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Gold spot price in US dollars, London PM fix



Source: Reuters Datastream, LBMA, World Gold Council

		Gold Holdings in Tonnes	% of reserves
1	United States	8,133.50	72%
2	Germany	3,384.20	67%
3	IMF	2,814.00	-
4	Italy	2,451.80	66%
5	France	2,435.40	65%
6	Russia	1,149.80	10%
7	China	1,054.10	1%
8	Switzerland	1,040.00	7%
9	Japan	765.2	2%
10	Netherlands	612.5	54%

\*Lebanon is number 19 on that list with 286.8 tonnes, representing 22% of gold reserves

Source: World Gold Council

"One hundred million people depend on gold mining for their livelihood"

Goldfacts.org

"India and China, the largest global consumers of gold (as jewelry and bars & coins)" believe it's a "good luck charm" to buy gold at key festivals and events"

World Gold Council

## **Gold Overview**

With its history dating back to 700 B.C when Lydian merchants created the first gold coins, Gold has historically been placed in high regard as a sign of wealth, beauty and power. Till this day, wealthy individuals are referred to as “rich as Croesus”, the king of Lydia (which is now part of Turkey) who accumulated large reserves of gold.

The predominance of gold was also notable between the 1870s and 1914, the age of the Gold Standard. The Gold Standard was a widespread system according to which all countries, except for China, fixed the value of their currency in terms of gold. Convertibility of currencies into gold was possible at all times and no limits were imposed on the imports and exports of gold. Although the gold standard came to an end through the 1944 Bretton Woods conference, during its time it allowed price stability and established confidence in the monetary system.

While the gold standard is long gone, gold is still used today for jewelry, is considered an investment, either directly through bars and coins or indirectly through Exchange-Traded Funds, is accumulated in central banks’ vaults and is utilized in the fields of medicine and technology. Gold is supplied either straight from gold mines or is recycled.

Gold’s supply and demand dynamics evolve in light of the economic landscape. More specifically, the traits of gold as a “store of value”, a “hedge against inflation”, “a safe-haven” asset have different weights to the investor depending on the economic and political givens. All these elements shape the gold’s international price trend, which in turn affects the value of Lebanon’s precious metals exports and imports.

## **Lebanon’s Trade of Precious Metals**

Here, we are zooming-in on the Lebanese trade of precious metals in order to draw a trend and determine the drivers of both imports and exports. The trade of precious metals encompasses gold, diamonds, articles of jewelry, silver, platinum, pearls and precious stones. We will be paying special attention to gold, which accounted for 72% of the value of Lebanese precious metals exports in 2013, to diamonds which accounted for 14% of that total and to articles of jewelry which held a share of 11% in the total.

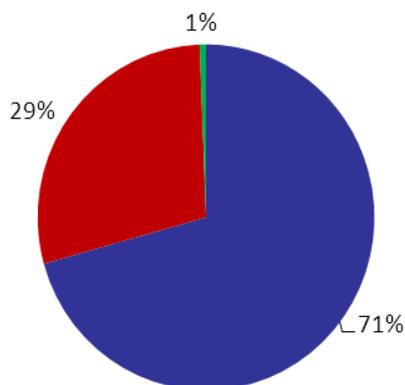
Looking at the trade of precious metals as a whole shows that Lebanon is more an importer of precious metals than an exporter. According to Lebanese customs, in the period 2010- September 2014, total exports reached \$5.55B while imports amounted to \$6.75B. Therefore, the balance of trade for precious metals suffered a deficit of \$1.2B over the past 5 years. The only year to have witnessed a surplus was 2012 with a balance of \$142.08M.

However, a more accurate view will be delivered by separately analyzing the trade of gold, jewelry and diamonds in Lebanon.

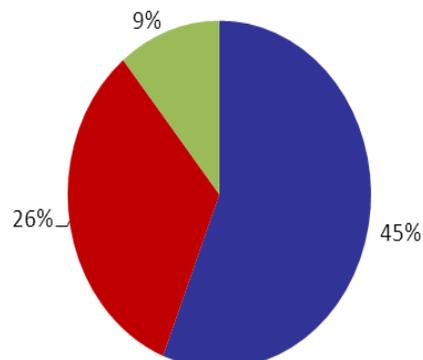
**Lebanon's Trade of Gold Reveals Price-Taker Position**

Lebanon's Top Gold Export Markets, 2013

Lebanon's Top Gold Import Markets, 2013



■ South Africa ■ Switzerland ■ UAE



■ Switzerland ■ Togo ■ Egypt

Source: Lebanese Customs

In 2011, the gold balance recorded a deficit of \$516.73M. In fact, a quantity-effect and a price-effect came into play and inflated the value of gold imports and exports.

