



**BDO Global
Market Update
GOLD**
June 2020



Content



1. Current state of the Gold market
2. Macro trends influencing the Gold market
3. Gold price analysis
4. Gold market M&A activity
5. Gold companies' response to the COVID-19 crisis



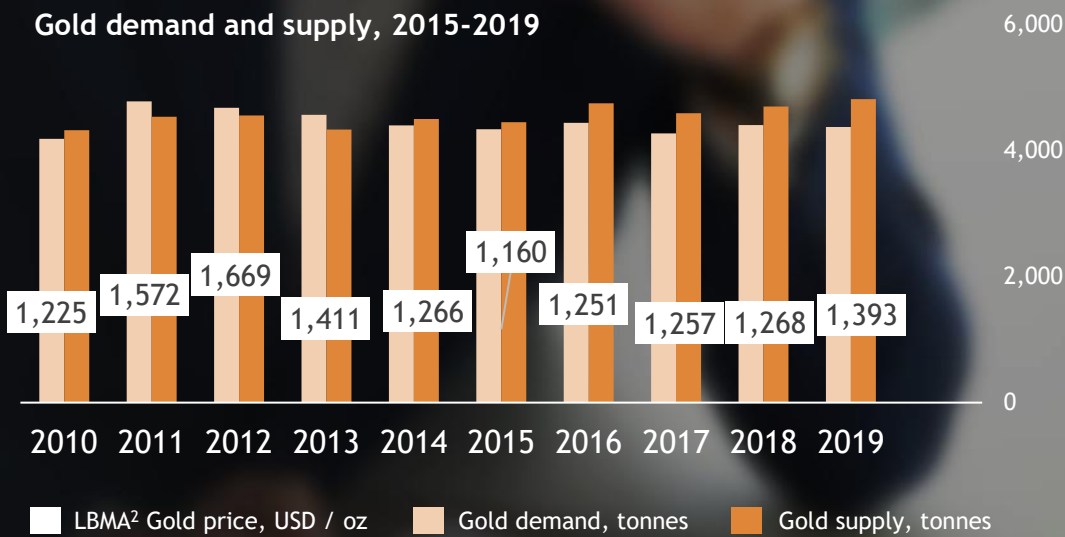
Current state of the Gold market

High uncertainty and lower opportunity cost support the gold investment demand in 2020, offsetting the negative impact of the consumer demand decline.

Demand and supply of Gold

The annual Gold demand in 2019 reached 4,355 tonnes at a value of 195 Bn USD. In 2019, gold-backed ETF¹ saw the highest inflows in history (401 tonnes) due to monetary easing and investors' geopolitical concerns.

Gold demand and supply, 2015-2019



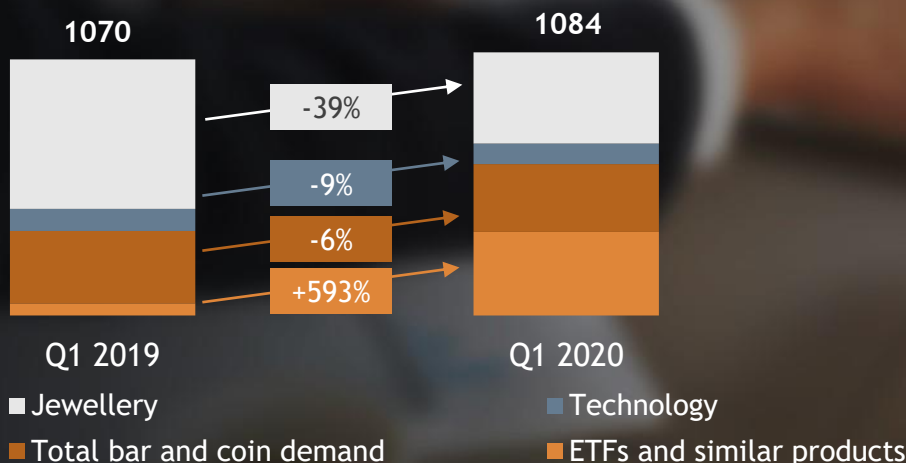
1% increase in gold demand in Q1 2020 in comparison to Q1 2019 was mainly due to the rise of investments into ETFs.

