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11<sup>th</sup> INDIA  
INTERNATIONAL



CONVENTION<sup>TM</sup>-2014

12-14 Sept 2014, JW Marriott, Pune

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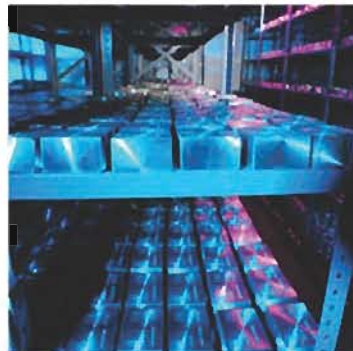
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# 4th



## 2015 DUBAI PRECIOUS METALS CONFERENCE

12-13 April 2015, Atlantis The Palm



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# Speakers, Panelists & Moderators



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Global Head of  
Metals Trading  
Standard Chartered Bank



Mr Afshin Nabavi  
Exe Sr VP  
MKS (Switzerland) SA



Mr Rajesh Khosla  
Managing Director  
MMTC - PAMP



Mr Krishna Pratap Singh  
Additional Director  
General of Export Promotion  
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Mr K Srinivasan  
Managing Director  
Emerald Jewel Industry  
India Ltd



Mr C K Venkataraman  
CEO - Jewellery  
Titan Industries



Prof Charan Singh  
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Mr Pradeep Nagori  
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Mr S K Jindal  
Chairman  
Jindal Dyechem



Mr Franco Bosoni  
Director - Commodity Services  
DMCC



Mr Lars Johansson  
Director  
Air Courier - BRINK'S  
Switzerland



Mr Bhargava Vaidya  
BN Vaidya & Associates



Mr Satish Bansal  
Director  
MD Overseas



Mr Jeffrey Rhodes  
CEO  
BTC Group  
(part of New Egypt Gold)



Mr Khaleel Rahim  
CMD  
State Trading Corporation



Mr S Rajkumar  
COO and Founder Director  
Sequel Logistics



Mr V K Agarwal  
Director  
Shirpur Gold Refinery



Mr Martyn Smith  
Supply Development Manager  
The Royal Mint



Mr Prithviraj Kothari  
Director  
RSBL



Mr Mayank Khemka  
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Khemka Group of Companies



Mr Philip Newman  
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Metals Focus



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Mr Ian Wright  
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Mr Samir Shah  
MD & CEO  
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Mr Cameron Alexander  
Manager, Precious Metals  
Demand Asia  
GFMS Thomson Reuters



Mr Konal Doshi  
Convener-Gold Panel  
GJEP



Mr Johnson Lewis  
MD - Head of Sales & Trading  
Scotia Bank



Prof. Errol D'Souza  
IIM Ahmedabad



Mr Fatechand Ranka  
Ranka Jewellers



Mr Jatin Kothari  
Chheda Jewellers



Mr Derek Neo  
Asst Vice President  
Singapore Exchange



Mr Munindra Verma  
President & Country Head  
Yes Bank

## Program Schedule

Day - 1: Friday, 12 September, 2014	
12 noon onwards	Hotel check-in & Delegate Registration
1:00 pm – 2:30 pm	Networking Lunch at Sabha 3
2:30 pm – 3:00 pm	<b>Focus Session-1: Movement of Gold (standard, jewellery, dore and scrap) within India:</b> Opportunities and challenges, <b>Mr. Rajkumar S</b> , Sequel Logistics
3:00 pm – 3:30 pm	<b>Focus Session-2:</b> Securing Gold Through Investment <b>Mr Jorge Ramiro Monroy</b> , Emerging Markets Capital
3:30 pm – 4:15 pm	<b>Focus Session-3:</b> Special Session on Gold Saving Scheme <b>Mr Ashok Minawala</b> , GJF – Moderator, <b>Mr Fatehchand Ranka</b> , Ranka Jewellers, <b>Mr Jatin Kothari</b> , Chheda Jewellers
4:15 pm – 5:00 pm	Networking Break at pre-function area
5:00 pm – 6:00 pm	<b>Inaugural Function</b> at Sabha 1, 2, 3 <b>Welcome address</b> - <b>Mr Srivatsava G</b> , President, Foretell Business Solutions <b>Special address</b> - <b>Mr Rujan Panjwani</b> , Executive Director, Edelweiss Financial Services Ltd <b>Address by the Chief Guest</b> - <b>HE Mr Javier Paulinich</b> , Ambassador of Peru to India <b>Felicitation of Chief Guest &amp; Vote of Thanks</b> - <b>Mr Rajesh Khosla</b> , MD, MMTC PAMP
6:00 pm – 6:30 pm	<b>Keynote Address: Changing global bullion market landscape and the relevance of India</b> <b>Mr. Jeremy East</b> , Standard Chartered Bank
6:30 pm – 7:00 pm	<b>Round-table Discussion: Roadmap for the Indian bullion industry for the next 10 years</b> <b>Mr. Shekhar Bhandari</b> , Kotak Mahindra Bank, Moderator, <b>Mr. Krishna Pratap Singh</b> ADGEP Ministry of Finance, Govt of India, <b>Mr. Rajesh Khosla</b> , MMTC-PAMP, <b>Mr Pradeep Nagori</b> Edelweiss Bullion, <b>Prof Charan Singh</b> , IIM-Bangalore, <b>Mr. K Srinivasan</b> , Emerald Jewels
7:00 pm – 7:45 pm	IIGC Excellence Awards
8:00 pm – 10:00 pm	Cocktails & Dinner at Pool Deck – Level 2
Day - 2: Saturday, 13 September, 2014	
8:00 am – 9:30 am	Networking Breakfast for resident delegates at Sabha 3
9:30 am – 10:15 am	<b>Panel-1: Engaging with partners. What can overseas partners offer India?</b> <b>What do overseas partners want from India?</b> <b>Mr S K Jindal</b> , Jindal Dyechem - Moderator, <b>Mr Franco Bosoni</b> , DMCC, <b>Mr Luis Cabello</b> , Embassy of Peru, <b>Mr Afshin Nabavi</b> , MKS & <b>Mr Rodrigo Blanco</b> , ProMexico
10:15 am – 10:30 am	<b>Presentation-1: What makes a successful partnership in India?</b> <b>Mr Martyn Smith</b> , The Royal Mint
10:30 am – 11:00 am	<b>Representation to the government – open discussion</b> <b>Mr Prithviraj Kothari</b> , RSBL, <b>Mr Satish Bansal</b> , MD Overseas & <b>Mr Mayank Khemka</b> , Khemka Group
11:00 am – 11:30 am	<b>One-to-one business meetings at level 1 &amp; Networking break at pre function area</b>
11:30 am – 12:15 pm	<b>Panel-2: Engaging with service providers to improve efficiency and effectiveness</b> (How do we lower transaction costs? How do we serve our customers-jewellery manufacturers, industrial users and investors?) <b>Mr C K Venkataraman</b> , Titan Industries - Moderator, <b>Mr Lars Johansson</b> , Brink's, <b>Mr Rajesh Khosla</b> , MMTC-PAMP <b>Mr Khaleel Rahim</b> , State Trading Corp & <b>Mr Johnson Lewis</b> , Scotia Bank
12:15 pm-12:45 pm	<b>Presentation-2: Mapping global gold dore sources</b> <b>Mr Philip Newman</b> , Metals Focus
12:45 pm – 2:00 pm	<b>One-to-one business meetings at level 1 &amp; Networking Lunch at Sabha 3 Sponsored by Scotiabank</b>
2:00 pm – 2:15 pm	<b>Presentation-3: Gold Monetisation Scheme and its benefit for the Indian Economy</b> <b>Prof. Errol D'Souza</b> , IIM Ahmedabad
2:15 pm – 3:00 pm	<b>Panel-3: Making Gold Monetisation Scheme work.</b> (Develop a workable proposal to monetise a portion of private gold bullion & scrap holding, learning from past experiences & successes) <b>Mr Bhargava Vaidya</b> – Moderator, <b>Mr Rajan Venkatesh</b> , Scotia Bank, <b>Mr V K Agarawal</b> Shirpur Refinery & <b>Mr Konal Doshi</b> , GJEP, <b>Mr Munindra Verma</b> , President & Country Head, Trade, Finance & Services, Yes Bank
3:00 pm – 3:40 pm	<b>Panel-4: Market, products &amp; portfolios - New paradigm and new opportunities</b> <b>Mr Jeffrey Rhodes</b> , BTC Group – Moderator, <b>Mr Samir Shah</b> , NCDEX, <b>Mr Ketan Kothari</b> , RSBL <b>Mr Derek Neo</b> , Singapore Exchange, <b>Mr Shivanshu Mehta</b> , MCX & <b>Mr Ian Wright</b> , DGCC
3:40 pm – 4:00 pm	<b>Presentation-4: Price outlook on gold &amp; silver</b> <b>Mr Cameron Alexander</b> , Thomson Reuters
4:00 pm – 6:00 pm	<b>One-to-one business meetings at level 1 &amp; Networking break at level 1</b>
8:00 pm onwards	Cocktails and Gala Dinner at Sabha Ballroom Sponsored by Standard Bank
Day - 3: Sunday, 14 September, 2014	
8:00 am onwards	Breakfast for resident delegates at Pool Deck – Level 2 & check out
*Subject to change	

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## Inaugural Function



**Mr Srivatsava G**, President, Foretell Business Solutions, **HE Mr Javier Paulinich**, Ambassador of Peru to India  
**Mr Rujan Panjwani**, Executive Director, Edelweiss Financial Services Ltd, **Mr Rajesh Khosla**, MD, MMTC PAMP



## Welcome Address

Mr Srivatsava G, President, Foretell Business Solutions



Distinguished dignitaries on the dais, His Excellency Mr. Javier Paulinich, Ambassador of Peru to India, the Chief Guest of the day, Mr. Rujan Panjwani, Executive Director, Edelweiss Financial Services Limited, Mr. Rajesh Khosla, MD, MMTC PAMP India PVT. Limited, dignitaries off the dais, experts speakers, leaders from the bullion industry from around the world, government representatives, invitees from press and media, delegates from India and around the world, ladies and gentlemen, welcome you all to the 11th edition of India International Gold Convention in this splendid city of Pune India. Hope you had a pleasant journey and are relaxed.

Indeed, the bullion industry in India is in a tremendous state of flux. The last one year has been one of the

most challenging periods in the recent times for the industry. There have been structural changes in the policies pertaining to gold within the country to adjust and re-align gold industry with the rest of the economic priorities. As the government juggles with various solution possibilities, the industry itself is getting geared for new business models. I strongly believe, the next two or three years would be the most innovative period for the Indian bullion industry, where a more sustainable solution would evolve.

I take this opportunity to express my profuse gratitude to HE Mr. Javier Paulinich, Ambassador of Peru who has accepted our invitation and kindly consented to be here on this day. I welcome you Sir and eagerly await to hear your address.

As with every year, we have over 480 delegates gathered here. We have the largest contingent of press and media amongst us, which clearly demonstrates the interest of the media in engaging with the industry in the solution creation process.

We have one of the largest line-up expert speakers and panellists this year. Over 40 experts would address the gathering. Hope these brainstorming sessions would lead us to a positive solution perspective for future.

I am pleased to inform you that we commissioned an exclusive study on Indian silver market and have come out with a special publication for this occasion, thanks to the generous support from Valcambi in this initiative.

Secondly, taking your feedback and the advice of the core committee, we have embarked on the ambitious industry initiative, Bullion Development Federation of India. Your feedback would be highly valuable towards taking this initiative forward through the rest of the year and beyond. Kindly give your valuable feedback.

Thirdly, we tried to use the mobile technology platform to help you plan and organise your time during the conference with the launch of an android app. I am happy to inform that over 80 companies have used this service to plan and schedule their meetings. This is highly encouraging for us.