2011 was a good year for gold prices as investors rushed to buy the metal in order to shield themselves from the worrisome sovereign debt issues in Europe, the depreciation of the Euro, the threatening weakness of the Greek economy, fears of the US defaulting on its government debt and the high probability of a third round of quantitative easing which would weaken the dollar. Thus, international gold prices increased by 9% from \$1,406/ounce in 2010 to \$1,531/ounce in 2011. The higher gold prices explain the 41% surge in the value of gold exports to \$1.17B in 2011 and the swelling of the imports from \$801.62M in 2010 to \$1.69B in 2011. With imports outweighing exports, the gold balance posted a deficit of \$516.73M in 2011.

In terms of volume, the weight of exported gold increased from 25 tons in 2010 to 28 tons. The same goes for the weight of the imported gold which rose from 33 tons in 2010 to 37 tons in 2011.

In 2012, the gold balance was restored going from a deficit of \$516.73M in 2011 to a surplus of \$209.35M in 2012. The gold surplus came about as imports dropped by an annual 30% to reach \$1.19B, overshadowing the 19% increase in gold exports to \$1.39B.

The lower value of gold imports is certainly not the result of a drop in prices but rather came about as the volume of imported gold dropped from 37 tons in 2011 to 25 tons in 2012.

As for the upturn in gold exports, it resulted from higher gold prices. 2012 marked the 12<sup>th</sup> consecutive annual increase for gold prices, which rose from \$1,531/ounce in 2011 to \$1,658/ounce in 2012 as debt worries in Europe and the pursued monetary easing led by the Federal Reserve brought the “safe-haven” and “store of value” traits of gold into focus.

In 2013, the Lebanese gold balance fell back into the red with a deficit of \$293.36M in 2013 after the value of exports crashed by an annual 60% to \$558.48M and that of imports dwindled by 28% to \$851.84M.

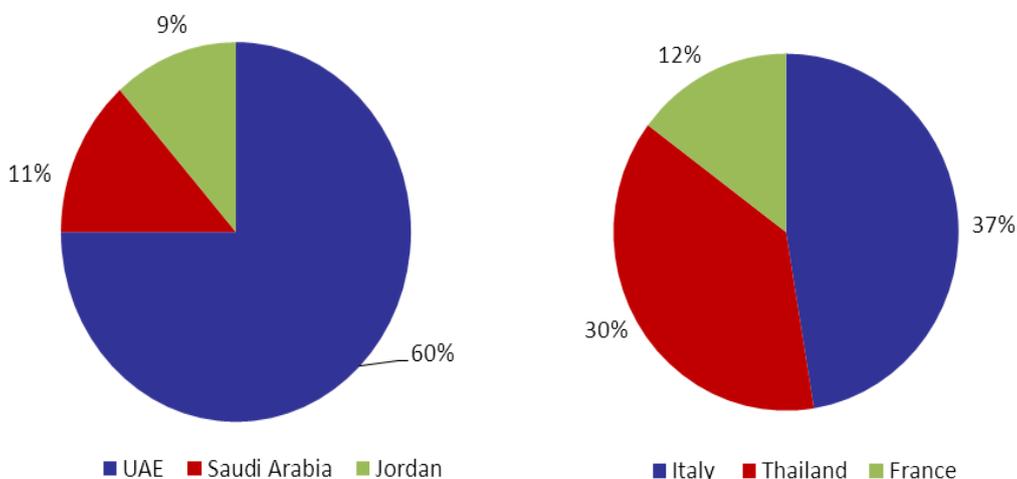
2013 marked the end of the 12-year Bull Run in gold prices after the Federal Reserve made the long awaited call for slashing its bond buying program or quantitative easing by \$10B each month. Evidently, gold prices recorded a double-digit plummet of 27% from \$1,658/ounce in 2012 to \$1,205/ounce in 2013 which explains the decline in the value of both imports and exports.

A quantity-effect also lies behind the lower gold imports and exports during 2013 as the volume of gold exports and imports slid from 30 tons and 25 tons in 2012 to 14 tons and 20 tons in 2013, respectively.