3% decrease in mine production is observed in Q1 2020 compared to Q1 2019 due to the disruptions caused by COVID-19.

Demand and supply of Gold

The COVID-19 pandemic boosted the global investment demand for gold as a safe-haven investment. Gold ETFs saw the highest quarterly inflows for four years. However, at the same time due to the operational disruptions, there was a 4% decrease in total gold supply in Q1 2020, which stimulated the price of gold. Reduction in gold supply is also expected to continue in Q2 2020.

Gold demand, tonnes, Q1 2019 vs Q1 2020



55 Bn USD is the global gold demand in value terms as of Q1 2020, the highest since Q2 2013.

39% y-o-y slump in demand for jewellery was observed due to the pandemic in Q1 2020 (65% decline of jewellery demand in China – the largest jewellery consumer).

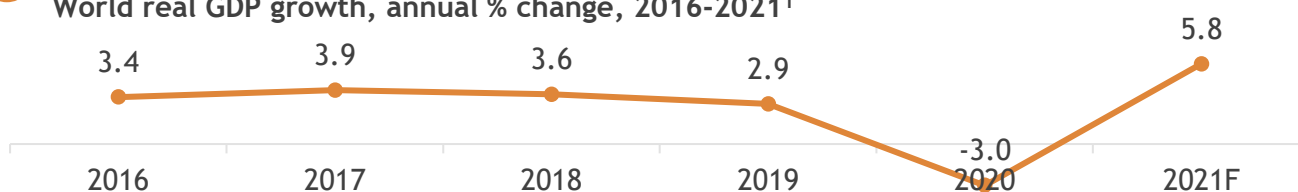
Macro trends influencing the Gold market

The macroeconomic situation plays a fundamental role in defining the future and current state of the Gold market.

Macro trends shaping the Gold market in 2020

The following trends will increase gold's relevance for investors in the months ahead:

- 1 Contraction of the world's GDP**
World real GDP growth, annual % change, 2016-2021¹



- 2 Risk of rising inflation**
World inflation rate, annual % change, 2016-2021¹



- 3 Desire of individual and institutional investors to diversify their currency reserves**
Demand for gold as a reliable way to store the value might be increased by the investors willingness to reduce their reliance upon the USA dollar as a reserve asset.

Such monetary policy implications along with the following US economic indicators could be negative for gold prices:

- 1 Strengthening of the US economy**

The enhancement of the US economic state (such as low unemployment rates, a growing number of jobs, manufacturing expansion, GDP growth, strengthening the US dollar) tends to push gold prices lower due to the change in the gold opportunity cost dynamics.

- 2 Higher interest rates**

Gold performance nearly doubles² in the periods of negative interest rates. Therefore, the increase in interest rates leads to a decline in gold returns.

	Long-term average	Low (<0%)	Moderate (0%-2.5%)	High (>2.5%)
Gold monthly return	0.6%	1.2%	1.0%	0.3%
Standard error	0.2%	0.4%	0.4%	0.3%

