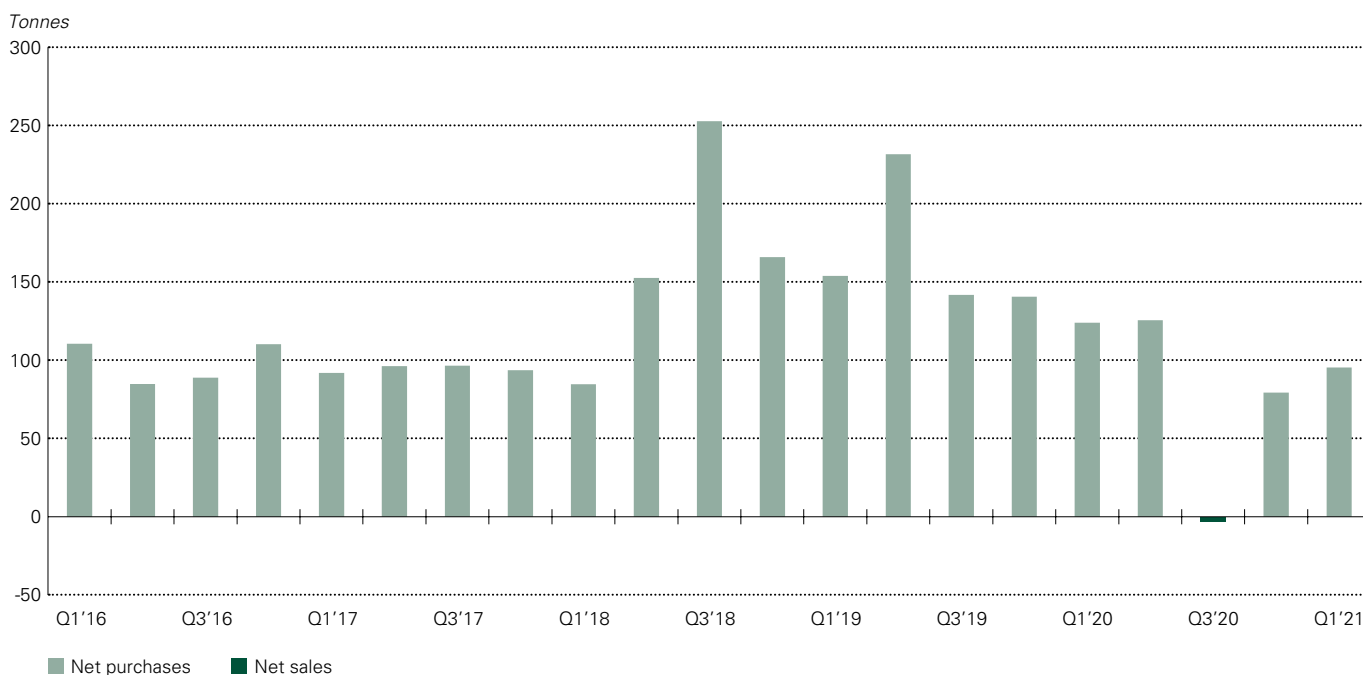
Net sales in January were outweighed by net purchases in both *February and March*. As we have *discussed previously*, mid-2020 saw consistent net purchasing by central banks give way to swings between net purchases and net sales on a monthly basis. Large, sporadic sales have tipped the balance in some months, with the drivers behind these sales ranging from economic hardship to higher local gold demand and coin-minting.¹¹

In Q1, sizeable purchases and sales from a small group of emerging market banks continued to drive overall central bank demand.¹²

Four central banks accounted for much of the buying during the quarter. India, a regular buyer of gold since December 2017, added another 18.7t in Q1, taking overall gold reserves to 695.3t (7% of total reserves). This is comfortably above India's quarterly average level of net purchases (9.9t) since the start of 2018.¹³ Kazakhstan, another regular buyer, added 8t in Q1, while Uzbekistan bought 23.3t.