**Lebanon’s Trade of Jewelry Shows a Consistent Surplus**

Lebanon’s Top Jewelry Export Markets, 2013

Lebanon’s Top Jewelry Import Markets, 2013



Source: Lebanese Customs

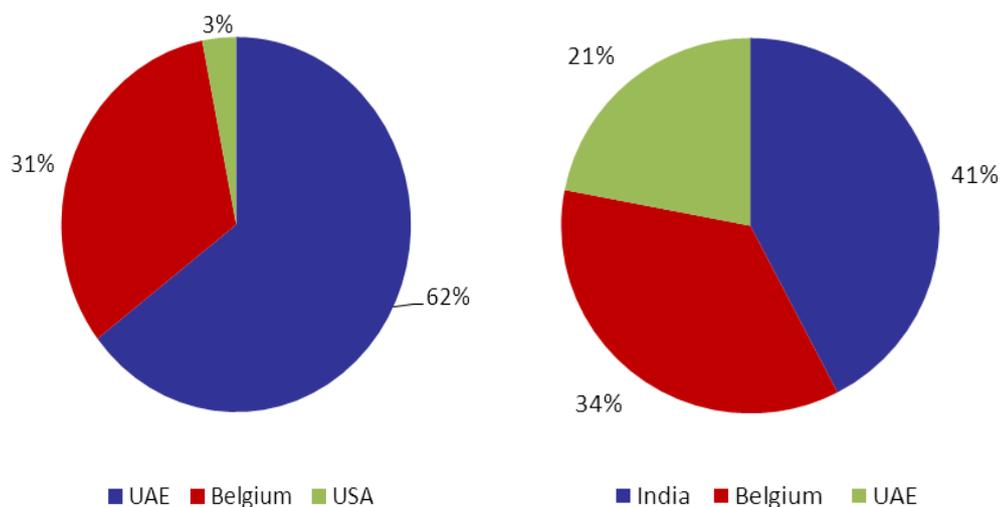
The balance of trade for Lebanese articles of jewelry, a reflection of our own manufacturing activity and generator of added value, has consistently been in surplus since 2010 and reached \$34.51M in 2013, 22% higher than 2010. In comparison to 2010, the value of our jewelry exports dropped by 3% to \$82.33M and that of our imports fell by 16% to \$47.82M.

Interestingly enough, the surplus for articles of jewelry mimicked the trend in the Lebanese gold trade, yet to a lesser extent. The jewelry surplus shrunk whenever the gold balance fell into deficit and improved whenever the deficit of the gold balance was resorbed. This shows that gold holds a sizeable share in our jewelry manufacturing yet one that is not large enough to sink the jewelry trade into a deficit.

The robustness of our jewelry trade balance is also explained by the fact that our top markets for exports have healthy and strong demand levels. In 2013, 60% of Lebanese jewelry was exported to the United Arab Emirates and 11% was exported to the Kingdom of Saudi Arabia.

**Lebanon’s Trade of Diamonds Shows a Consistent Deficit**

Lebanon’s Top Diamond Export Markets, 2013    Lebanon’s Top Diamond Import Markets, 2013



Source: Lebanese Customs

Looking at the trade balance for diamonds paints a different picture: Figures indicate that the value of our diamond imports has consistently exceeded that of our exports. The deficit peaked at \$129.49M in 2011, eased to \$81.52M in 2012 and then widened once more to \$87.65M in 2013. While Belgium and the United Arab markets are our biggest markets for diamond exports according to 2013 figures with respective shares of 31% and 62%, Lebanon is still unable to compete with other Asian countries in the diamond business.

It is now clear that the international price of gold has a great influence on the Lebanese trade of precious metals and 2014 will be no exception. Below are the gold demand trends in the first three quarters of 2014.

## Global Gold Demand Trends

Across the past three quarters of 2014, the value of global gold demand decreased both in volume and value terms. In tons, the global gold demand went from 1,074.50 in the first three months of 2014 to 929.30 in Q3 2014. In value terms, global gold demand slid from \$44.67B in Q1 2014 to \$38.30B in Q3 2014. In fact, gold prices consistently declined from \$1,293/ounce in Q1 2014 to \$1,288/ounce in Q2 2014 and to \$1,282/ounce in Q3 2014. Investors had more appetite for stocks in 2014 after strong US data, especially lower unemployment data, and expectations of the Fed's QE halt steered them away from the safe asset that is gold. Yes, gold prices increased at times when the fears from the Ukraine crisis grew deeper but that failed to translate into higher quarterly gold prices.

The main components of global demand are jewelry and, bar and coin demand. The value of jewelry demand slid from \$23.73B in Q1 2014 to \$22.02B in Q3 2014 while bar and coin demand fell from \$11.75B in Q1 2014 to \$10.12B in Q3 2014. In volume terms, jewelry demand fell from 570.7 tons in Q1 2014 to 534.2 tons in Q3 2014 and the volume of "bars and coins" demand slid from 282.5 tons in Q1 2014 to 245.6 in Q3 2014.

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