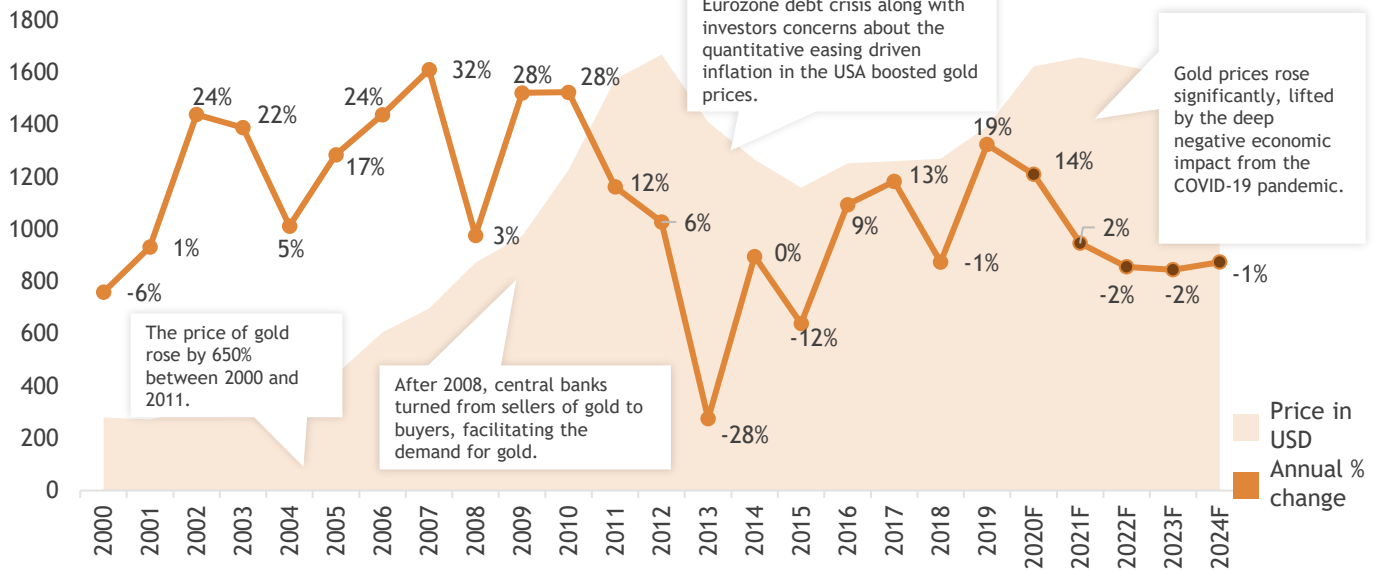
A prolonged environment of low to negative interest rates, rising geopolitical tensions, and continued uncertainty surrounding the economic recovery has increased gold's relevance as an investment haven.

Gold price analysis

Future gold price movements heavily depend on the trajectory and pace of the global economic recovery and the following policy conditions.

Prices for gold reached a 7-year peak in 2020 pushed by the increased investors' interest for gold as a safe-haven.

Average annual gold prices, USD, 2000-2024



Advantages of gold as an investment in times of economic uncertainty and market stress