We have six panel discussions, five presentations and one keynote address lined up for the two days. We also have three lucky draws, two business meeting sessions and enough opportunities to relax and enjoy the rich cultural heritage of Pune. Hope you find these useful for your business.

We plan to make a representation to the government based on the outcome of the conference. We also

plan to have a long term development agenda presented through the mass media after the conference. These are an integral part of our initiative to reach out to the government and policy makers.

Once again I welcome you all to this conference and to this wonderful city of Pune. Hope you have a purposeful two days at the conference. Thank you very much and good day.



## Special Address

Mr Rujan Panjwani, Executive Director, Edelweiss Financial Services Ltd



Dignitaries on the dais, friends and colleagues from the Bullion industry. A very good evening to all of you. I am honored to get this opportunity to give this inaugural address in this very prestigious convention. I think Mr. Srivatsava was talking about some challenging times but I think overall in India we are living in an optimistic times and that optimism is giving way to some sort of policy action here, with hopefully the monsoon coming in slightly delayed but they are making their mark. Hopefully inflation will come down and it will put some downward pressure on interest rates. If that happens we could see some reasonably good corrections in themacro economics. However, I think when you talk about it with people and government and as you can read in the press the deficit continues to be an issue. Current Account Deficit, Trade deficit and one of the industries that faces the brunt of that is the Bullion Industry. Therefore we have unwanted restriction and

we have unwanted higher customs duty regimes and so on and so forth which all of you are well aware of. If we just take a step back and see what are the issues that plagued this industry and how do we resolve them, the penchant of Gold in India is insatiable as we all know it. If we have a quick look at the numbers, we have been putting away almost two and a half to three percent of the GDP into gold year after year. We are a 2 trillion dollar economy, it is said that by 2025 we will be 5 trillion dollar economy. At 5 trillion economy if we continue to put away 3% of our GDP, we would require anywhere between 2000 to 2500 tons of Gold in India. Now how sustainable is that? Either we say, we will not put so much money in gold and that you are talking to 1.2 or may 1.5 billion Indian people or we find ways of recycling or financing. This demand situation is unlikely to change dramatically. So only thing one can do is, change the supply situation. That doesn't mean digging

up or finding new reserves of gold. If we try and dig a little deeper in this conundrum and when we talk of financialization, there are two things one should keep in mind. One is the habit and the mode and the reason why money goes into gold. Part of it is consumption for jewellery, wedding, marriages all kinds of cultural reasons and part of it is investments and part of it is savings. Increasingly the proportion of savings and investments has increased to almost 30-35% of all the Gold that is used, consumed, imported into this country. It's a reasonably large number. It could be 250 tons to 300 tons. Your estimate is as good as that of mine. But it is in that range. If we attack that part of problems first if the primary reason for making an investment in gold is either the appreciation, inflation hedge whatever you call it, there has to be ways of financializing that without actually buying the physical gold. Several attempts have been made. Some of them have met with some success including ETF which have gone to almost 10000 crs may be 25-30 tons of Gold. But we are not talking 25-30 tons, we are talking 200 tons and how do we get there? If you look at some of the issues and I think there are 4 primary reasons/areas where we could look at. One is distribution and reach. You have to reach a large number of people in order for them to be able to participate in any large initiative. Second is the entire supply chain at the backend. And there are several issues around those. The third is the right incentivisation for all participants in this exercise. And lastly I think not the least is the education and awareness of the whole class of people that holding financial instrument that allow you the upside of gold is not only equivalent but also better than holding physical gold itself. Let look at some of these issues a little more closely and I will only take a few minutes of you. ETF's have done well but they are a capital market instrument. Today, Capital Market instruments for you to hold an ETF you need to have a demat account. There are only around 20-25 million Demat accounts in this country. Compare that with 75 to 80 million people who have insurance policies. Compare that with almost 800 million Bank Accounts. These 800 million bank accounts are serviced by around 100 or 110 thousand bank branches all over the country. Now compare that with 155 thousand post offices in the

country. If we can mobilize these institutions whether they will be Banks or India Post type of institutions the reach that one can garner is far more significant than any capital market instrument will allow. And we have to start thinking out of the box if we have to find solutions 10 years down the line. We will find solutions which are temporary in nature there will be 80-20 scheme, there will be a customs duty hike, there will be an embargo, there will be a freeing up and all will go on depending on how our trade Account deficit and Current Account deficit goes up and down. But if you want to find a long term solution, we will have to find a structural answer and none of these will be implemented in 2 years or 3 years. These take decades. The second part of this is looking at the supply chain. If you want to incentivize people to come in and buy a financial instrument that is linked to gold you also need to have fungibility, transferability and transparency.

Earlier we were discussing that 25-30 thousand tons of Gold in this country by some estimates. You can have your own estimates but I don't think the numbers will be too far away. How do we monetize it into circulation. How do we incentivize these Banks. Today there is no incentive for Banks to come and take Gold deposits from you. Because they have to take that gold from you and have to pay interest, and they can do pretty much nothing with it. Tax incentives are another means of pushing actions and behaviors in a certain manner. We have found that not only in India but also in the world and they can go a long way in long term behavioral changes. Finally I think it is up to the industry to do two things. We need to push education and awareness.

We need to engage with the government, we need to engage with various agencies and come together on a platform if we want to see serious strides made going forward in the entire financialization and modernization of Gold which is probably the only solution if we want to continue to buy gold the way we are do as Indians. With that I leave you. Thank You very much.



## Address by the Chief Guest

HE Mr Javier Paulinich, Ambassador of Peru to India



### **Distinguished audience,**

It is a great honour for me to participate as Chief Guest at the 11th India International Gold Convention 2014, the largest annual gathering of gold Industry in India, a unique 'Platform' to discuss and to deliberate on various challenges faced in the mining, process and industrialization of this precious mineral.

For Peru, as well as for India, are cradles of civilizations, and gold has a strong root in our millenary cultures. Last year, we have celebrated the 50th anniversary of the establishment of diplomatic relations between Peru and India, relationship based on common values, historical similarities, visions of democracy, international peace and security, cooperation, trade and market economy.

It is well known that Peru is one of the top richest mineral producers of base and precious metals. Just to give you an example, Peru is the sixth producer of gold in the world and first in the Latin American and the Caribbean region. Peru is also the second producer of silver and currently, it is the third largest producer of copper, zinc, tin and lead in the World. In sum, Peru is, by far, the most important mining country in the LAC region and one of the five exporters of minerals in the world.

As the audience knows, India is the largest importer of gold in the world with US\$40 billion per year approximately.

It is just in 2012, only two years ago, that Peruvian gold exports to India increased from "Zero" to

US\$106 million. In 2013, the number has risen 141.3%, reaching the important amount of US\$263.6 million. This is due mainly because now India and Peru are trading directly. In addition, there is increasing interest in mining opportunities in Peru. At the present, there are three Indian investors in gold mines in Peru and we hope the numbers will rise in the following years.

In recent years, increasing demand for mining commodities has led to rapid and large-scale development of mining exploration and production activities in Peru. The success of Peru's mining sector, especially in gold, stems not only from an abundance of rich natural resources but also from an attractive legal and tax regime designed to support the industry.

International investors are a crucial part of the growth and success of Peru's exploration and mining industry. Peru welcomes foreign investment with an open and stable mining regulatory environment. A foreign investment law guarantees the security of foreign and domestic investments. Furthermore, Peru is consistently undertaking measures to improve its business climate to attract more investment in all sectors of the economy.

Peru enjoys political and macroeconomic stability. It has a steadily growing economy, which is largely driven by mineral production. The high rates of production have attracted a large amount of inbound investment into Peru's mining sector. An estimated US\$59.5 billion is expected to flow into the country over the next few years in the mining sector, and it includes 16 new projects only in gold.

But Peru has much more to offer. The mining sector has real potential for growth and further expansion. It holds valuable opportunities for investors as much of the country is yet to be subjected to vast

exploration, leaving an immense potential for future development.

Finally, I would like to take this opportunity to invite you to the 32nd Mining Convention "PERUMIN", one of the most important mining conferences in the world, event that will be held from 21st to 25th September 2015, in Arequipa- Peru. During the last edition of "PERUMIN" last year, more than 1,000 companies participated as exhibitors from 48 countries and 118,000 visitors attended the mining exhibition.

I invite all of you to take advantage of this exceptional chance to discover the Peruvian mining sector, particularly in gold, with very promising business opportunities.

**Thank You**



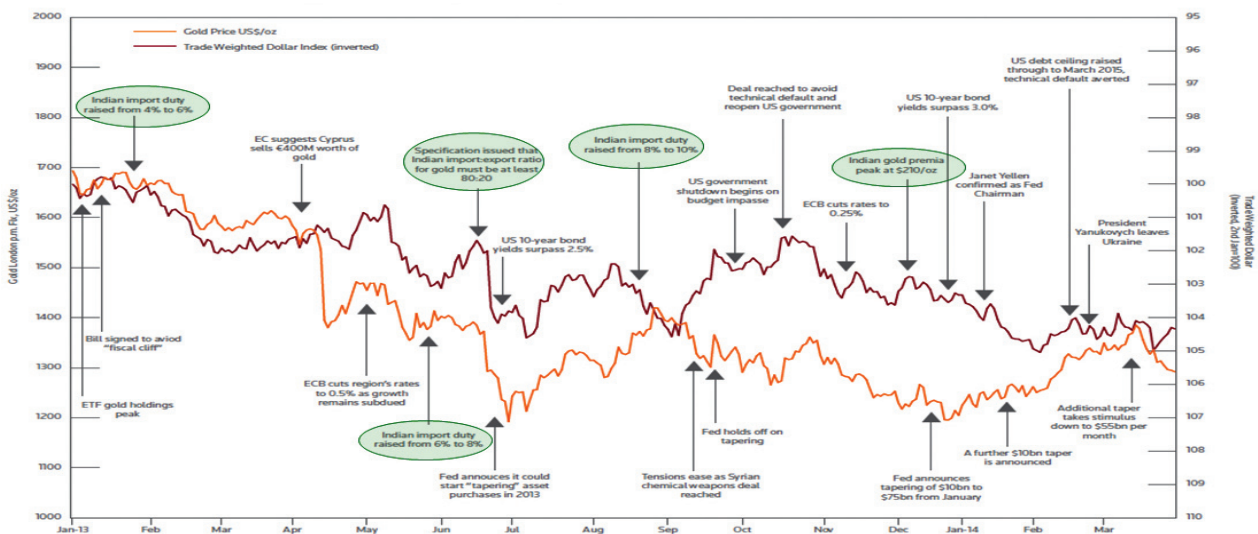
## Keynote address - Changing Global Bullion Market Landscape and the Relevance of India

Mr Jeremy East, Standard Chartered Bank



### Price Trends & Key Market Events:

#### Gold Price & Trade-Weighted Dollar (Inverted)



Source: GFMS, Thomson Reuters

**Relevance of India:** - The year 2013 has seen the market in transition. India in the first half of the year was one of the major drivers of the market. In January 2013, we saw gold import duty in India had risen from 4% to 6% and within a month gold price decreased by \$400/ounce. In May and June, we saw the imposition of 80:20 rule and gold duty rose from 6% to 8%; within next three weeks, gold fell \$300/ounce. Then in August the import duty again moved from 8% to 10% and again gold price fell in next six week by \$150/ounce.

