

The SA Bullion Gold Report

Fourth Quarter 2015



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Table 1: Gold Performance to 31 December 2015 (% per annum)¹

	Quarter ²	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Gold in US Dollar	-4.1	-11.4	-5.8	-13.6	-5.3	7.6
Gold in Rand	3.2	19.1	14.7	5.1	11.9	17.5
Gold in Euro	-1.7	-1.1	5.9	-7.9	-1.3	8.5

¹ Based on LBMA Afternoon Fixes

² not annualized for periods of less than 1 year

Table 2: Quarter-End Gold Prices and Exchange Rates¹

	Gold in \$/oz	R/\$ rate	Gold in R/oz ²	\$/€ rate	Gold in €/oz
31 December 2005	513.00	6.34	3,253.70	1.18	434.91
31 December 2006	632.00	7.05	4,456.07	1.32	479.28
31 December 2007	833.75	6.83	5,698.14	1.46	570.26
31 December 2008	869.75	9.24	8,040.84	1.39	625.70
31 December 2009	1,087.50	7.36	8,008.08	1.43	757.97
31 December 2010	1,405.50	6.61	9,298.44	1.34	1,047.67
31 December 2011	1,531.00	8.07	12,360.37	1.30	1,179.37
31 December 2012	1,657.50	8.50	14,044.10	1.32	1,253.02
31 December 2013	1,204.50	10.28	12,385.67	1.38	873.14
31 December 2014	1,206.00	11.34	13,679.58	1.22	990.22
31 December 2015	1,068.25	15.26	16,298.82	1.09	979.48

Note 1: Gold prices in US\$ and € are LBMA Afternoon Fix prices

Note 2: Gold price in Rand from Rand Refinery

Table 3: Calendar Year Performance of Gold

	% US Dollar	% ZA Rand	% Euro
2005	17.8	32.6	35.7
2006	23.2	37.0	10.2
2007	31.9	27.9	18.9
2008	4.3	41.1	9.7
2009	25.0	-0.4	21.1
2010	29.2	16.1	38.2
2011	8.9	33.0	12.6
2012	8.3	13.6	6.2
2013	-27.3	-11.8	-30.3
2014	0.1	10.4	13.4
2015	-11.4	19.1	-1.1

Figure 1: Ten-Year Chart of Gold Price in US Dollar [LBMA PM Fix]

