BlackRock

Weekly Gold Report
Week Ending: 27 February 2015

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Performance tables (all figures in US$, source DataStream)

	Current 26/02/15	1-week %	1-month %	3-month %	6-month %	Fall from 12-month high (%)	Rise from 12-month low (%)
Gold Bullion	1,208.4	0.0%	-6.2%	1.5%	-6.3%	-12.2%	5.4%
FTGM – Africa	1,413.5	-0.3%	-6.7%	14.9%	-9.3%	-14.1%	30.2%
FTGM – Asia Pacific	5,333.0	1.1%	-1.2%	23.1%	6.3%	-3.2%	44.0%
FTGM – America	1,071.2	3.5%	-3.5%	6.9%	-24.7%	-29.1%	26.7%
FTSE Gold Mines	1,299.4	2.4%	-4.0%	10.1%	-19.2%	-23.6%	28.7%

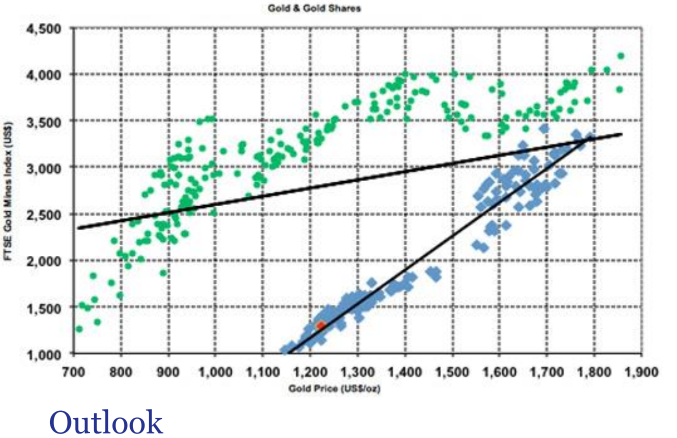
Summary

The gold price was unchanged on the week at $1,208.4/oz, but this masked price volatility. An early week $30/oz sell-off on an easing of Greek risk following the ECB agreement to provide a four month loan extension sent the gold price to a low of $1190/oz, but was completely reversed by surprisingly dovish Fed Chair Janet Yellen's semi-annual testimony to Congress. Looking ahead, the gold market will be awaiting the Friday 8th March US Non-Farm Payroll data. As February draws to a close, since the end of 2014, the gold price is up 1.9% and has averaged $1,240/oz. Regarding the other precious metals, silver which plunged 19.3% in 2014, has risen 5.1%; palladium 1.1%; platinum down 2.7% and rhodium -5.2%.
A key feature of the opening two months of 2015 has been the positive impact of depreciating currencies against the US dollar on the local gold price. For example, the gold price in euro and Canadian dollars is up 10%; 7% in Russian rouble; 6% in Australian dollars but down 1% in Indian rupee. Gold shares have shown impressive beta to the gold price with the FTSE Gold Mines Index up 16.0% and also comfortably outperforming the 3.8% rise in the MSCI World Share Index and the 2.5% rise in the S&P Index.

India, the world's biggest democracy and Asia's third largest economy, will have its budget on the 28th February. The gold market will be digesting any signs that Prime Minister Narendra Modi's government will announce further easing in gold import restrictions. India vies with China as the world's biggest gold consumer at around 1,000tpa. It was a surprise move, when on 28th November India repealed with immediate effect the unpopular 80:20 import/export rule. Given the improvement in India's current account deficit helped by the slump in the oil price and the firmer rupee, there is some wriggle room for further gold reform. The hope is that the 10% import tax imposed during 2014, will be reduced which would likely be stimulative for Indian gold demand during 2015.
We await the final couple of days data for February ETF flows, but the signs are encouraging. In January net inflows were 1.9Mozs up 3.5% month on month and thus far in February up 0.6Mozs or 1% to 57.66Mozs.

The combined 2.50Mozs (78t) 4.5% rise in ETF fund inflow is the largest inflow since September 2012 and contrasts with the hefty 903t outflow in 2013 and the much reduced 160t outflow of 2014. The tide seems to have turned. Inflows into the largest of the ETF funds the US SPDR Gold Trust since end 2014 have been 2Mozs or 8.8% and also demonstrate a clear change in trend to one of build rather than erosion.

Gold & Gold Shares



Outlook

Following the end of QE in the US and continued strong economic data from that economy, the prospects for the US$ are relatively robust. This is reinforced by recent announcements from the Bank of Japan of further QE, which contributed to the yen weakening further against the dollar. This backdrop of US$ strength has historically been a challenging one for precious metals and the experience of 2014 was no different. However there are still some significant risks to markets that gold has been used to hedge against, most notably shocks to the financial system (gold as a safe haven) and inflation. Although the inflation environment today is benign, the significant expansion of central bank balance sheets and increasing indebtedness of governments globally may at some point result in a sharp upward move in inflation.