**Shanghai Gold Premium Over London (US\$/oz, 20d MA)**

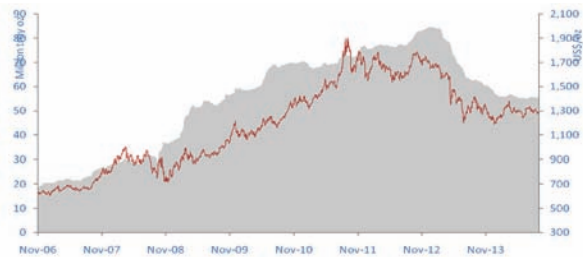


Source: Bloomberg

**Relevance of China:** - India's relevance has declined since August 2013. In China, the market has been moving dramatically over the last three years. In the beginning of 2014, 90% of the market was expecting the prices to be lower. We saw the gold price at \$1200/ounce and everyone was bearish in January this year. At that point, we saw a huge amount of flow going into China; the domestic premium was about \$10-15/ounce higher than the international market reflecting the growth of demand in China. Over the next two months, gold prices started falling as everyone expected and the international price rose significantly to touch the year's high. At that point, the foreign exchange band for RMB was about to widen. We saw the RMB weaken dramatically from 606 to 626 and this was the first time that happened in last five years. The domestic market for gold in China which has been at premium to the international market turned to become a discount (\$10) within a few days. So people in China could buy gold cheaper rather than internationally. Therefore we saw a

collapse in demand, no shipment going into China and within two weeks after that announcement, gold fell by \$100/ounce. Now the exchange rate is at 616, and with the strength coming to the currency, we are seeing more confidence coming back to the market. We are seeing significant orders coming forward for the physical gold in China during last 3-4 weeks. Also we started to see the domestic gold price in China move above the international price and the premium has now come back to \$3/ounce. While the prices of gold have come down significantly, the physical market scenario is different. So this is going to be an indicator for the medium term.

**Major Physical ETFs for Gold**



Sources: Bloomberg, Standard Chartered Research

Sources: Bloomberg, Standard Chartered Research

**Gold ETFs as a Demand Indicator:** - We saw a dramatic build up in gold ETF; there is an amazing correlation between the amount of money invested in ETF and the price action for gold. We saw 50 million ounces of gold built up in ETF over the four years. However, within a year, 30 million ounces are being sold and if you add on to that, the amount of physical gold that the individual investors have been hoarding then liquidated, there was a huge amount of gold sold last year.

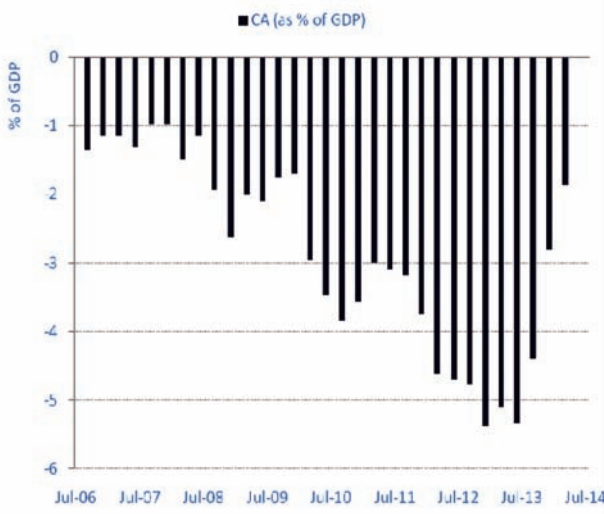
**Physical Bar Flow West to East: ETF and Physical:** -

The gold that went into ETF really came from the retail market (like cash for gold, people selling their jewellery). When that gold was liquidated last year, it did not find its way back to London which is the traditional market for traded gold. That gold found its way into the refineries of Switzerland and then out to Asia; in the beginning of the year to India and in rest of the year to China. So we are seeing a continued flow of gold into

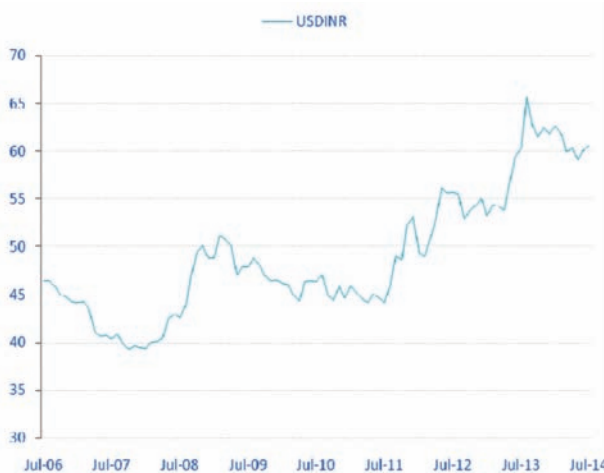
Asia now. We are seeing the changes in the way the market is working.

Back in 2013, there was a lot of competition between India and China for physical gold, and with India potentially picking up towards the end of this year and China starting to emerge again; we may see some competition again for physical gold.

**Financial Pressures in India: Backdrop to Gold Policy: - India Current Account Deficit**



Source: Ministry Of Finance, Government Of India

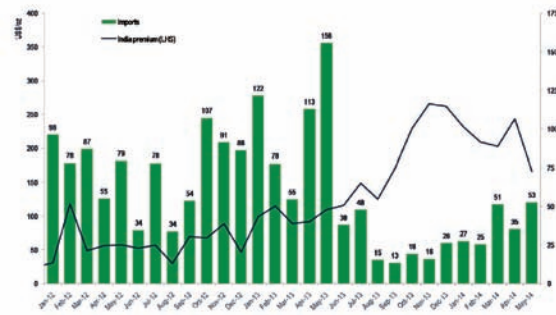


Source: Bloomberg

Current Account Deficit is still a challenge for the country but we have seen a dramatic improvement. Our view is that if we see continued improvement in the

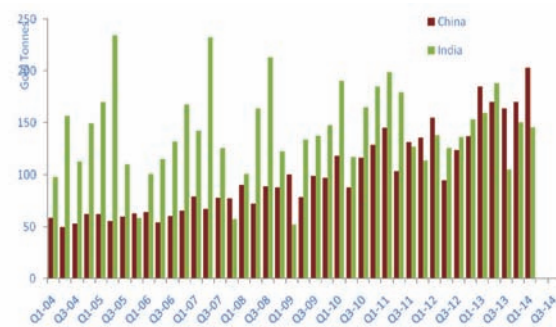
CAD numbers, we would see continued relaxation from the policy makers. Number of new companies has been permitted to import gold which is kind of an indirect relaxation to the market.

**India Demand**



Sources: Bloomberg, Standard Chartered Research

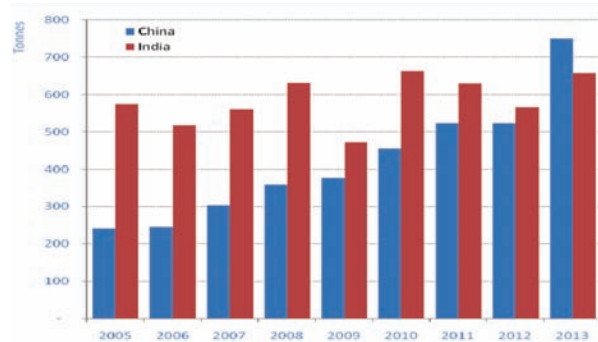
**India & China Demand**



Source: WGC, GFMS

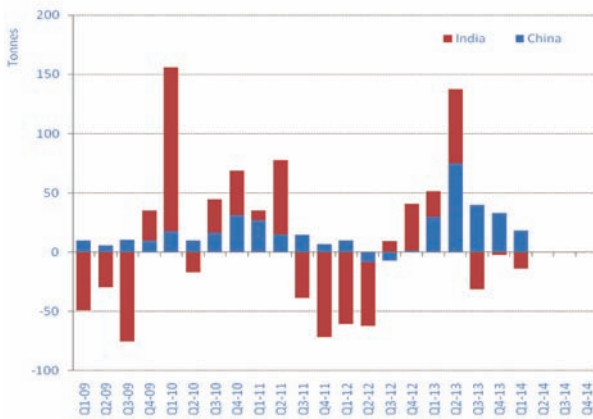
India imported a lot of gold last year for the first five months and then it decreased dramatically. However, Indian market is making a comeback at the moment.

**Chinese & Indian Jewellery Consumption**



Source: GFMS, Thomson Reuters

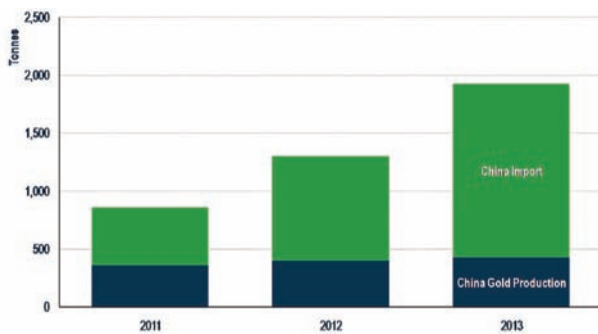
**India & China Change in Demand YOY**



Source: GFMS, Thomson Reuters

When India declined, China grew. China last year overtook India as the largest consumer of gold. In the last three years, China has moved from being a relatively insignificant importer of gold to the largest importer of gold now. Between 2011 and 2013, China has imported an excess of 3500 tons of gold. Last year, China imported around 1400 tons and it also has 400 tons of domestic production. So China absorbed around 2000 tons of gold last year.

**China's Gold Friendly Strategy: -  
China Gold Total Demand**

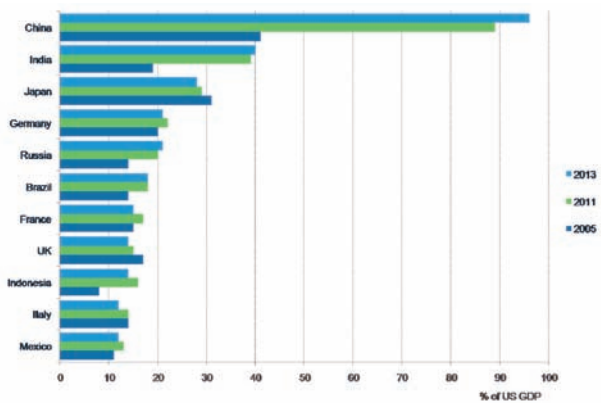


Sources: Bloomberg, Standard Chartered Research

China has been promoting a very gold friendly strategy. China has a plan to change the landscape of the gold market. Secondly, to have a strong currency, it must have a hoarding of gold like USA. The proposal from the gold association is to have more gold held by private individuals and by the central bank and finally to encourage domestic production by investing in gold

mining companies and also sourcing the supply of gold by investing in gold companies abroad.

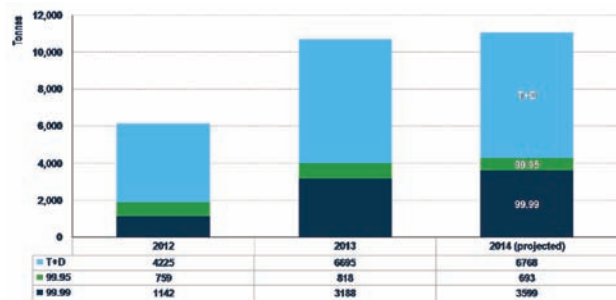
**China's Exploring Purchasing Power: -  
Largest Economies (% of US GDP)**



Source: World Bank

In the last three years, China's economy is growing by 24% and the US economy is growing at 7.5%. So China's government is promoting investment in gold with its high purchasing power.