Central banks bought a healthy 95t in Q1 2021

Quarterly central bank net purchases and sales in tonnes*



* Data as of 31 March 2020. For an explanation of central bank demand, please see [notes and definitions](#).

Source: Metals Focus, World Gold Council

¹¹ *Central bank demand remained muted in February, 7 April 2021.*

¹² Only countries that bought/sold a tonne or more are referenced.

¹³ Average calculated between Q1 2018 and Q4 2020. The Reserve Bank of India began the regular purchases of gold from 2018.

Central banks

But the largest purchase during the quarter came from Hungary. The central bank recently announced it had purchased 63t in March, tripling its gold reserves from 31.5t to 94.5t, which now accounts for 14% of total reserves. This is Hungary's first purchase since October 2018 (28.4t), and the fourth largest single monthly purchase since January 2009 globally.¹⁴ In its statement announcing the purchase, the bank explained that: "Managing new risks arising from the coronavirus pandemic also played a key role in the decision. The appearance of global spikes in government debts or inflation concerns further increase the importance of gold in national strategy as a safe-haven asset and as a store of value."¹⁵

Hungary was not the only country from the *region* to publicise its gold reserves. During the quarter Adam Glapiński, President of the National Bank of Poland, announced the intention to bolster gold reserves by at least 100t over the next few years and stated that gold's share of total reserves should rise to 20%.¹⁶ Poland increased its gold reserves by 25.7t in 2018 and a further 100t in 2019, taking overall gold reserves to 228.7t (8% of total reserves). These previous purchases were strategic in nature, aimed at further safeguarding the financial security of the country.¹⁷

Japan reported an 80.8t increase in its gold reserves in March, the culmination of an off-market transaction between two different divisions within the Ministry of Finance. The transaction was facilitated by the central bank, and intended to support stimulus measures in response to the pandemic.¹⁸ Japan's foreign reserves

are held between the central bank and the Ministry of Finance, and this gold purchase has been transferred to the latter's foreign reserves account. Because this was an intergovernmental transfer of gold, rather than a new purchase, it has not been included in our reported central bank net demand number for Q1.

Mirroring this, four central banks accounted for the bulk of Q1 sales. The largest seller of gold during the quarter was Turkey, whose gold reserves declined by 31.5t to 512.6t (38% of total reserves). This was the third consecutive quarter of net sales by Turkey and the largest quarterly decline in Turkish gold reserves since 2017.¹⁹ The sales were partly driven by the ongoing economic and currency crisis in the country, which has seen the lira plummet almost 18% since mid-February and the sudden removal of the central bank governor in March.²⁰

The other significant sellers in Q1 were the Philippines (24.9t), the UAE (6.7t) and Russia, whose 3.1t sale was likely related to their coin-minting programme.²¹

Despite the overall net purchases in Q1, the outlook remains clouded. Large, sporadic purchases and sales in recent months have made it difficult to determine a direction of travel for central bank demand in the short term. But our expectation remains for continued overall net buying for the year, as we believe positive sentiment towards gold is largely unchanged among the central banking community. In Q2, we will be publishing the findings from our 2021 central bank survey, which will provide further insight into current attitudes and intentions towards gold as a reserve asset.

14 January 2009 was chosen as a start date as this was the first year in which net buying on a quarterly basis began. For this calculation, the reported purchases from China of 454.1t and 604.3t in April 2009 and June 2015 respectively, were excluded as in both cases these refer to total net purchases made over the preceding six-year period.

15 www.mnb.hu/en/pressroom/press-releases/press-releases-2021/magyar-nemzeti-bank-triples-hungary-s-gold-reserves-to-94-5-tons

16 www.bloomberg.com/news/articles/2021-03-15/gold-reserves-to-rise-in-poland-under-governor-glapiński-s-watch?sref=3W4oJZsn

17 www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q2-2019/central-banks-and-other-institutions

18 www.reuters.com/article/us-japan-economy-mof-idUSKBN28R0LY

19 Turkey has been a fairly consistent net buyer since May 2017.

20 www.bbc.co.uk/news/business-56479702

21 cbr.ru/eng/press/pr/?file=27012021_085124coin_e.htm

Technology

Q1 demand for gold in the technology sector grew 11% y-o-y as consumer confidence continued to recover from the impact of the COVID-19 pandemic.