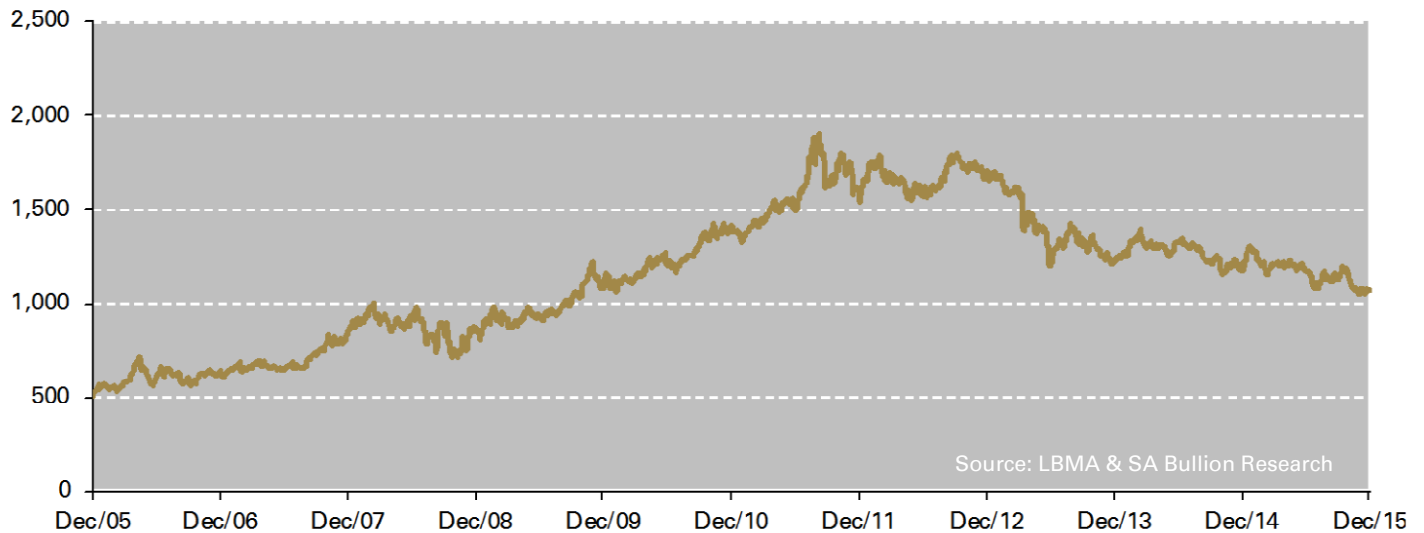
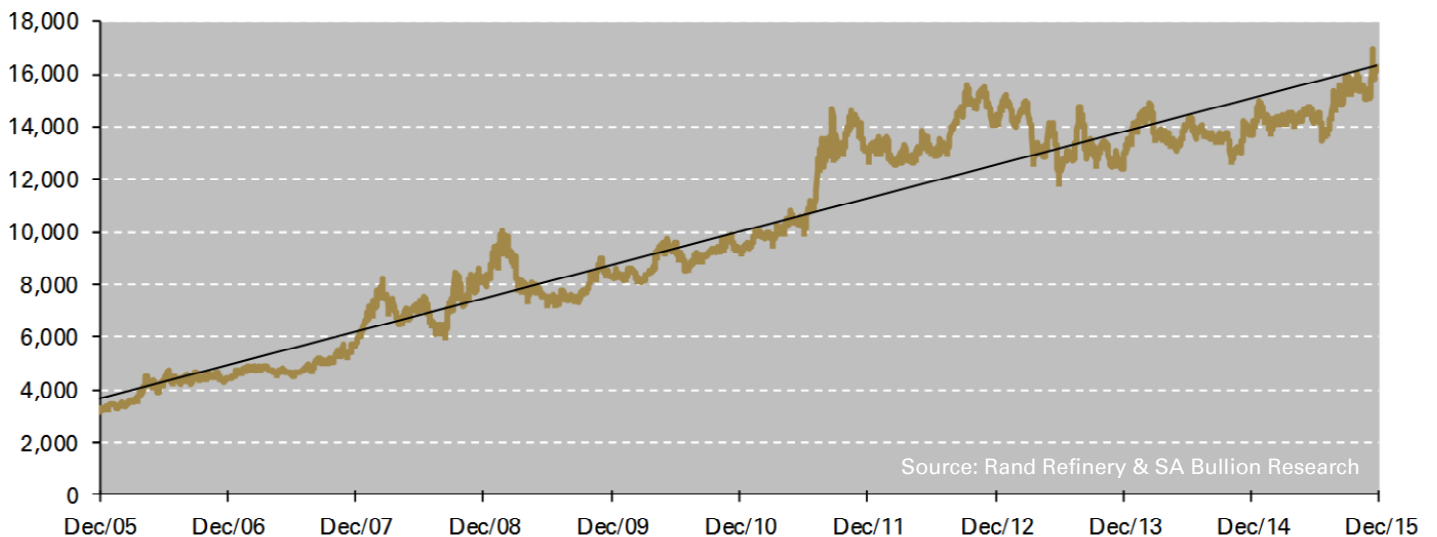


Figure 2: Ten-Year Chart of Gold Price in South African Rand (Rand Refinery First Pricing)



Gold Price Action

In the fourth quarter and in 2015 as a whole, the story was more in currencies and their gyrations than in the gold price per se.

