



August 08, 2015

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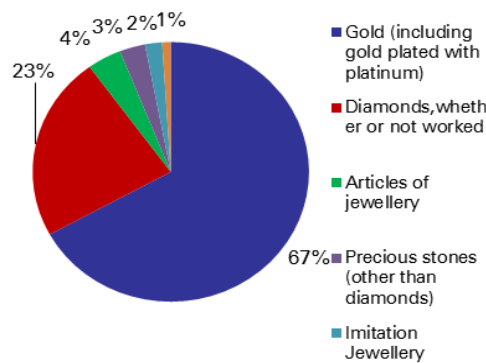
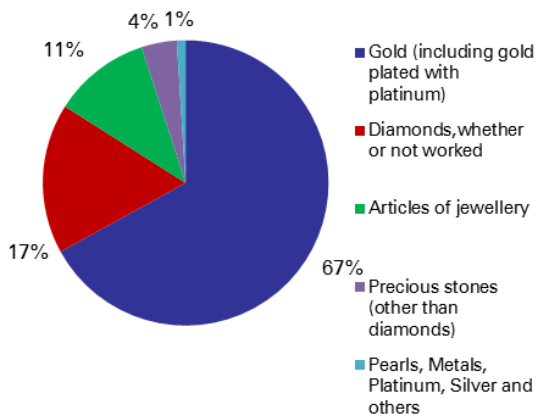
**Balance of Trade for Precious Metals**

The Lebanese balance of trade for precious metals (gold, diamonds, articles of jewelry, silver, platinum, pearls and precious stones) has been in the red for the past four years at the exception of 2012. In 2014, imports of precious metals totaled \$976.20M and outweighed exports of \$544.27M resulting in a deficit of \$431.93M or 1% of GDP.

It's mainly gold that lies at the heart of the Lebanese trade of precious metals. In fact, gold represented 67% of precious metals exports in 2014 and 67% of imports. Diamonds are the second most important constituent of precious metals' trade with a share of 17% and 23% in exports and imports, respectively. Articles of jewelry fall in next with an 11% share in total exports and 4% share in imports while precious stones represented 4% of precious metals' exports and 3% of precious metals' imports.

**Structure of Lebanon's Precious Metals Exports in 2014**

**Structure of Lebanon's Precious Metals Imports in 2014**



Source: Lebanese Customs

### Trade of Precious Metals, in thousands of USD

Trade of Precious Metals	2011	2012	2013	2014
Exports	1,510,679	1,727,440	771,633	544,273
<i>Growth</i>		14%	-55%	-29%
Imports	2,141,984	1,585,366	1,136,236	976,201
<i>Growth</i>		-26%	-28%	-14%
Total Balance	-631,305	142,074	-364,603	-431,928
<i>Growth</i>		-123%	-357%	18%

### Trade of Precious Metals, in net kgs

Trade of Precious Metals	2011	2012	2013	2014
Exports	154,584	136,147	78,456	105,117
<i>Growth</i>		-12%	-42%	34%
Imports	1,102,064	1,127,327	1,199,802	1,283,162
<i>Growth</i>		2%	6%	7%
Total Balance	-947,480	-991,180	-1,121,346	-1,178,045
<i>Growth</i>		5%	13%	5%

In 2014, the drop in both exports and imports of precious metals is due to a price-effect. In fact, the volume of exported and imported precious metals grew by 34% and 7% in 2014, respectively outweighing the value of exported and imported precious metals which dropped by a yearly 29% and 14%, respectively. It is worth mentioning that the volume of imported and exported gold dropped in 2014 but that was outweighed by increases in volume of other articles such as platinum and imitation jewelry.

### Lebanon and the trade of Gold

According to the latest World Gold Council Statistics<sup>1</sup>, Lebanon's official gold holdings are ample by international and regional standards. Amongst 100 countries, Lebanon holds the 19th largest official gold holdings of 286.8 tons. Amongst 14 Arab countries, Lebanon ranked second in terms of gold holdings only surpassed by Saudi Arabia which holds official gold reserves of 322.9 tons.