- Demand in the technology sector during Q1 rose by 11% y-o-y to 81.2t
- The electronics sector, which accounts for the majority of industrial gold demand, registered 13% growth y-o-y to 66.4t
- Other industrial demand grew by 9% y-o-y to 12t, while dental demand continued its slow decline, falling 9% to 2.9t.

Tonnes	Q1'20	Q1'21	Y-o-y change
Technology	72.9	81.2	↑ 11%
Electronics	58.7	66.4	↑ 13%
Other industrial	11.0	12.0	↑ 9%
Dentistry	3.2	2.9	↓ -9%

Source: Metals Focus, World Gold Council

The strong y-o-y growth rate in Q1 is partly due to the comparison being made with a relatively weak Q1 2020 – a time when the impact of COVID-19 was relatively severe with many key countries in the supply chain in lockdown. However, comparisons with Q1 2019 and Q1 2018 suggest that demand has recovered quite quickly and is now at more typical Q1 levels. A 4% q-o-q decline was not unexpected due to normal seasonal variations in the electronics sector.

Electronics

Gold used in electronics rose 13% y-o-y to 66.4t during Q1. Demand for gold across all major applications in the sector increased from the historic lows recorded in Q1 2020. In stark contrast to the caution displayed in the midst of the pandemic, confidence appears to be returning; consumers that have been able to save throughout lockdown are now increasingly keen to spend.

In particular, auto sales are experiencing strong recoveries worldwide; in China, for example, sales in March surged by 75% y-o-y.²² However, this rapid recovery has not come without challenges; severe chip shortages have been widely reported by manufacturers in the automotive industry, leading some to issue warnings about the potential impact on annual earnings.²³

LED demand strengthened during Q1. Growth in LED gold use – of between 10 and 13% y-o-y – was driven by strong demand for high-end consumer electronics, such as laptops, tablets and TVs, as well as the recovery in the automotive sector. 3D sensors within mobile and AI devices also provided strong support, alongside the growing use of UV-LEDs within the biomedical sector, primarily in bactericidal wearable devices. However, the threat of migration to mini-LED technology (which, in some cases, uses less gold) remains; indeed, during the quarter it was reported that Epistar – a major LED manufacturer headquartered in Taiwan, province of China – has now transferred 15% of its total capacity to mini-LED fabrication. While this undoubtedly represents a threat to gold demand, it does not remove the need for gold entirely; mini-LEDs still require the use of gold bonding wire, albeit in far smaller quantities, and they are currently more expensive than the incumbent technology, so are likely to experience challenges with regard to uptake.

The wireless sector maintained steady growth of 2-4% y-o-y during Q1 thanks to robust demand for 5G infrastructure and devices. Many countries continue to install 5G infrastructure at a pace. China, for example, is targeting the installation of 600,000 5G base stations in the short term, with a vision of providing all tier 1-3 cities across the country with access to 4G/5G connectivity by 2025 – an objective that will require an estimated 10m base stations countrywide. 5G is also becoming increasingly common in handheld devices; for example, over a third of all smartphone shipments in 2021 are expected to be 5G enabled. These devices require an increased number of power amplifiers, which depend on gold for their reliable operation. Longer term, the growing trend towards 3D sensing chips in smartphones and partially-autonomous automotive systems will further support gold demand in the wireless sector. Finally, a proliferation of low earth orbit satellites (LEOs) is driving further demand for high-end wireless devices – an area that represents an expanding use for gold.²⁴

22 www.reuters.com/article/us-china-autos-idUSKBN2BW0P9

23 For example: www.ft.com/content/a0d5ca20-2559-4d47-9106-cf50eaf97720

24 www.prnewswire.co.uk/news-releases/leo-broadband-services-will-propel-satellite-broadband-market-revenues-to-us-4-1-billion-in-2026-885615732.html

The memory sector also maintained steady growth in Q1, recording increased gold demand of 3-6% y-o-y.