**China's growing financial markets: -  
Shanghai Gold Exchange Turnover**

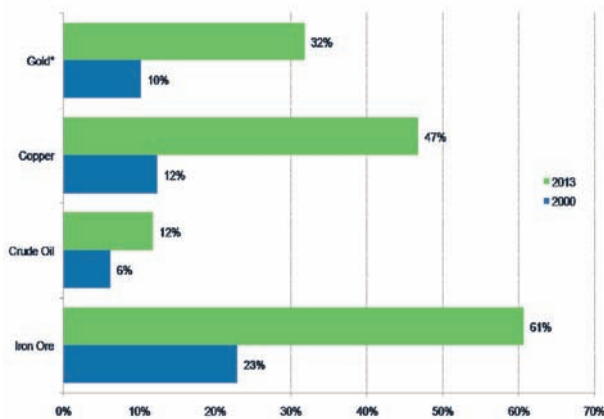


Source: SGE

Earlier in the decade, the Central Bank of China set up the Shanghai Gold Exchange to promote onshore gold trading in China. Today millions retail investors and thousands of financial institutions trade on the electronic platform of Shanghai Gold Exchange. The government is promoting banks in terms of their products for distribution of gold. The launch of investment products has millions of applicants within weeks. China has a massive expansion in retail space as well.

In Shanghai Futures Exchange, silver now has taken over COMEX in terms of volume which is up by 60% y-o-y and gold up by almost 24%.

**China Demand as % of World Demand**



Source: Bloomberg

**RMB Internalization- Impact on Price Setting:** - China wants to be a big player in the global market not only for trading but also for price fixing and also the use of RMB internationally. To facilitate the pricing, the government has recently announced the opening of a free trade zone that can be a game changer. Shanghai Gold Exchange has recently announced the launch of a new exchange called the **Shanghai International Gold Exchange** in this free trade zone. It is going to promote gold exchange which will be an off shore market but accessible by both domestic and international traders.

**Conclusion:** - Going forward, we see China continues to have growing impact on the global market in terms of prices and physical flows. One thing that we should be focusing on is the movement of Asian market. We are seeing more western companies looking comfortable doing business in Asia. We are going to see much more price action happening in Asia in the future. Lastly, if we see continued demand in China and we start to see India coming back, then it will be a very good possibility for the market. I think the year 2015 is going to be a very interesting year from a physical gold perspective as we see both markets fight for their physical kilo bars.

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## Round Table - Roadmap for the Indian Bullion Industry for next 10 years



**Mr Rajesh Khosla**, MD, MMTC-PAMP, **Mr Shekhar Bhandari**, Kotak Mahindra Bank – Moderator  
**Mr Krishna Pratap Singh**, ADGEP, Ministry of Finance, Govt. of India, **Prof Charan Singh** – IIM, Bangalore  
**Mr Pradeep Nagori**, Edelweiss Bullion, **Mr K Srinivasan**, Emerald Jewel

### Global Economy and Indian Economy:



**Mr. Shekhar Bhandari** started the Round Table discussion with a quick presentation of health of global economy with correspondence to Indian economy and set the tone of the central theme.

- i) Global economy is reviving but traction continues to remain weaker than the previous cycle.
- ii) Stabilizing global growth a positive for India's external demand. World is expected to grow at 3.4% this year and 4.0% in 2015 while Emerging Asia's growth is expected to be faster than this, i.e. 6.4% this year and 6.7% in 2015. Emerging economies are expected to grow at 5.2% in 2015.
- iii) Firmness of US dollar will depress commodities

prices based on US dollar. Question remains if ECB goes in for a QE, what implications will that have on global commodity prices?

- iv) For India, macro data hints at worst is over. India has a new Prime Minister with progressive mind, who leads from the front. Lead indicators are suggesting good progress, CAD has come down or corrected meaningfully. Foreign capital flow has improved rewarding stable politics. Foreign capital is very much a necessity to fund India's CAD. But note of caution is to be maintained here. Foreign capital inflow is still a matter of concern and unless we improve our export, there is no permanent solution to India's CAD.
- v) Indian government has already set a clear agenda for next 5-10 years. Government is looking to transform India to a manufacturing hub. Administrative reforms are taken for greater

accountability and speedy decision making on important economic issues.

- vi) India's manufacturing sector needs to gain importance in policy space in next 5 to 10 years as manufacturing sector still contributes only 12% of country's total employment. India's manufacturing is one of the worst in the EME space.
- vii) Key to boosting manufacturing exports needs more enhancing efficiency of the sector rather than currency dynamics. India's manufacturing exports have remained stagnant for more than a decade; exports weaken even as INR depreciates sharply.
- viii) Labour efficiency is another part that has to be improved.
- ix) Agriculture is another area that needs to be revitalized from the growth and inflation perspectives. The sector has been largely ignored by the policymakers in 2000s and still depends on monsoon vagaries. Capital investment in agriculture remains low at 2.3% of GDP and 8% of total investments.
- x) Household savings have been hit in recent years. Financial savings erosion is large as real returns to savings are low. But physical saving is rising. Gold and land form part of physical saving in the country. As an asset class, gold is preferred by investors because the return is consistent. Moment there is slowdown in return, money will go somewhere else.

It is estimated that more than 25000 tons of gold is available above ground in India. Challenge is how to mobilize the gold into economy, so that India has to depend less on import of gold.

#### India's macro-economic perspective in the next 5 to 10 years:



**Prof. Charan Singh** praised the new government as economy is already showing promise which would probably last at least for a decade. Political stability is a critical aspect in any economy. He said that the new government will take two years to establish

the economic policy – it would be engaged with working with the old and establishing the new. Next 3 to 5 years would be time when those policies would be rolled out to reap result. As it is already seen, socialist structure of economy is gone and pro-market policies are introduced. Prime Minister is a pro-market man and in next 3 to 5 years, India would see economic policies which would be market-driven or market determined.

Demographic trend is the other aspect that Prof. Singh touched upon. He said that dependency rate is already declining and will continue to decline for next 30 to 40 years. When one talks about decrease in dependency, it means there would be younger people and by 2050 there would more than 50 percent population under the age group of 60. It means there would be more marriages, more social functions where demand of gold would sustain. It would also mean that inter-generational transfer of asset would play a prominent role till 2050. As far as global opportunities are concerned, most of the countries are ageing and that means there would be much migration from India – young Indians who will be well educated, talented, highly technical. It implies higher income which in turn would come to higher savings.

On the economic growth, Prof. Singh mentioned “global economy is growing at an average rate of 3 to 4 percent while India has been growing at less than 5 percent in last two years. Banking is the one sector that needs urgent attention from the government as non- performing assets (NPA) have been rising. There was a time in 1991-92 when RBI has taken the reforming process when NPA was 17% which was brought down to little over 2%. RBI Governor has indicated that it would be taken care of. The good thing is government is trying to bring unbanked population into banking sector with zeal. It means unleashing of growth aspect and this is a very positive side.”

On the trading side Prof. Singh expressed concern that Indian rupee is over-valued with respect to US dollar, which is not good for export. He hoped that kind of initiatives that new government is taking, exchange

rate will find its true value in a year or two so that India could compete not only with countries like China, but more than that it would help small and medium entities where maximum employment is taking place.

Prof Singh concluded with his reading of India's growth projected to stabilize between 7% and 10% for next two decades. This would be a real good story for gold market.



#### **Regulatory environment**

**Mr. Krishna Pratap Singh** was given the task amongst panellists to make some regulatory forecasts which in his words are very difficult to address. Of course, he asserted that a lot of administrative reforms have been

taking place inside the top government departments after new government took charge. Bureaucrats are working with new zeal. There is competition amongst bureaucrats, secretaries to work longer number of hours. Deadline has been set, work is demarcated and there is conscious effort to bring the result before the public eye. Mr. Singh was from Ministry of Finance and so, he acknowledged that 80:20 rule was a necessity to tackle the ballooning CAD. But at the same time, he also acknowledged that things have improved, CAD is under control. Based on the data that they received, there might come some relaxations in 80:20 rule and import duty might come down a bit as well.

On longer term perspective, he pointed out that a lot of revisions will take place in policy matter. For example, he said that Planning Commission has been revamped, GST is expected in a few years, and calculation of GDP, as pointed out by economists as outdated, is being re-worked. Fair number would come out soon. As indicated by the economists, there is a suppression of 2 to 3% in calculation of GDP. India is also working hard to exchange data so that they could locate the fund flow. Mr. Singh was very optimistic that once financial market is stabilized, the decade is India's.

#### **Machine-made, light-weight jewellery would dominate in future**



**Mr. Srinivasan** represented the physical gold market in the discussion. He is real user of gold (as a jeweller) and he said that, the biggest problem today is manpower cost and so automation is inevitable.

Demand is now for light weight

jewellery. So far Indian jewellery manufacturers borrowed the technology and time might have come that manufacturers should invest in R&D. Consumers want light weight, which can be frequently changeable. He said that his team even suggested that if they could make jewellery with micro-cheap inside. Future is for online business for jewellery. What is sad in the whole process that hand-made jewellery is going to extinct day by day as manufacturers cannot afford to pay high to goldsmiths and as a consequence, lot of goldsmiths are losing jobs. These karigars are migrating to other industry and if we do not take care of them, getting hand-made jewellery would be a serious challenge in future. On the business side, competition is high, but industry needs to take care of is 'future'. The new government is encouraging foreign investment and in near future foreign companies will definitely enter the market and if the present manufacturers do not take care of their future, survival would be very difficult.



**Mr. Rajesh Khosla** represented the refinery industry in the discussion. Refining industry also deals directly with physical gold. After a jewellery manufacturer, his representation of the industry suits perfectly to move the discussion forward.

He started with a reference how refining community in the country struggled hard to explain the regulator what 'dore' is and how the refining is good for the economy as it creates direct employment, creates wealth etc. Refiners

showed regulator why refining should be considered as manufacturing sector. He did mention that 80:20 rule was a hurdle for industry to grow but quickly changed the tempo to emphasize more setting a roadmap to bullion industry in next 5 to 10 years.

Manufacturing in India is at disadvantage compared to import of gold till today. According to him, manufacturing must be given competitive advantage over direct import of refined products. The refining industry struggled to explain this issue to regulator. The refining industry will continue to do well in two years and once the issue gets settled, refiners could be able to look for sourcing the raw material, 'dore', as there is less 'dore' available in the world to satisfy refiners need. So, sourcing dore would continue to be a challenge for refiners. So, in five years perspective, refiners have to look for augmenting the resources by signing long term contracts with mining companies for 'dore'. But most importantly refiners have no other options than to look to scrap market to source the raw material. For obvious reason, refiners have to look at domestic market for scrap. If 1 per cent of total estimated above ground stock of 25000 tons is recovered, it is pretty 250 tons. With more scrap coming to market, more refiners will walk the path of quality produce and more international accreditation will come to the industry. Once domestic market is established, Indian refiners then go to global scrap market where supply is many times more than 'dore' supply.

In the whole process it is absolutely important that refiner work to the satisfaction of the regulators. For example, customs department can always question the correctness of percentage of gold content in scrap that a refiner declares while bringing it in the country. Refiner can declare gold content as 60% while actual content may be 80%. So, mechanism should be worked out so that refiners would be happy while bringing the 'scrap' and customs department would be satisfied that what refiners are actually declaring is true. A collaborative effort between refiners and customs can be worked out to streamline the process. A technology establishment could be one solution in select customs centres where scrap would be imported and checked thoroughly upto the satisfaction of both the parties.

