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## Soaring success of Krugerrand

**The coin's five decades of ups and downs mirror the turbulence in SA, as well as a global demand for safe havens**

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Picture: BLOOMBERG/CHIS RATCLIFFE

Ask gold fans anywhere in the world what gold coin springs first to mind and odds are they'll pick the Krugerrand.

The Krugerrand, containing one ounce of gold, is an iconic symbol of SA — and this year it celebrates its 50th anniversary.

Rather more crucially, it has been a pretty sharp investment. In 1967, a Krugerrand would have cost you R25; today, it costs R16,290 — a compound growth rate of just on 14%/year.

It seems unimaginable now, but back in 1967 when the Chamber of Mines, SA Reserve Bank and Rand Refinery joined forces to launch the Krugerrand, nothing like it existed.

"The concept of a legal-tender, central bank-issued gold coin with no face value was revolutionary in 1967," says Hilton Davies, MD of SA Bullion Management. "To me, the Krugerrand ranks near the top of the list of great SA inventions."

Today, the Krugerrand has competitors. The two biggest are the American Gold Eagle and Canadian Gold Maple Leaf. Others are China's Panda, Australia's Kangaroo, Austria's Philharmonic and Britain's Sovereign and Britannia.

Yet the Krugerrand has outsold them all. Since 1967, more than 60m Krugerrands — including half-, quarter- and 10th-ounce coins — have been sold, with a total gold content of 53moz (1,500t). This is as much as the Canadian Maple Leaf and the American Gold Eagle combined.

Nor is appetite diminishing. In 2016 the Krugerrand notched up sales of 1.1moz of gold, worth US\$1.3bn.

"Germany is by far our biggest market," says Richard Collocott, head of marketing at Rand Refinery. "In fact, all German-speaking countries are big buyers. They live in very conservative societies and believe in long-term investment in real assets."

The Krugerrand seems set for another good year. Driven by uncertainty, in part from elections in Europe and the UK's exit from the EU, Germans bought 13% more gold in the first quarter of 2017 than in the first quarter of 2016.

One of the lesser-known qualities of the coin is that it is resilient to scratches and damage. "Gold used to mint the Krugerrand contains copper [about 8% by volume], which makes it far harder than pure 24-carat gold," says Collocott. This is different from other gold coins — with the exception of the American Gold Eagle — which contain no other metal.

The history of the Krugerrand over the past five decades echoes the turbulence in SA over that time.

Between 1967 and 1983, says Collocott, the Krugerrand dominated the market with sales averaging 3moz/year and a peak of 7moz in 1977. Then came US-led sanctions against SA, and Krugerrand sales plunged.

Even after democracy, sales continued to lag, reaching a record low in 2000 when, in an investment world hot for equities, the Krugerrand recorded sales of only 10,000oz. At the time, its future was in doubt.

The 2008 financial crisis signalled the coin's rebirth, as investors scrambled into safe-haven assets. "Total gold coin sales jumped fourfold and Krugerrand sales twelvefold," says Collocott.

The Krugerrand finally regained its status as the top seller in 2016.

Today, local demand for Krugerrands is steady, says Davies, whose firm provides a platform to buy and sell the coins.

"We gain a few new clients every day, with monthly sales running at about R15m," he says. "Krugerrands are particularly popular with Muslims. They have an affinity to gold and account for about a third of our clients." Still, trading in Krugerrands comes at a cost. On the buying leg, it can easily be 10% of the underlying gold price, says Davies.

This isn't cheap. But when Davies founded SA Bullion Management in 2005 his aim was to slash Krugerrand trading costs. He did this by cutting the premium to 3% on coin purchases and zero costs on sales.

He also offers custody of the coins at the Rand Refinery. For small clients, that costs 2%/year — much the same as unit trust fees; it falls progressively for larger clients. There is also a 0.5%/year insurance cost but, as Davies says, keeping your coins at home will cost more than 2%/year.

There is another route into Krugerrands: a special category of "proof coins" where the rarity, not the gold price, determines the value.

"Only 100,000 proof Krugerrands have been minted in 50 years," says SA Gold Coin Exchange chairman Alan Demby.

You will need deep pockets for these. To mark the coin's anniversary, proof coins have been minted, including 50 giants of 50oz. The 1oz coins are already trading at about R65,000 each, says Demby. They were first sold by the SA Mint for R31,600.