Conditions in the market for memory chips remain tight, with all major sectors competing for limited supply. The surge in demand as the world emerges from the worst of the COVID-19 pandemic has encouraged inventory building, which – along with driving prices higher – has exacerbated shortages in the automotive sector. Memory chip fabricators such as Samsung and YMTC are attempting to increase supply, but this could take months, and supply is expected to be tight until Q3.²⁵ Beyond these supply issues, the outlook for gold use in the sector is broadly positive as most devices and vehicles are predicted to require ever-larger memory chips. For example, estimates suggest that the memory requirements in vehicles (primarily due to in-car entertainment and autonomous driving systems) could double on average over the next two years. However, challenges remain from both miniaturisation of chip architecture (which potentially reduces the quantity of gold used in a semiconductor) and the threat of manufacturers switching to silver bonding wire.

Finally, the Printed Circuit Board (PCB) sector performed strongly during Q1, registering a rise of 15-18% y-o-y.

This was primarily due to the comparison with a weak Q1 2020 when China – the world's largest PCB manufacturing country – was in lockdown. Strengthening automotive demand has also boosted usage, along with strong PC and smartphone shipments.

Each of the major electronics fabrication hubs around the world recorded increases in gold demand during Q1; the four key hubs of Japan, Mainland China and Hong Kong, South Korea and the US recorded increases of 11.6%, 27.4%, 13.5% and 5.7% respectively.

Other industrial and dentistry

Demand for gold in other industrial applications rose by a modest 9% to 12t y-o-y. Two of the main components of demand – luxury gold-plated accessories and jari (gold thread used in traditional Indian clothing) – were limited by ongoing COVID-19 related disruption.

But demand for gold-containing COVID-19 tests was at an all-time high during Q1. While the quantity of gold is not material to overall demand (each test contains a miniscule quantity in the form of nanoparticles), it is a critical component of the tests. With increasing numbers of tests receiving approval for use in the market, demand has grown rapidly thanks to sustained government procurement programmes (in the UK, for example, *any adult is currently eligible to receive 7 rapid COVID-19 tests for free*). The US has also begun to *approve these tools as an over-the-counter product*. It is conceivable that Q1 saw over 1 billion tests manufactured for use around the world.

The dental sector continued to see steady decline, exacerbated by high metal prices and the continuing postponement of non-essential work, falling 9% y-o-y to 2.9t

²⁵ [Samsung Electronics Announces Fourth Quarter and FY 2020 Results – Samsung Global Newsroom.](#)

Supply

Total supply fell 4% in Q1 despite increased mine production.

- Q1 mine production increased 4% y-o-y as coronavirus disruptions abated
- Recycled gold supply fell 8% y-o-y due to weaker gold prices and diminished stocks
- Producer de-hedging of 25t was noted, continuing the full year 2020 trend.