**Mr Pradeep Nagori** emphasized that there is no reason to talk on the same. The fascinating aspect is the Indian



bullion industry is very adoptive. India is currently a \$2 trillion economy and is moving towards \$5 trillion in a decade time. Gold is one of the most favoured instruments or asset in the country and around 3% of GDP comes to gold. Dependence on import will not work. We need to

address the challenge of channelizing gold that is lying idle in households or trusts. Two parameters could be looked upon – first, monetize this idle gold and future investment that will go into gold in the next five to ten years. Lot of discussions are going on monetization and something might come out. What is equally important to look at is how the future investments could be channelized through various financial products. Lot of demand for gold will be coming through demographic changes as mean average age of India is around 27. So, lot of demand will come in form of marriages. Disposable income is also rising. A rough calculation indicates, there will be need of at least 2500 tons of gold in next ten years and if everything is going into 'real gold' that will definitely be a real problem. So country needs to develop certain financial instrument that could take a part of the said demand. These instruments should mimic the price of gold or at least there would be flexibility of instruments which investors can redeem at any point of time. Transparency of the instrument is absolute necessary. Market has to create such infrastructure and instruments should be developed effectively. All the participants of the market, bullion dealer, jewellers, regulators, refiners, have to sit together and devise such instruments to address the future challenge.

**Answering an audience question on Forex rate and gold price, Prof. Charan Singh replied that forex rate between two countries is nothing but inflation differential. Based on the interest differential between India and US, the real value of INR against dollar should be around 71 or 72. He opined that India will find true value of its currency against US dollar in some point of time which would definitely improve the export trade. On gold, he was optimistic about its future demand.**



## IIG Excellence Awards



**Sterling Performer of the year: M D Overseas**



**Best overseas supplier of the year: J P Morgan**



**Best Bullion Refiner of the year: MMTC PAMP**



## IIGC Excellence Awards



**Hidden Jewel of India: Emerald Jewel Industry India Ltd**



**Best Logistics service provider of the year: Brinks Global**



**Dispassionate Spokesperson of the Indian Bullion Industry: Bhargava Vaidya**

## Focused Session 3 - Special Session on Gold Savings Scheme



**Mr Ashok Minawala**, Director, GJF - Moderator, **Mr Fatehchand Ranka**, Ranka Jewellers  
**Mr Jatin Kothari**, Chheda Jewellers

**Mr Ashok Minawala, Director, GJF - Moderator: Do the Companies Act rules apply to companies only or non-company entities too?**

**Mr Jatin Kothari, Chheda Jewellers:** The RBI's definition is very clear for Gold saving schemes. This will affect partnership companies, proprietors and the limited liability companies. RBI does not differentiate between companies and partnerships. RBI rule 231 is applicable to all companies, jewellery houses which run these kind of gold schemes and gold accumulation plans.

**Mr Fatehchand Ranka, Ranka Jewellers:** I differ here because the RBI rule is very specific for company and the definition of company does not include firms here. So it is not applicable to the partnership firms, LPP and proprietorships.

**Mr Ashok Minawala, Director, GJF - Moderator: If there is an issue where the consumer's money is going to be at stake while deposited to a jeweler and if there is some form of a scheme whereby somebody collects money more than his net worth, then it does help in the security aspect of the whole scheme. What is your view on this?**

**Mr Fatehchand Ranka, Ranka Jewellers:** I do not agree to such conditions but if you go to the past history, not a single such cases has been registered even though such schemes are running from long period. I think whenever any rule or law is made by the government, it is limited to city level and limited to a few jewelers and high end consumers. If you look at the service in detail, then jewelers are more trusted in the country.



**Mr Fatehchand Ranka, Ranka Jewellers:** It is a business of trust. So those jewelers, who do not have credibility, should not run such Gold Saving Schemes.

**Mr Ashok Minawala, Director, GJF - Moderator:** **There is an issue about the government saying that you should not collect more than 25% of the net worth of your company. Is it a practical solution?**

**Mr Fatehchand Ranka, Ranka Jewellers:** Considering the rates and volume of the business, proposition of the above is not correct. So proper insurance of the product by the jewellers can be followed here whereby the premium cost will be handled by the jewelers, then there should not be any restriction on nature of deposit.

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So the government should make detailed studies before making any rule. So if restrictions are put, there will surely be reduction in the sale of gold.

**Mr Ashok Minawala, Director, GJF - Moderator:** **When the deposit or the advance received is not secured, does it affect the credibility of a jeweler?**

**Mr Jatinder Kothari, Chheda Jewellers:** It is of paramount importance for the jeweler to have his credibility with the customer.

## Panel 1- Engaging with Partners: What can Overseas Partners offer India? What do Overseas Partners Want from India?



**Mr S K Jindal**, Jindal Group of Industries - Moderator, **Mr Franco Bosoni**, DMCC  
**Mr Rodrigo Blanco**, ProMexico, **Mr Afshin Nabavi**, MKS, **Mr Luis Cabello**, Embassy of Peru

The moderator **Mr. S K Jindal, Jindal Group of Industries**, started the discussion by stating that overseas partners can offer business to India while they want business from India. Nobody needs to be bothered about anything else. Without having a good relationship, business does not work and for any relationship what we need is mutual concern, trust and respect.

**Mr S K Jindal, Jindal Group of Industries: What is your take on the relationship between the overseas partners? Where is India lacking and what can India do to strengthen the relationship? What opportunities and attraction does India provide to the rest of the world?**

**Mr Afshin Nabavi, MKS:** India opened up in 1993 and as a company we started trading with India from 1995. MKS group is a family business and taking decision is easy. There are lots of things that India can do still and we can do for India as well; one of them is a steady and regular

supply. Another thing is India should not receive anything other than LBMA good delivery bars. As partners, we give no harm to India. India today has one LBMA good delivery refinery; Switzerland who does not produce or consume gold has six LBMA good delivery refineries. So there is a lot of scope ahead and we can encourage improvement of refinery quality standards in India.

**Mr S K Jindal, Jindal Group of Industries: Can you put some light on products LOCO Holding and LOCO swaps?**

**Mr Afshin Nabavi, MKS:** We can interact with the regulators to introduce the elements of LOCO holding and LOCO swap which is a vital ingredient for a trader. One of the most common LOCO swaps is London against Zurich. Through this swap, I can pick up the phone to my counterpart and place my order, and he will help in trading afterwards. Generally speaking, the common practice in the bullion market involves LOCO London.



Having a refinery in Switzerland, we most of the time need gold in Zurich. This is something India needs to advance in its trading and going forward in the future.

**Mr S K Jindal, Jindal Group of Industries: Can you provide some advice for Indian partners to join hands with Peru while adding value to both the sides?**

**Mr Luis Cabello, Embassy of Peru:** We have a synergetic relation between India and Peru. India is one of the most important importers of gold in the world. As a mining country, what we try to do here in India is to make our relation better for doing business. The idea to have a commercial office here is also to promote the investment from the India into our country. To coordinate with the mining sector, next year we have a trade show called Perumin which is going to take place in September 2015. So that is going to be a great opportunity for you to be in my country and doing business in mining sector.

**Mr S K Jindal, Jindal Group of Industries: Can you provide some advice to Indian partners to join hands with Mexico while adding value to both the sides?**

**Mr Rodrigo Blanco, ProMexico:** What we are trying to do here is to facilitate the Indian companies to come to Latin America, to source the raw material from Latin America. Mexico is the largest producer of silver in the world and the second largest producer of gold in Latin America after Peru. The idea is to help you out coming to Mexico, explore the possibilities of investing in Mexico, sourcing directly from Mexico into India. India does not know the opportunities in mining sector in Mexico. We have 192 Indian companies in Mexico but none in mining sector. The relationship between India and Mexico was non-existent in mining business three years ago. Last year we started seeing some exchanges between the countries; we had a shipment of 4 tons of silver and 10 kg of gold.

**Mr S K Jindal, Jindal Group of Industries: Share your perception on how Dubai can add value to our participants here.**

**Mr Franco Bosoni, DMCC:** Dubai is one of the strong partners of India as the largest supplier of gold to India. We have a two way channel where we act as much as a source for India and a distributor of manufactured

jewellery that goes into US, Europe and rest of the world. So there are a couple of new initiatives that we are working on. First, we are going to introduce a spot gold contract very soon which is being launched by DGCX. DGCX contract is uniquely tailored for the Indian market needs. It is a 1kg (995) contract and it makes it accessible to many traders large and small. It will be like a gold ATM, you will be able to deposit gold or USD, withdraw gold or USD and you will be able to keep an account there by rolling over basis. This contract will allow Indian traders to save a lot of cost. Second Initiative is the regulatory standard- Dubai Good Delivery. We established Dubai Good Delivery in 2006 as a standard that looks at financial trustworthiness of the refinery, their technical refining capabilities and their responsible sourcing practices. We have created a new standard that is called the Market Deliverable Brand where the refinery has the best technical capabilities and responsible sourcing practices. It is allowing us to certify the smaller and younger refineries that have not have much experience but they are still producing the best quality products. This is creating a more inclusive market, creating a larger and more competitive market and providing traders with more sourcing options. These are the three things that we are focusing on and we are here to facilitate the trade.

**Mr S K Jindal, Jindal Group of Industries: Your take on the recent changes of bullion market in London on the fixing, pricing front. Would you clarify those things?**

**Mr Afshin Nabavi, MKS:** There are questions being imposed at the moment as far as gold AM and PM fixing is concerned. Nothing has been decided yet. Silver has gone through the change; there has been new silver agreement put in place from August 2014. There is lot of business being transacted on the London and COMEX electronic market more than before. There is a lot of KYC going on which is good for the business.

**Mr S K Jindal, Jindal Group of Industries: What is lacking in India- Peru trade relation?**

**Mr Luis Cabello, Embassy of Peru:** I think for whole Latin America, India was like an exotic country present far away. Some years ago, we started looking at India in another way and that is why the Embassy of Peru has another point of view about the market. We

want competitiveness in market. We want to have a negotiation of a free trade agreement here in India.

**Mr Rodrigo Blanco, ProMexico:** The lack of knowledge about Latin America is the major barrier. Our idea is to facilitate the whole process of business and the first step would be for you to explore the opportunities.

**Mr Franco Bosoni, DMCC:** Dubai is a key partner to India and in any partnership there needs to be little bit of give and take. At the professional level we work very efficiently but at the government level, there is a lot of work to be done. We would like to see more active communication between India and Dubai.

**Q&A:-**

**There are free trade zones in India wherein Latin American countries like Mexico, Peru etc. can put their precious metals as duty free and traders of India can have long term contract (70-75% of total stock). If there is no parity, then they are free to export to countries as well. What is your view on this?**

**Mr Rodrigo Blanco, ProMexico:** The free trade zone is something that we want to develop in Mexico. It has been done mainly in the border part of US (as 80% of our export goes to US). So this is a great idea to explore and this is something we are trying to copy from India and bring it to Mexico.

**Audience Poll:**

- 1) Would recent changes in London markets affect business in India?
  - a) Yes-54%
  - b) No-46%
- 2) Should India follow the Chinese model of a licensing and quota system for gold imports?
  - a) Yes-60%
  - b) No-40%
- 3) The best way to increase dore supplies from South America to India would be-
  - a) Invest in South American mining sector-17%
  - b) Go through bullion banks-43%
  - c) Government to government partnerships and agreement-40%

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## Representation to the Government



**Mr Mayank Khemka**, Khemka Group, **Mr Prithviraj Kothari**, RSBL  
**Mr Satish Bansal**, MD Overseas

**Mr Mayank Khemka, Khemka Group:** One of the important purposes of this convention is to gather suggestions and then represent it to the government. We have come up with few suggestions which we would like to discuss here-

**1) The government should set up a nodal agency for bullion.**

**Mr Prithviraj Kothari, RSBL:** There is no particular agency for bullion in India. Almost 800-900 tons of imports happen in bullion form which provides a business of around 800000 crores per year. So there is a need for a nodal agency which can represent the bullion industry in front of the government.

**Mr Satish Bansal, MD Overseas:** In 2013, almost 8 circulars and clarifications had been issued by RBI regarding gold imports. Not in a single occasion, there was any single representation from the people who are actually importing bullion. There was no proper understanding on the formulation of 80:20 scheme. So there should be one agency to provide suggestions to the government on behalf of the bullion industry.