The US Dollar has had a massive run up in recent times. In the last two calendar years the Dollar appreciated 27% against the Euro and 48% against the Rand. In the last calendar year i.e. 2015, the comparative numbers have been 12% and 35%. Of course one might view this picture the other way round and see huge currency collapse in the Euro and more so in the Rand, but the fact of the matter is that the American currency has enjoyed resurgence relative to every currency of the world.

Shortly after Lehman Brothers collapsed and the Great Recession really took root around end-2008, gold had a meteoric rise for approximately 4 years and then started its long downward correction for approximately 4 years as well (in US Dollar). This Great Recession-induced-bubble in the gold price would appear to have washed out of the system now. Gold in Dollar appears to have re-entered its 'corrected' trajectory and found its underpinning at around \$1,100 per ounce.

South African gold holders enjoyed an exceptional return on their gold holdings over the course of 2015, for reasons above. In fact, excluding two down-years, 2009 and 2013, each of the ten calendar years from 2005 to 2015 has produced an excellent reward for gold owners. In 2015 gold was the top performing asset class in South Africa. In the short-term, medium-term and long-term, South Africans have done exceptionally well to be invested in gold. If one uses our metric, that is gold relative to cash-in-the-bank, then gold-holders have much about which to feel well-satisfied.

Global Review

We live in bizarre times. With phenomenal monetary and fiscal stimulus in the United States, Europe, Japan and China since 2008, advanced economies are doing poorly and emerging economies are now doing abysmally. While still growing at 5 – 6% per annum, China, the world engine of growth in recent decades, is easing off rapidly. The upward growth curve is flattening quickly and it portends different and unpleasant times ahead. In recent times the Shanghai stock market has experienced a rout, and this ought to get one's attention as stock markets are leading indicators of conditions well in front of the bow.

China has been the single largest consumer of mining output world-wide, for quite a number of years. The majority of the world's production of iron, steel, copper and aluminium has found its way to China in the last decade. This insatiable appetite was the key driver of the run-up in commodity prices this century, and its knock-on effect was to drive up the currencies of commodity countries such as Brazil, Russia and South Africa. Of course this has all changed. The currencies of these countries have fallen along with commodity prices and commodity demand. These countries are struggling and Brazil finds itself in not merely a recession but in a depression.

Add to the commodity issues enumerated above, the world has seen over-investment in oil capacity (particularly fracking in the US) and now that economic growth is dull at best and cooling, the oil glut has translated into falling oil prices. The price collapse has been nothing short of breathtaking. As with all things there are winners and losers in times of change, and the big winners have been the countries that are not commodity producers and are also big net importers of oil. India is one such example. For the oil producers it has been grisly. Saudi Arabia and Russia as two of the largest oil producers and with not much else going on in their economies have been hard hit. And in a strange twist of fate all commodity producers, even those that are not oil producers, have been victims of the oil contagion where currency dealers have sold down those countries' currencies. In fact, the contagion infected all emerging countries, even those that are not commodity producers.

South Africa's Rand has been on the receiving end of every possible hardship. Aside from the commodity horror show affecting it, it has also been a victim of its status as a highly-tradable emerging market currency which means that traders sold-off the Rand along with the collapse in the oil price. Often contagion is extremely difficult to foretell due to the lack of rational connection!

US Review

The US continues to experience its weakest recovery since World War II notwithstanding historically unprecedented stimulus. Whilst the extent of the stimulus has been surprising to us, the extent of the recovery has not. Debt-deflation does not respond well to stimulus – a little like a string not responding well to being pushed.

It has been ten years since the US economy grew at a rate better than 3% per annum and anything less than 2% has historically foretold of recession ahead. In 2014 the real growth rate was 2.4% and in 2015 it was again 2.4%. Whilst these rates are pretty dismal all things considered, the short term history looks even worse. Observe the most recent GDP growth rates:

Quarter	Annualised rate
Q2 2015	3.9%
Q3 2015	2.0%
Q4 2015	0.7%

Source: Bureau of Economic Analysis, US Department of Commerce

The fourth quarter rate quoted above is the 'advance rate' which will see its first revision on 26 February. We expect the first revision to bring a downgrade of the number and we would not be surprised to see actual contraction i.e. a negative number.