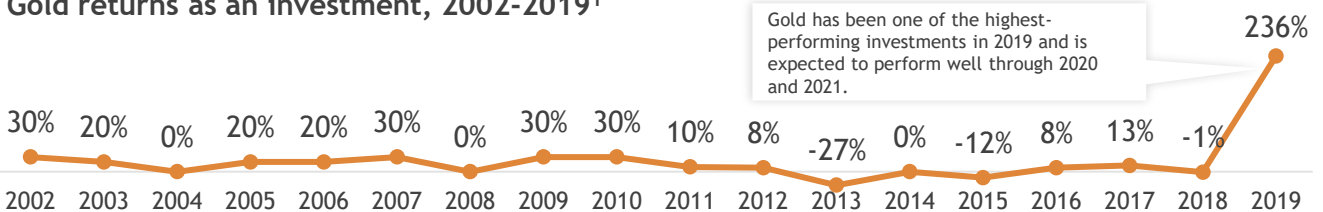
Generate long-term returns

Act as a diversifier and mitigate losses

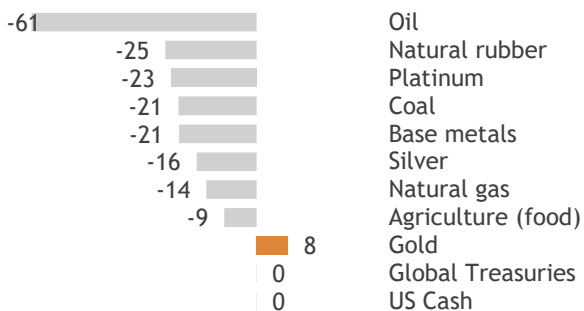
Provide liquidity with no credit risk

Improve overall portfolio performance

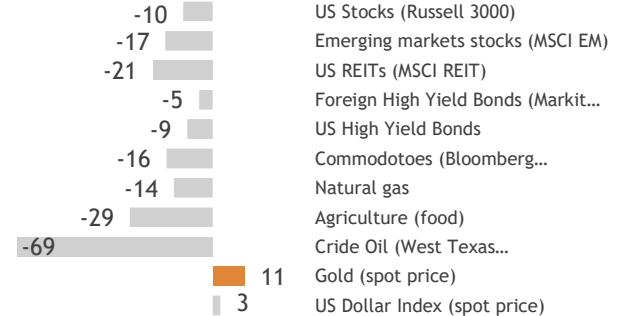
Gold returns as an investment, 2002-2019¹



Commodity price changes, percentage change, 2020²



Total returns of different assets, percentage change, year to date²



COVID-19 caused widespread declines in commodity prices in 2020. However, gold had significantly outperformed major commodities in terms of price, demonstrating its resilience to crises and ability to deliver better long-term, risk-adjusted returns than other commodities.



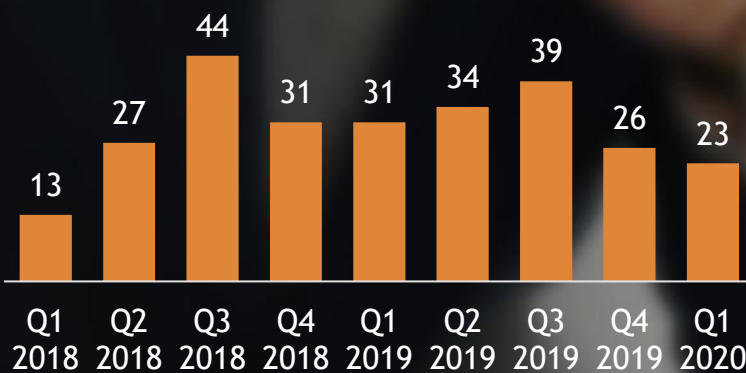
Gold market M&A activity

In 2019, companies involved in M&A mega deals on the Gold market fueled further deals activity by offloading their portfolio selling unnecessary assets to mid-market players

M&A in Mining industry

The total value of mining deals in the Mining industry declined by 3.4 Bn USD to 22.8 Bn USD in Q1 2020 due to investors' unwillingness to pay for the long-term financial instruments in the high economic uncertainty.

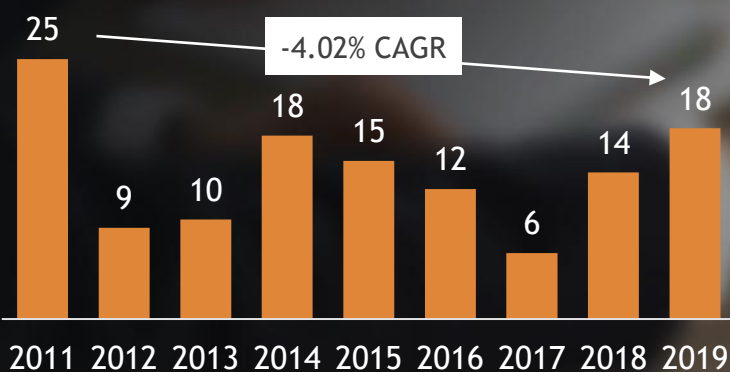
Mining deal value by quarter, Bn USD, 2018-2020



43% decline in the volume of completed capital raising deals accounts for the decrease in the total deals volume from 990 in Q4 2019 to 823 in Q1 2020.