**2) The 80:20 scheme should be substituted with a simpler scheme of a quota/license system.**

**Mr Prithviraj Kothari, RSBL:** There is a functional problem related to 80:20 scheme. Till you get a bank realization certificate, you cannot opt for the second



consignment. So a time frame should be decided in this regard for the realization of given export.

**Mr Satish Bansal, MD Overseas:** The 80:20 scheme should be completely dispensed. If the intention of the government is to limit the import of gold, it can very well do it by separating the import for domestic purpose and export purpose. So a quota/license system would clear lot of operational difficulties.

**3) There is a need to reduce the customs duty.**

**Mr Prithviraj Kothari, RSBL:** The government should reduce the customs duty gradually to 4-6%. By reducing the duty, the government can curb the smuggling also.

**Mr Satish Bansal, MD Overseas:** The customs duty should be reduced in a calibrated manner. Almost 60-70% of local demand is fed put of smuggled gold. Representation from the bullion industry should be there to make the government aware about the actual scenario.

**4) We should permit NRIs to bring up to 5 kg gold on which duty would be payable in USD.**

**Mr Prithviraj Kothari, RSBL:** The government should allow NRIs to bring 5 kg of gold after verifying their income in the foreign country.

**Mr Satish Bansal, MD Overseas:** The government has nothing to lose here if it allows the NRIs to bring in 5kg gold because there will not be any payment of foreign exchange on this front. If the government likes, it can collect the duty in foreign exchange (as it used to be earlier in 1994-97).

**5) Banks should be permitted to run the Gold Accumulation Plan and Gold Deposit Scheme.**

**Mr Prithviraj Kothari, RSBL:** The government needs to open up the system first to run the scheme. From last 10 years, we have been trying to open a GAP in terms of Rupee account. If the plan will be launched, the government can rotate the existing gold in the market place also. It will in turn help the Current Account Deficit and the import figure also. Banks should be allowed to

hedge their position and buying back coins would be necessary for this.

For GDS scheme to be successful, the government should remove the hurdles like variable local taxes and octroi. Jewellers should be involved effectively in running a GDS scheme as they may be effective in bringing the idle gold out of households. A successful GDS scheme can bring around 2000-3000 tons of gold from the Indian households.

**Mr Satish Bansal, MD Overseas:** The running of a Gold Accumulation Plan should be left to the banks on how they make the product viable for the customer and for themselves. The government's role should be confined to making a proper regulation. Buying back their own coins by banks should certainly be allowed which will induce confidence among customers as well.

**6) We should waive the duties and taxes for the gold imported for export purpose.**

**Mr Satish Bansal, MD Overseas:** If the government can de-link the gold import for domestic purpose from the export purpose, then all the issues will not come up.

**Mr Prithviraj Kothari, RSBL:** The bullion industry needs only one agency to do everything and handle the operational difficulties. If the government wants to promote export, then it has to remove all kind of duty and tax restriction from it.



## Panel 2- Engaging with Service Providers to Improve Efficiency and Effectiveness

(How do we lower transaction costs? How do we serve our customers - jewellery manufacturers, industrial users and investors?)



**Mr C K Venkataraman**, CEO - Jewellery, Titan Industries - Moderator, **Mr Lars Johansson**, Brink's, **Mr Khaleel Rahim**, State Trading Corporation, **Mr Johnson Lewis**, Scotia Bank, **Mr Rajesh Khosla**, MMTC-PAMP

The moderator **Mr C K Venkataraman, CEO- Jewellery**, Titan Industries started the discussion stating that the jewellery industry has been going through a complex phase from last 15-18 months.

**Mr Rajesh Khosla, MMTC-PAMP:** "Refiners are service providers; we render service to the jewellery industry by refining their scrap. The issue that the jewelers have when they deliver scrap is quality of refining, how to substantiate the quality of refining etc. So jewelers draw a little bit of comfort when the refiner is internationally accredited.

Some of the issues that we have are cost of logistics and so we are in some serious discussion with our logistics partners to build up an all-India scrap collection

system. It is our responsibility to give jewelers a valid and transparent logistic support. We are trying to launch a scheme wherein we can provide bullion against the scrap collected. As part of the awareness program, we have been running two purity verification centers on an experimental basis in Delhi. We are also establishing infrastructure for low quality scrap refining by December this year".

**Mr Johnson Lewis, Scotia Bank:** "The industry went through three phases; in the years 1997 to 2006, we saw the regulators receptive to ideas, forwards, metal loans, gold ETFs, GDS and futures exchange etc. In 2006-12, we did not see much things happening. Then in 2013 we saw products taken off, structural changes etc. In the last 18 months, the industry has faced challenges but



now the situation is getting better. We want to discuss three key points here- gold loans, gold deposit scheme and local purchases by banks”.

**Mr Khaleel Rahim, State Trading Corporation:** “State Trading Corporation is one of the main canalizing agents for importing gold and giving it to jewelers. The margins are calculated in any industry on an end to end basis. Some of the points to be discussed are- lowering the transaction cost, gold monetization scheme, buyer’s credit, supplier’s credit etc. At our level, we try to increase our efficiency and efficacy with which we work so that we can provide you better services at reduced cost. We are looking at developing new markets especially for exports”.

**Mr Lars Johansson, Brink’s:** The risk is really high when the metal is moving. The logistic service is very complicated with a lot of liabilities and risks and also a time consuming process. If we know the customer’s need, then it makes the process easier. The more information we have about the origin of the

material, the more we can optimize our work that will substantially make the system more cost effective and quicker.

**Mr C K Venkataraman, CEO - Jewellery, Titan Industries:** **How cost effective is putting up refining hubs across the country?**

**Mr Rajesh Khosla, MMTC-PAMP:** It does not make sense to put up refineries across India as one has to look at economy of scale. However, a substitute for a refining center is a purity verification center. If I can melt it in front of the jeweler and tell him the metal content, then the jeweler does not have to wait for the assurance. We have been doing this at experimental level in Delhi for the last 1.5 years and our target is to collect 20kg per month.

**Mr C K Venkataraman, CEO - Jewellery, Titan Industries:** **What are the challenges for the banking industry to mobilize the GDS schemes successfully?**

**Mr Johnson Lewis, Scotia Bank:** The people in India do not know about the GDS scheme. At the moment,

we only managed to gather gold only from the temple trusts. We need to start getting into the retail investors level. By this scheme, at least the medallions and coins can come back into the market through retail banks. Discussions are happening to make the scheme more convenient for the retail investors.

**Mr C K Venkataraman, CEO - Jewellery, Titan**

**Industries: How optimistic are we on the GOI front?**

**Mr Khaleel Rahim, State Trading Corporation:** The CAD had been increasing rapidly and had reached 80billion USD. The 80:20 scheme has been brought only to show that along with the quantity of gold that is brought in, there is certain amount of it that goes into export and generate revenue. This measure brought down the CAD level last year, but again during the current financial year the CAD has been increasing. So there is no surety on how long the government will follow the present policy restrictions.

**Mr C K Venkataraman, CEO - Jewellery, Titan**

**Industries: How important is it for the customers and the service providers to work together in this industry?**

**Mr Lars Johansson, Brink's:** We would be able to provide better service at a cost effective manner if we know the complete picture and nature of the customer's business and requirement.

**Concluding remarks by Mr. C K Venkataraman, CEO**

**- Jewellery, Titan Industries:** "The nature of the jewellery industry is below average in terms of standard, methods, skills etc. For a country with such a large domestic manufacturing, our share of international trade is very small because of lack of understanding of the international customers' requirement and the infrastructure, quality of the manufacturing. Therefore it would be the responsibility of the industry to step up and participate in the international market effectively. Due to the 80:20 rule, companies like us started participating in the export market now. Secondly, some people have started experimenting in lower caratage jewellery particularly in diamond segment. We have also started introducing the 14 carat jewellery to bring down

the total requirement. Third is, the return on asset i.e. gold is very important here. So the more the industry is able to rotate the existing stock, the less gold is needed to actually run the business.

In conclusion, the regulatory changes in a certain way are a good thing as it has got the potential to actually transform the industry. It is putting a lot of pressure to each one of us to innovate and come out with very novel solutions to deal with the challenges".

**Audience Poll:**

- 1) Cost of bank finance to bullion and jewellery industry in India is very high and hence it needs to come down.
  - a) Agree-70%
  - b) Disagree-30%
- 2) The 80:20 rule has greatly increased the cost across the supply chain and hence need to be replaced with simpler rule.
  - a) Agree-74%
  - b) Disagree-26%
- 3) PSU nominated agencies should work closely with the temples and trusts and bring back the gold offerings into the system.
  - a) Agree-83%
  - b) Disagree-17%



## Panel 3- Making Gold Monetisation Scheme Work

(Develop a workable proposal to monetise a portion of private gold bullion and scrap holding, learning from past experiences and successes)



**Mr Bhargava N Vaidya**, B N Vaidya Associates - Moderator, **Mr Rajan Venkatesh**, Scotia Bank, **Mr Konal Doshi**, GJEP, **Mr V K Agarawal**, Shirpur Refinery, **Mr Munindra Verma**, President & Country Head, Trade, Finance & Services, Yes Bank

Opening remarks by the moderator, **Mr Bhargava N Vaidya, B N Vaidya Associates:** "India had monetization scheme in the past and it worked as well. Most jewelers ran a gold deposit scheme; however, at that time, the rate of interest was almost 9% and it worked easily due to no restrictions. In 1999, when the gold deposit scheme was launched, the market lease rate was high and gold imported could have been leased. But, when the scheme was launched, the international lease rate came down and there was no incentive for the banks".

**Mr Bhargava N Vaidya, B N Vaidya Associates:**  
**According to you, who is the most important stakeholder in this entire scheme?**

**Mr Rajan Venkatesh, Scotia Bank:** The most important stakeholder is the customer. For a successful scheme, the customer has to have the passion to place his gold with you.

**Mr Munindra Verma, Yes Bank:** Along with the customer, one has to look at the overall perspective of the country. We should not only look at the monetization of gold but also the financialization of gold.

**Mr Bhargava N Vaidya, B N Vaidya Associates:** **What would be the operational cost of a bank and at what rate should the monetization scheme work? Do you think you can use all the gold deposits that you have or you might have to sell or hedge it differently?**

**Mr Rajan Venkatesh, Scotia Bank:** Essentially, there are three verticals to any monetization scheme; one, sourcing is the most important aspect of it, two, refining, assaying and verifying etc. and third is the deployment which includes cost and risk management. For refining, we have state of the art refinery and purity verification centers now. So sourcing becomes the



major issue here. Almost 60-75% of the existing gold is at the bottom end of the pyramid and that mass needs to be aware about the scheme. In terms of investment demand, there must be around 3000-4000 tons lying with people. So we have to think how to collect a large portion of the investment demand while simultaneously creating awareness at the grassroots level.

There are costs associated with it like- refining cost, storage and transportation cost, holding cost, funding cost etc. along with the duty risk fact of it. Finally, the return that we can provide will incentivize a depositor.

**Mr Bhargava N Vaidya, B N Vaidya Associates: What points do you suggest to start a gold deposit scheme? How the process should work?**

**Mr Konal Doshi, GJEPC:** The retailers who are spread across the country are the first source of contact to the bottom level of the pyramid who are holding the majority stocks. So the retailers have to be kept in confidence in the scheme in selling the scheme to the end consumers.