Informing our view on the US economy are very weak manufacturing, energy and retail sectors. The retail sector in particular is signaling a recession ahead. Additionally, prices have battled to gain traction and so while the Federal Reserve has endeavoured to manufacture a 'healthy' rate of inflation at its target rate of 2% per annum, the lowly Third Quarter rate of 1.3% annualized fell to a Fourth Quarter annualized rate of 0.1%.

(Data Source: Bureau of Labor Statistics, US Department of Labor)

Market expectations of monetary tightening (i.e. the raising of interest rates) by the US Federal Reserve (the 'Fed') have been primary in driving the US Dollar higher in currency markets. Underlying the expected tightening has been the hype of a strengthening US economy. However, as the economy continues to deteriorate, the Fed will again be forced into monetary easing (i.e. the lowering of interest rates) and most probably into accommodating the Treasury by buying bonds (i.e. quantitative easing).

Global perceptions of US economic activity have begun to change and one can expect increased volatility in stock markets and currency markets ahead. The general trend can be expected to be downwards and at some stage one can expect flight from the Dollar to stronger Western currencies and to gold.

South Africa Review

South Africa has suffered hugely from the collapse of the commodity boom as discussed above. Many mining companies are in trouble and the knock-on effects are considerable. Troubled miners are looking at large-scale retrenchments, and it is reckoned that 32,000 mine workers face losing their jobs in 2016. Of course beyond the mining companies themselves there are many parties suffering hardship including families of miners and suppliers of goods and services to mines. Furthermore, the country's current account is taking a blow from the fall-off in export values - which translates into Rand weakness - and the fiscus is experiencing declining tax revenues from commodity exporters - which translates into a more constrained spending budget for government.

South Africa's present government, and especially its presidency, can be described as populist. At a time of Rand weakness and constrained tax revenues it can thank its lucky stars that the oil price has collapsed, shielding the populace from rapidly rising inflation. This demon - inflation - is bound to rear its ugly head at some stage as oil prices are sure to rise. At a time of inept government, very poor economic growth (likely to be well-under 1% in 2016), a looming credit downgrade to junk (almost a certainty if the incompetent President pulls another stunt like firing a credible finance minister!), likely interest rate hikes, a weak balance sheet, and innumerable other woes, the country is not well-positioned to sustain a considerable rise in oil prices.

There will be periods of Rand strength in 2016 but we cannot see any good reasons for a sustained lift in the exchange value of the Rand relative to leading currencies. All told, we see tough times ahead for the Rand with the odd intermittent stronger period providing an opportunity for South Africans to externalize their investments and to hedge their exposure by investing in Rand-hedge opportunities including gold.

SA Bullion

As a firm we have had a busy period, this last quarter. Our firm was incorporated on 18 May 2005, and with ten years and much development 'under the belt' we felt we ought to re-visit our core beliefs and our vision. This process of re-examining was so successful that it has caused us to undergo a re-branding of the business. Fear not, there will be no fundamental change for you, but our look-and-feel is about to change significantly - for the better!

We are not publicity hounds, in fact we turn down most opportunities for talking to the media, but we have a high regard for the Financial Mail and were pleased to be quoted in a good article in the 17 December 2015 edition of this weekly. If you didn't buy the magazine and would like to see it online, you can find it at -

<http://www.financialmail.co.za/moneyinvesting/2015/12/17/gold-price-the-shining-safe-haven>

A warning - should you go to the online article you will have to endure a photograph of yours truly!

We have exciting news in the pipeline and look forward to bringing this to you, our valued customer, in the course of this year.

Best wishes,



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