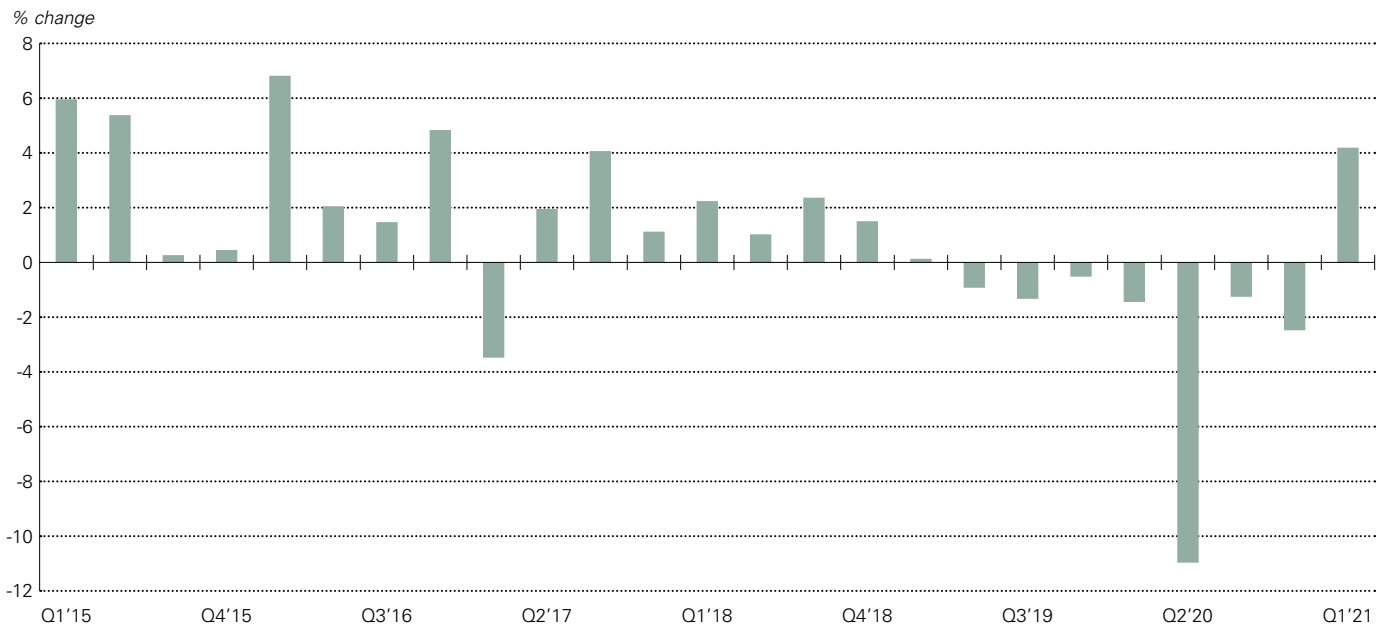
Tonnes	Q1'20	Q1'21	Y-o-y change	
Total supply	1,146.5	1,096.2	↓	-4%
Mine production	816.7	851.0	↑	4%
Net producer hedging	34.7	-25.0	↓	-
Recycled gold	295.0	270.2	↓	-8%

Source: Metals Focus, World Gold Council

The overall fall in supply in the first quarter illustrates the importance of recycling and producer hedging to the gold market. With the gold price more than 10% below all-time highs and easily available supplies of old gold jewellery having already been sold in reaction to the strong up-leg in the gold price to the August 2020 peak, recycling fell 8% y-o-y and 17% q-o-q. Producer de-hedging of 25.0t contrasts with 34.7t of new hedging in Q1 2020 and together these sources of supply offset an increase in mine production to a record for the first quarter of any year. Looking ahead, we believe annual mine production looks set to hit a new all-time high in 2021, barring unexpected disruptions, but recycling is likely to remain subdued.

Mine production saw a strong rebound in Q1 2021

Year-on-year % change in global mine production*



*Data as of 31 March 2021.

Source: Metals Focus, World Gold Council

Mine production

Current Q1 estimates indicate that mine production increased by 4% y-o-y to 851.0t. To an extent this was due to fewer COVID-19 related interruptions compared to the same period last year, but higher output from North American mines and increased mining rates at Grasberg in Indonesia primarily lifted mine production to its highest Q1 on record. On a q-o-q basis, production fell by 5% in Q1, normally the weakest quarter of the year, due principally to normal seasonal fluctuations in Russian and Chinese production.

Coronavirus restrictions had minimal impact.

Disruption to mining operations due to the coronavirus pandemic was negligible in Q1, only meriting a couple of mentions in individual countries, both in South America. We do not, however, believe that operations have been able to catch-up on gold output lost due to the pandemic; for most types of mines there is no flexibility to recover production following a shutdown. The y-o-y comparison is likely to be more meaningful in the second quarter, however, as it was the second quarter of 2020 that saw the most significant impact of lockdowns on global mine production.