**Mr Bhargava N Vaidya, B N Vaidya Associates: Why canvassing is important? What is the minimum quantity for the refiners to work on this scheme?**

**Mr V K Agarawal, Shirpur Refinery:** Jewellers should be the part of the whole scheme; however, holistically the industry should work together involving every stakeholder in the process of running the scheme. In a refiner's point of view, we should also be concerned about the quality; we should have some standard for assaying where first assay should be done by XRF and the final assaying should be done after melting. And we have a capacity of 700tons for refining as of now (and 5 gram is the viable size for this).

**Mr Bhargava N Vaidya, B N Vaidya Associates: Provide us some idea about the Gold Accumulation Plan. How can we stop the new hoarding and instead channelize the investment demand into banking?**

**Mr Munindra Verma, Yes Bank:** Major part of gold holding in this country is sitting in the rural households only. The core purpose is to monetize by bringing wealth and giving income to the rural gold holders. Having said that, year on year we are adding on gold

holdings without adding productivity to the economy. The idea is to let the fundamental be respected, let there be a channel which allows the investors and users to lock themselves at a particular price without actually importing gold into the country. We can create a framework wherein users lock in the price, a central body will control everything and extends its support to the banks and jewelers to ultimately reach the end customer. When the end customer wants the gold back, you give the gold back by following the same channel. For risk management, we can have mechanism wherein we can fund the gold with USD, keep it overseas and that way we can keep the model simple. As an investor, one has all the flexibility here to get gold or gold interest etc. While channelizing gold, the gold eco system we have is going to play a paramount role.

**Mr Bhargava N Vaidya, B N Vaidya Associates: As a jeweler, do you think your fraternity will easily accept transfer of gold from any customer's account? What is your reaction to this?**

**Mr Konal Doshi, GJEPC:** The above mentioned model is good for the people who want to do pure investment. But in our country, there is still fascination of holding the physical gold in hand. With the new generation coming, a large part of this investment can be replaced by doing the monetization scheme.

**Mr Bhargava N Vaidya, B N Vaidya Associate: Are you suggesting a gold corporation which handles the balance sheet in the beginning?**

**Mr Rajan Venkatesh, Scotia Bank:** The issue stems from the fact that while the scheme was started in 1999, there has been very little appetite on part of banks. The major reasons behind this were sourcing, purity verification, assaying, refining etc. and then associated cost and the problem of deploying. So if you want to incentivize the banks, you have to take away the above burden out of them. Then comes the need for a gold corporation which will handle all the issues for banks.

#### **Conclusive Remarks:-**

**Mr Konal Doshi, GJEPC:** We have to be very sure about the way gold is considered in India. All our rules are being framed considering gold as a currency. So if we

are acknowledging gold as a currency, then the various risks should not happen.

**Mr Bhargava N Vaidya, B N Vaidya Associates:** Gold when comes under the deposit scheme, let it be treated like a black box treated in London with no local levies. We have to make a law that no local bodies can put a tax on it.

#### **Q&A:-**

**Lot of merits have been discussed about the Gold Monetisation Scheme. One of the reasons why a common man does not opt for The Scheme is that it is a financial asset which has counter party risk. If gold gets monetized as financial instrument which gives exposure to the price and an interest can be earned over it, how does that risk can be addresses here?**

**Mr Munindra Verma, Yes Bank:** I do agree that gold deposit has a counterparty risk and so is a currency note. But it is always better to optimize the value of the underlying wealth wherein you further get return out of it.

#### **Audience Poll:**

- 1) In your opinion, how many tonnes of gold can be brought back into the system through an effective gold deposit scheme?
  - a) About 100 tonnes per year- 23%
  - b) About 200 tonnes per year- 23%
  - c) About 400 tonnes per year-33%
  - d) Less than 100 tonnes -21%
- 2) Which segment offers the highest potential of success in a Gold Deposit Scheme?
  - a) Household used jewellery-30%
  - b) Temple and trust offering-35%
  - c) Coins and bars held by individual-35%
- 3) What is the biggest constraint in implementing a successful GDS?
  - a) Return vs. cost of operations to the GDS operator-28%
  - b) Taxation issues pertaining to the movement of scrap and finished gold-25%
  - c) Effect of government policy such as changes in import duty-33%
  - d) Exclusion of jewelers from the scheme-14%



## Panel 4- Market, Products & Portfolios- New Paradigm and New opportunities



**Mr Jeffrey Rhodes**, BTC Group (part of New Egypt Gold) - Moderator, **Mr Shivanshu Mehta**, MCX, **Mr Ketan Kothari**, RSBL Spot, **Mr Derek Neo**, Singapore Exchange, **Mr Ian Wright**, DGCX, **Mr Samir Shah**, NCDEX

Opening comments by the moderator, **Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold)**: “India is one of the largest gold markets in the world, and China is the number one consumer as its central bank is adding gold to its reserves. If we look at real demand from the general public, India firmly remains the number one gold off take market in the world.”

**Mr Samir Shah, NCDEX**: “As far as the gold market in India is concerned, we are going through an evolution with the government being very concerned about Current Account Deficit, import restrictions being placed, with the appetite still intact, with new refineries being set up in the country etc. So this is an excellent topic to discuss here”.

**Mr Ian Wright, DGCX**: “The market is evolved for a long period of time. There have been structural changes

occurred since 2008, and from exchange’s point of view, in respect of regulations and product developments, we have to deliver into market. As an exchange, there is a real sense of opportunity here to take market forward and provide next set of growth”.

**Mr Derek Neo, Singapore Exchange**: “Singapore Exchange started with the Singapore Stock Exchange and later merged with the International Monetary Exchange of Singapore. Today we have expanded our business into commodities as well as the journey started in 2006. In June 2014 in collaboration with World Gold Council and the Singapore Bullion Market Association, we have announced a new Singapore kilobar contract. The contract is well supported by the Singapore government as well. This contract is going to be a futures based contract, traded on screen, regulated by the monetary authority of



Singapore with transparent pricing and compulsory physical delivery. So the intention is to tap the opportunity, to fill the gap in the market. It forces the market to move towards spot price with six days forward”.

**Mr Ketan Kothari, RSBL Spot**, said, “RSBL Spot is one of the leading OTC physical bullion market platforms in India. When we started RSBL Spot in 2008, the market was run traditionally over the phone and the market was totally unorganized. So we brought about transparent price, national level delivery platform which has become a benchmark for most jewelers. In the last decade when we saw a lot of changes in the bullion market. In the next ten years there will be lot of opportunities for innovation in the B2C segment”.

**Mr Shivanshu Mehta, MCX**: “MCX is the leading domestic commodities exchange and also number ten in the world by the number of contracts traded. The journey of MCX has also been the journey of India as a price giver. Our product offering involves products of

all denominations right from the Gold Petal (weighing 1gram) to 100grams, Ginni and the Kilo contract. We try to serve the traders, consumers and hedgers alike and we have the fair patronage of the leading value chain participants of bullion who come, hedge and deliver on our platform”.

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold)**: **What do you think are the real market products and benchmarks that are going to come along in next 5-10 years? What is your view on bullion banking?**

**Mr Samir Shah, NCDEX**: The Reserve Bank of India (RBI) has talked about financialization of gold which needs to be brainstormed. The second idea that we should look at is the whole supply and demand of gold in Asian time zone. If countries are going to place restrictions on importing gold like India, then there should be a way to organizing things significantly. I just focus on these two themes and what kind of products the exchanges can provide in this regard. For example- an exchange cleared scrap to gold (swap) product. Retail physical holder of scrap gold comes in a very trusted environment, delivers

scrap gold, gets assayed right away and money paid on the spot or the exchange needs to provide refined gold within fixed period. If it is done well through an exchange cleared mechanism, it can be a solution that channelizes significant amount of demand.

**Mr Shivanshu Mehta, MCX:** If there is a running institution which is close enough on how an ideal gold bank should operate, then it is the commodities exchange framework in India currently as we have best vaulting facility, existing consumer base and existing delivery base. So the commodity eco system can be introduced here.

**Mr Ian Wright, DGCX:** There are surely structural changes going on; be it west to east movement, regulation changes etc. Now the flow and value is here in Asia and that provides a great opportunity. Hong Kong, Shanghai, Singapore exchanges are looking at new bullion products.

**Mr Derek Neo, Singapore Exchange:** It is seen that bullion banks are moving away from the market, but I would like to point out that our product was conceptualized because of demand from these bullion banks who want a product with fair, transparent market. That is why we have collaborated with key participants of the industry to make this a wholesale physical product. So many opportunities are there and it is with the exchanges to put out the right products and that will be instantly accepted by the market.

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold):** **What do you feel about innovation in market place?**

**Mr Ketan Kothari, RSBL Spot:** Innovation is required for the retail participation, but along with that simplicity should be there. Any product which is simple enough to understand has worked in India. For example the jewelers scheme are really doing well as people are getting return out of it and also they are able to convert the deposits into gold over a period of time. But these have stopped because of the New Companies Act. Now there is a great opportunity for Gold Accumulation

Plan which is not worked in India so far. So I see the Gold Accumulation Plan is a great innovation in case of product offering in India.

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold):** **What is the scope of bullion banks to flourish in Asia region by using the major exchanges for hedging their customer flows? What is your take on this?**

**Mr Ian Wright, DGCX:** We should be able to produce noble products as per the market demand at the moment. I think the real push for us in the UAE is some big regional banks with great balance sheets which should be involved in this case and there are some efforts going on.

**Mr Ketan Kothari, RSBL Spot:** Gold is always considered as a commodity in India while it should be considered as a currency. We should look at gold that is imported and consumed as the wealth of India. Even the per capita consumption of gold in India is extremely low. So the demand is only going to increase if people become wealthier. The whole idea of bullion bank or centralized, canalizing agency wherein people can deposit their gold and that gold can be used in the system, will in turn meet the physical need of the country.

**Mr Shivanshu Mehta, MCX:** When we look at India, we should look at the degree of penetration which is required to mobilize that kind of gold. MCX has an established network which is being present in 7000 postal locations in India. That means there are 7000 locations where people are familiar with MCX and trading bullion futures every day. So the awareness is there; the systemic change needs to be done. Of course if there is a bullion bank, it would provide a tremendous boost for MCX as the bank will use MCX platform for hedging. We view gold as currency not only a commodity.

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold):** **What can we do collectively to boost volumes against the very difficult market?**

**Mr Samir Shah, NCDEX:** We could do a lot more.

Structural changes are happening which require different response. We need continued discussions which will in turn lead to new products, infrastructure, participation and distribution.

**Mr Ian Wright, DGCX:** I think there is a lot going on, it takes time to do things right which is vital. We have got to be aware of the risks within the accountability system.

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold):** I always view Singapore being very conservative and change did not happen very easily there. But now it seems to be changing now. What is your view on this?

**Mr Derek Neo, Singapore Exchange:** Meeting the needs of the market is the key for serving and that is what we are catering through our new gold contract. What further needs to be done is the link within the physical side of the market.

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold):** Is it possible to have a common standard between the major regional exchanges?

**Mr Samir Shah, NCDEX:** Clearly LBMA is great for a particular market need but there is no kilobar standard catering to Asian need. I think there is an opportunity to create scale and standard where competitive interest would come in the way of joining hands.

**Mr Shivanshu Mehta, MCX:** Our contract reflects the true spot price of India because we cover the levies, duties and it reflects the premia and discount of the market. Still, there is a huge space out there which is not covered and we are very open for any collaborative effort.

**Mr Derek Neo, Singapore Exchange:** I think link between the exchanges is a positive thinking as it will create more opportunities.

#### Conclusive Remark

**Mr Jeffrey Rhodes, BTC Group (part of New Egypt Gold):** The Asia region and its exchanges can adapt a regional accreditation process.

The reason central banks do not like gold is because when you buy physical gold you take money out of the liquidity system. In India around 25000tons amounting 1trillion dollars is lying in households which could go straight into the banking system by the monetization scheme. All we need to do is to have gold bank accounts and that will be act as a paradigm shift.