### Official Gold Holdings by Country: The Top Ten

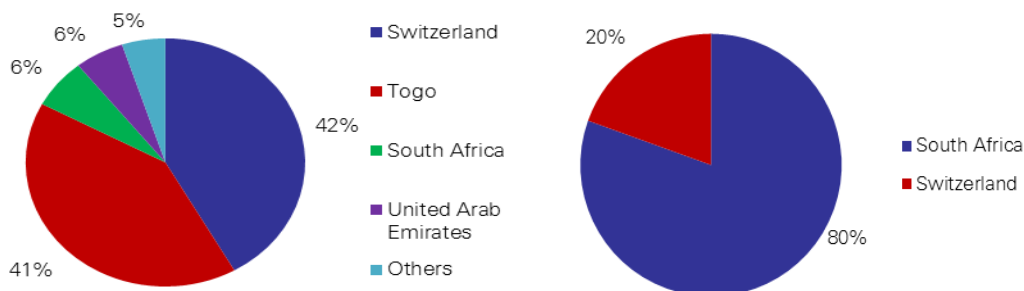
Country	Official Gold Holdings, in tons
United States	8,133.5
Germany	3,383.4
IMF	2,814.0
Italy	2,451.8
France	2,435.4
Russia	1,250.9
China	1,054.1
Switzerland	1,040.0
Japan	765.2

Source: World Gold Council

<sup>1</sup> Holdings are as of May 2015 for most countries, April 2015 or earlier for late reporters.

# Gold: An Essential Component of Lebanon's Trade of Precious Metals

From Which Countries did Lebanon Import Gold in 2014? To which Countries did Lebanon Export Gold in 2014?

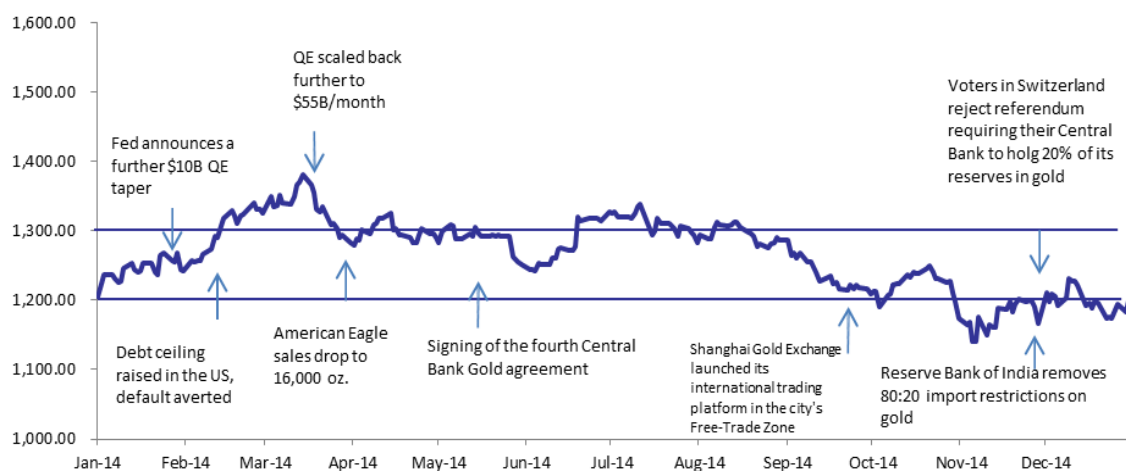


Source: Lebanese Customs

Lebanon imported 17,003 kg of gold in 2014, down by 13% from 19,546 kg in 2013. As for the value of gold imports it also dropped by a yearly 23% to \$658.03M in 2014. Since the drop in value outweighs the drop in volume, this means that a drop in the international price of gold also occurred between 2013 and 2014. Indeed, the international gold price fell by an annual 1.78% to \$1,183.55/ounce at the end of 2014.

Lebanon exported 10,139 kg of gold in 2014, down by annual 25% from 13,503 kg in 2013. As for the value of gold imports, it also dropped by a yearly 34% to \$365.87M.

## Daily Gold Prices in USD throughout 2014 in Light of Major Events



Source: World Gold Council, Reuters

In the first quarter of 2014, movements in the international price of gold were mainly dictated by developments in the US. On the 29th of January when a further \$10B taper in quantitative easing was announced by the Federal Reserve, investors were reassured that the US economy is on the right path to recovery. Therefore, straight after the tapering news were announced, the price of gold dropped by 1.9% to \$1,243.25/ounce. Concerns over the debt ceiling in the US sent the prices of gold higher in February, above the \$1,300 mark, but prices went back down after the Federal Reserve brought QE down to \$55B/month in March.