North American gold output increased significantly in Q1. Canada (+21% y-o-y) saw increased output from existing operations such as Detour Lake and Meadowbank. In the US expansion and grade increases at operations such as Turquoise Ridge, Fort Knox, and Pogo contributed to production growth of 13% y-o-y.

Substantial production increases were also seen from Mongolia (+170% y-o-y) and Indonesia (+29% y-o-y), both driven by large changes in by-product output from large copper-gold mines. In Mongolia, higher gold grades at Oyu Tolgoi drove higher production, despite issues with the underground expansion of the mine. Grasberg in Indonesia saw an expected increase in underground mining rates as the mine continues its transition away from open-pit mining; this will continue over the next few years and Indonesian output should benefit accordingly.

Despite the global increase in mine production, some countries saw y-o-y declines. In Papua New Guinea output was 19% lower y-o-y as a result of production at the Porgera mine having been suspended since 25 April 2020. The suspension, driven by the government's decision not to renew the mining lease, may be reversed following news that a provisional deal has been reached to re-start operations later this year.²⁶

Argentina saw gold output drop 13% y-o-y due to COVID-19 delays at Veladero, where the mine is transitioning to a new heap leach pad. In Peru, residual restrictions as a result of the coronavirus pandemic, together with lower grades at several mines, saw gold output 9% lower y-o-y.

In China there was no sign of a bounce-back in gold output in the first quarter as mine production fell 2% y-o-y. Two fatal accidents in Shandong province in January led to suspensions at several operations in that region whilst safety checks were carried out. This decline is all the more notable considering coronavirus-related production interruptions hit Chinese output hard in Q1 2020, when mine production was down 12% y-o-y. China, the world's largest gold producer, has seen output fall for the last four years and could be overtaken by Russia, where production has grown recently and looks set for further gains as some large projects are commissioned over coming years.

Net producer hedging

The global hedge book fell further in Q1 due to net producer de-hedging of 25.0t, continuing the trend of de-hedging seen during the previous three quarters.

Comfortable margins keep producers on the sidelines. Although the gold price fell 10% during Q1 – and more than 18% from the all-time high seen in early August 2020 – little new hedging has been reported by gold mining companies. *All-In-Sustaining-Cost (AISC)* margins remain high and mining companies seem content to allow shareholders greater exposure to the spot gold price, although we are aware that some smaller and development-stage companies may be required to increase hedging coverage at some point this year as a requirement of debt funding.

26 www.mining-journal.com/gold-and-silver-news/news/1408075/porgera-has-restart-path-after-year-in-limbo

Recycled gold

The supply of recycled gold in Q1 was 270.2t, 8% lower y-o-y, despite a 13% increase in the average quarterly price between Q1 2020 and Q1 2021.

It is, though, arguably more relevant to consider the q-o-q picture when ascribing consumer recycling behaviour to changes in the gold price: recycled gold saw a 17% quarterly fall alongside a 4% decline in the average gold price from Q4 2020 to Q1 2021.

The data underscores what econometric modelling tells us: that changes in the gold price have an immediate, but temporary, effect on recycling.²⁷ Intuitively, this makes sense – the average gold price being higher than it was in the same quarter one year ago would not be expected to automatically prompt a surge in the supply of gold from recycling in the current quarter. People are encouraged to sell their old gold jewellery in response to a rising gold price during a given period, not because prices are higher versus one year previously. We saw this in Q3 last year: the price rose roughly 30% from the beginning of the second quarter to the Q3 peak, and recycling grew by 32% q-o-q, although we must recognise the impact of some key markets being released from lockdown during this time.