85% of deals volume and up to **84%** of the total deals value are taken by Canada, the USA, China, and Australia.

Gold producers acquisition value, Bn USD, 2011-2019



Acquisitions of gold producers reached **18.2** Bn USD in 2019, the highest level in 8 years, driven by the Barrick-Randgold merger and Newmont's **10** Bn USD purchase of Goldcorp Inc.

Top Gold industry deals in 2020

M&A activity on the Gold market in Q1 2020 declined by 92.3% in terms of value and by 57.1% in terms of volume mainly due to the global economic uncertainty. However, the higher gold prices might translate into the higher revenues of gold companies, boosting mining stocks and investor returns. That could lead to the recovery of mid-sized M&A activity when the COVID-19 pandemic is over.

Gold mining industry M&A in 2020

Acquirer name	Target name	Value
Kirkland Lake Gold Ltd	Detour Gold	3.8 Bn USD
Zijin's Gold Mountains (H.K.) International Mining	Continental Gold	1.3 Bn USD
Leagold Mining Corporation (merger)	Equinox Gold Corp (merger)	804.9 Mn USD
Kinross Gold	Chulbatkan project (Russia) from N-Mining	282 Mn USD
Teranga Gold	Massawa gold project from Barrick Gold (Senegal)	380 Mn USD
China's Shandong Gold Mining	TMAC Resources	-149 Mn USD
Silvercorp Metals	Guyana Goldfields	-105 Mn USD

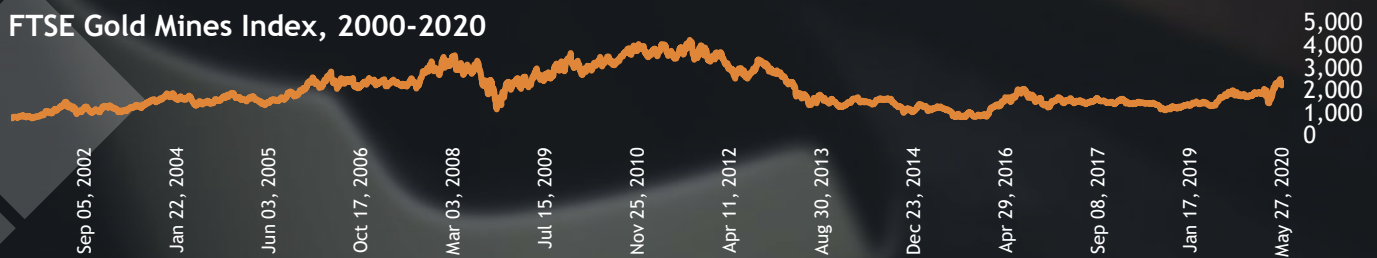


Gold companies' response to the COVID-19 crisis

Gold companies' challenges and opportunities posed by the COVID-19 pandemic

Although the short-term negative effect of the COVID-19 pandemic caused liquidity-driven selling on the Gold market, the FTSE Gold Mines Index shows positive performance of gold mining companies' shares in recent months.