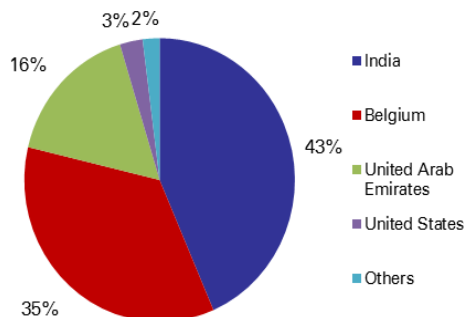
For the remainder of the year, volatility was low and no major movements were registered in the USD price of gold. In fact, the market was even surprised by the absence of a rebound in prices after certain events. Per example, the signing on the fourth central banks gold agreement by the European Central Bank and 20 other central banks according to which they pledge that gold remains at the heart of monetary reserves, that substantial gold sales are not in the books and that they will prevent any market disturbances from occurring did not push gold prices up. Another event that did not seem to boost the price of gold was the Reserve Bank of India's removal of the 80:20 import restrictions on gold, according to which companies were forced to export 20% of all imported gold.

However, the fact that the gold price did not react to major events came as no surprise to Mohamed El Erian, chief economic adviser to Allianz and chair of President Barack Obama's Global Development Council. In a recent article for the Financial Times, Mr. Erian calls gold a "disappointing investment" and even says that the metal might be "losing its traditional role in a diversified investment portfolio". According to Mr. Erian, seven reasons explain gold's lack of luster:

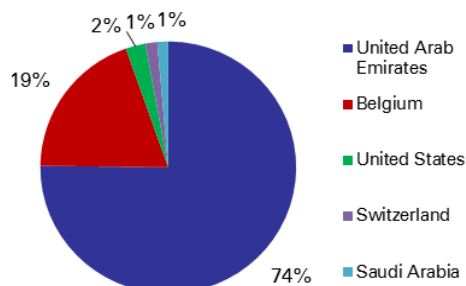
1. Investors have found other ways than gold to express their views about the future
2. Gold as a hedge against inflation is no longer relevant due to the lack of meaningful inflationary pressures
3. Gold is facing the risk of lower demand from central banks which are core holders
4. Investment in gold has been challenged especially after gold demand did not rise after major geopolitical shocks
5. Drivers of asset prices such as liquidity injections by central banks did not affect gold in any way
6. Loss of investor interest in gold has outweighed any positive demand response that could come out of lower gold prices
7. The normal gold trend could be the one we are witnessing now and the unusual and excessive price movement could have been the one witnessed back when the gold price surged by more than \$1,000/ounce from its November 2008 level of \$700

## Lebanon's Trade of Diamonds

Lebanon's Top Jewelry Import Markets in 2014



Lebanon's Top Jewelry Export Markets in 2014

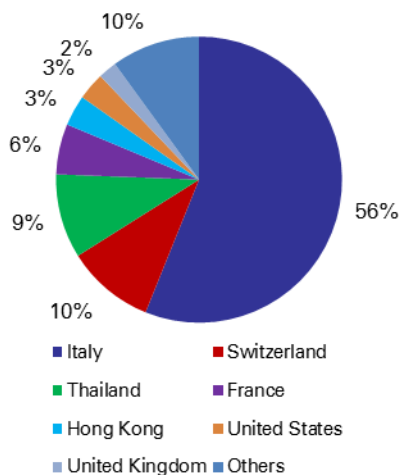


Source: Lebanese Customs

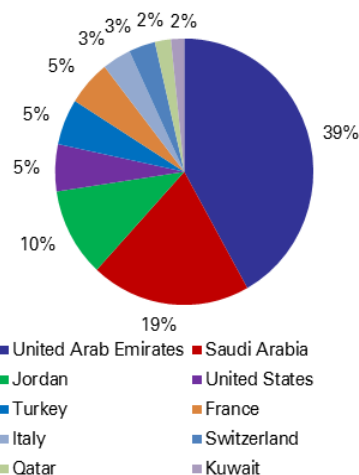
Similar to 2013, the balance of trade for diamonds registered a large deficit in 2014. Diamond exports declined by 18% year-on-year to \$91.1M while diamond imports grew by 13% to \$224.29M. Accordingly, the deficit in the balance of trade for diamonds widened by a yearly 52% to \$133.19M in 2014.

## Lebanon's Trade of Jewelry

Lebanon's Jewelry Import Markets in 2014



Lebanon's Jewelry Export Markets in 2014



Unlike the trade of diamonds, both jewelry imports and exports declined in 2014. Exports of jewelry fell by 28% to \$59.15M while imports of jewelry dropped by a yearly 15% to \$40.86M. Therefore, the jewelry trade balance deficit widened by 47% to \$18.29M in 2014.

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