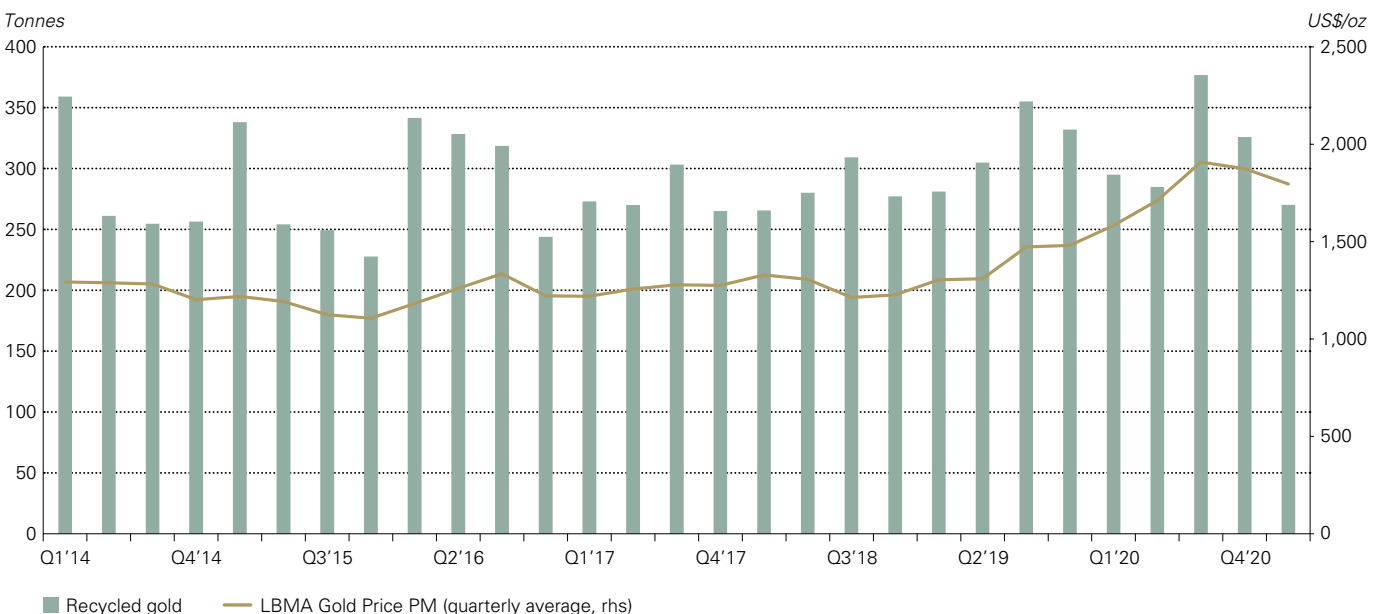
Once those easily available supplies have been sold, it generally takes another upsurge in the price to flush out further items for scrap. The y-o-y decline in recycled supply seen in Q1 leads us to believe that much of the near-market supply of recycling feedstock has been depleted and that it will likely take another significant rise in price to draw this out.

Some country-specific factors may have limited recycling supply in the first quarter. Improved economic activity in India, especially in the rural sector, along with expectations of a higher gold price, appear to have reduced recycling volumes. In China, better-than-expected retail sales for gold jewellery have greatly reduced the amount of inventory selling back from the jewellery sector. It is also possible that the strong global fiscal response to mitigate the economic effects of the coronavirus pandemic has reduced the need for distressed sales of gold, in contrast to the mostly monetary actions seen during and after the 2008 Global Financial Crisis.

We believe that recycling is likely to remain subdued throughout 2021. The need for significant increases in the gold price, a more optimistic economic outlook, and low near-market supplies, create headwinds for higher levels of selling back. The y-o-y reduction in recycled gold more than offset growth in mine production in the first quarter, underlining the importance of this component of the gold supply/demand balance.

Gold recycling activities fell amid a lower gold price in the quarter

Recycled supply in tonnes and the gold price (US\$/oz)*



*Data as of 31 March 2021.

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

27 www.gold.org/goldhub/research/ups-and-downs-gold-recycling

About the World Gold Council

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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