FTSE Gold Mines Index, 2000-2020



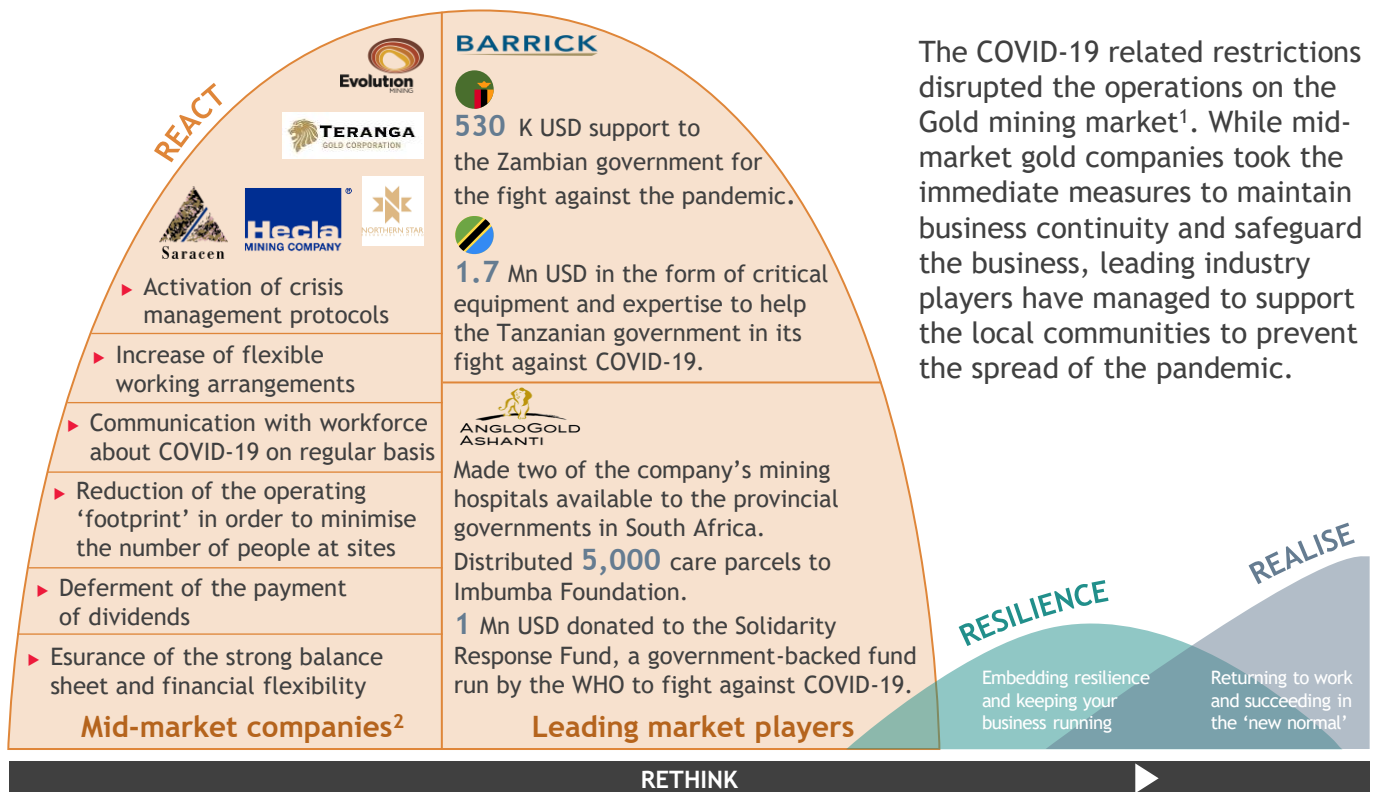
Challenges

- 1 Decline in production due to the coronavirus-related lockdown measures
- 2 Negative impact on companies' profitability and operating results
- 3 Supply chain interruptions

Benefits

- 1 Lower energy costs as the looming global recession pushes oil demand lower
- 2 Rising demand for gold as a safe-haven asset

Gold companies' response to the COVID-19 pandemic



The COVID-19 related restrictions disrupted the operations on the Gold mining market¹. While mid-market gold companies took the immediate measures to maintain business continuity and safeguard the business, leading industry players have managed to support the local communities to prevent the spread of the pandemic.

Source: Miners and investors; Mining review Africa Gold mining companies' websites

Notes: (1) For instance, such companies as Agnico Eagle Mines, Newmont Mining, Kinross Gold, and Marathon Gold had to close their mines due to the spread of COVID-19; (2) Such as Evolution mining, Teranga Gold Corporation, Saracen, Hecla mining company, Northern Star etc.

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