#### Audience Poll:

- 1) Do you continue to use London gold and LBMA silver price fix to conduct your business?
  - a) Yes-51%
  - b) No-49%
- 2) Policy environment and transactions costs have reduced the relevance of exchange market place for bullion in India for hedgers.
  - a) Agree-53%
  - b) Disagree-47%
- 3) What interest rate (in metal account basis) would attract investments into gold deposit account?
  - a) 2%pa-7%
  - b) 3%pa-6%
  - c) 4%pa-18%
  - d) More than 4%pa-69%



# Focus Session -1- Movement of Gold (standard, jewellery, dore and scrap) within India: Opportunities and challenges

Mr S Rajkumar, Sequel Logistics

## INDIA'S LOVE FOR GOLD

- India's appetite does not take a hit even in worst economic times. India imported 800 tons, valued at \$56 Bn gold in FY 2012-13. Gold is the third highest imported product after crude oil and capital goods.
- Gold also dictates a very lucrative parallel economy. Directorate of Revenue intelligence impounded around 200kg gold worth \$15 Million in 2012 compared to \$2.1 M in FY2011. Many a wise men believe this may be the just the tip of a giant Iceberg beneath.
- On the brighter side, more than 50% of the gold jewellery manufactured in India is for wedding purposes.
- Most exports happen to primarily Indian diaspora living in Middle east, US, and Europe.




Sources: World Gold Council, Ministry of Commerce and other reports

## THE BIG FAT INDIAN WEDDING



- India witnesses approximately 10 Million weddings in an year. Gold is a compulsory element in all the weddings.
- \$528 Million or around 380 tons get consumed by weddings alone!

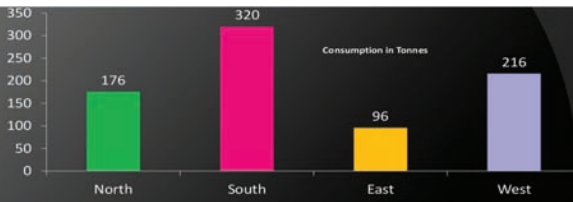
## GOLD JEWELLERY PURCHASE PATTERN



- Decision makers/influencers are women in the age group of 40-60 yrs when it comes to bulk buying for weddings. (3-5 lakhs).
- For a girl child, buying and storing gold jewelry for her marriage begins at young age. Atleast once in 5 years, the family buys a gold ornament for the girl.
- Men's suggestions have a string influence on multiple-item purchases.
- For any bulk purchase (wedding) a minimum of three and a maximum of six people are involved.
- Men above 60 years are buying to gift their children and mostly buy gold coins, finger rings, ear rings etc. Their association with store experience is highest amongst all buyers.

Sources: Browne & Mahan

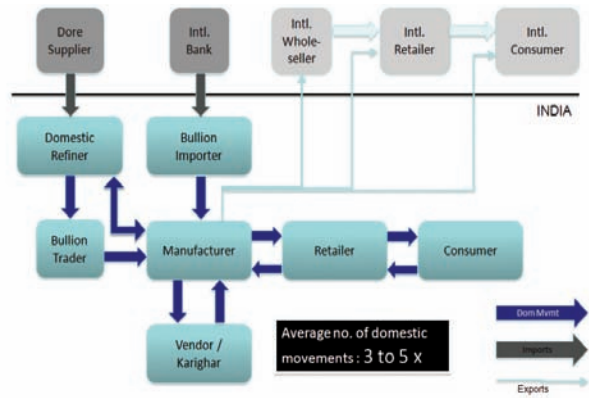
## REGION-WISE GOLD CONSUMPTION



Sources: World Gold Council, Ministry of Commerce and other reports

Delhi, Punjab, Haryana contribute 65% of North sales.  
 Junagadh, Ahmedabad, Mathura, Rajkot, Mumbai, Pune are the major consumption centers of Western India.  
 Kolkatta, Chhattisgarh, and Raipur major consumption centers in Eastern India.  
 In FY2012, 63% of the demand comes from tier-2 cities and consumers recycled about 100 tons of gold.

## GOLD SUPPLY CHAIN



## LOCATIONS THAT MATTER



**Major Importing / Vaulting Locations:** Delhi, Ahmedabad, Mumbai, Jaipur, Kolkata, Hyderabad, Bangalore, Chennai, Cochin

**Key Tier-2 Consuming Locations:** Agra, Kanpur, Varanasi, Patna, Amritsar, Rajkot, Indore, Bhubaneswar, Raipur, Vizag, Vijayawada, Salem, Coimbatore, Calicut, Thirsoor, Madurai

### Major Importing / Vaulting Locations

Delhi, Ahmedabad, Mumbai, Jaipur, Kolkata, Hyderabad, Bangalore, Chennai, Cochin

### Key Tier-2 Consuming Locations

Agra, Kanpur, Varanasi, Patna, Amritsar, Rajkot, Indore, Bhubaneswar, Raipur, Vizag, Vijayawada, Salem, Coimbatore, Calicut, Thirsoor, Madurai

## EVOLUTION OF SECURED LOGISTICS IN INDIA

- SUBSTANTIAL INCREASE IN GEOGRAPHICAL REACH – MORE THAN 200 TOWNS ARE NOW SERVICED BY SECURED LOGISTICS
- INCREASED SECURITY RISK, RESULTING IN CUSTOM-

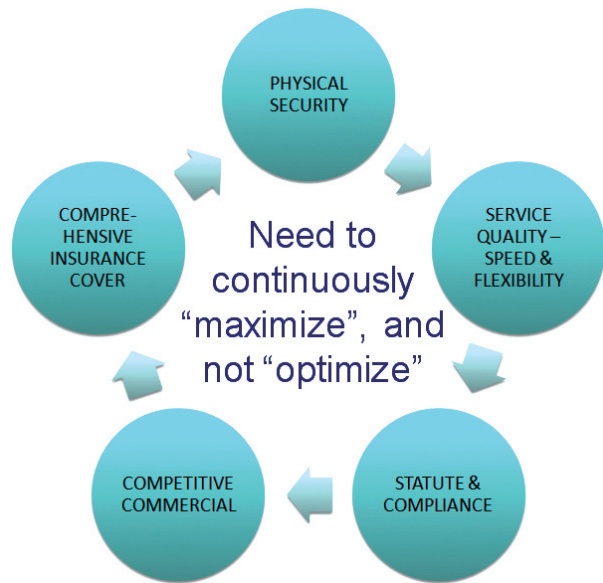


ERS SEEKING PROFESSIONAL & SERIOUS SECURED LOGISTICS PLAYERS. INSURANCE & STATUTORY COMPLIANCE IS MANDATORY

- MORE COMPETITION – LOWER LOGISTICS COST – “PER GRAM” & “COST PLUS” BASED COMMERCIAL



**KEY COMPONENTS OF SERVICE DELIVERY**



**2014**

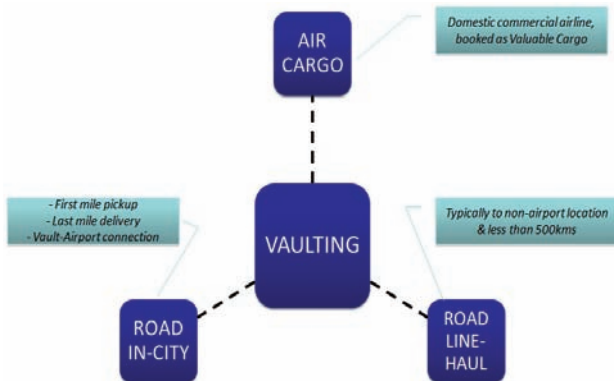
- BULLION METAL VAULTING & DOOR DELIVERY WERE RESTRICTED ONLY TO METROS
- NON-METRO & TIER-2 CITY BUYERS HAD TO MAKE ‘OWN LOGISTICS ARRANGEMENTS’

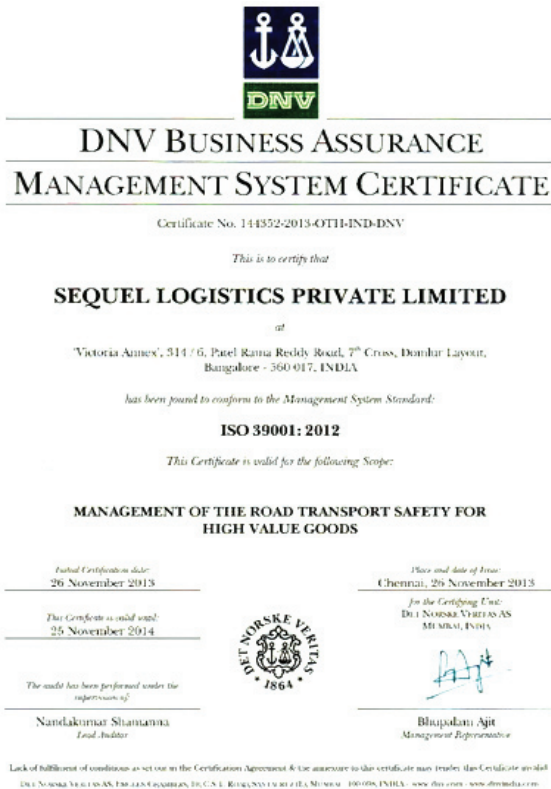
- JEWELLERY MOVEMENTS PRE-DOMINANTLY DONE BY ‘ANGADIAS’, ‘EXPRESS & DOCUMENT COURIER COMPANIES’ & ‘SELF-CARRY BY EMPLOYEES’
- MOST MOVEMENTS DONE WITHOUT STATUTORY DOCUMENTS & INSURANCE. RAMPANT NON-COMPLIANCE ON STATUTORY & SECURITY REQUIREMENTS
- LESS COMPETITION – VERY HIGH LOGISTICS COST – “VALUE LINKED” COMMERCIAL

**ROAD TRANSPORTATION**



**KEY ELEMENTS OF DOMESTIC LOGISTICS**





**ROAD TRANSPORTATION - DOCUMENTATION**

STATE	INBOUND DOCUMENT REQD	OUTBOUND DOCUMENT REQD	REMARKS
ANDHRA PRADESH	NA / FORM 10	WAY BILL	
ARUNACHAL PRADESH	DG01 FORM	NA	
ASSAM	FORM 62 & FOR e-COMMERCE NO FORM IS NEEDED	FORM 63 (CLEARANCE CERTIFICATE)	
BIHAR	ENTRY TAX APPLICABLE / FORM D IX	BELOW 10,000 (NA) & ABOVE 10,000 (APPLICABLE) / FORM D X	FOR INTRA STATE DECLARATION
CHANDIGARH	TIN NUMBER NEEDED	NA	
CHHATTISGARH	TIN NUMBER & INVOICE 3 COPIES	TIN NUMBER & INVOICE 3 COPIES	
DELHI	NA / FORM T2	NA	FOR COMMERCIAL FORM T2 IS APPLICABLE
GUJARAT	NA / 403	NA / 402	
ORISSA	INVOICE & FORM 402		TAX APPLICABLE IN ABSENCE OF TIN #
JAMMU & KASHMIR	ENTRY TAX APPLICABLE FOR REGISTERED USER/ VAT FORM 65 FOR COMMERCIAL SHIPMENT	NA)	ENTRY TAX APPLICABLE IF VALUE IS MORE THAN Rs 5000
RAJASTHAN	NA / VAT FORM 47	NA	
UTTAR PRADESH	FORM 39 / FORM 38	NA	

**ROAD TRANSPORTATION - SECURITY**

CARRIAGE VALUE LIMIT (CVL)		
CARRIAGE VALUE LIMIT PER VEHICLE		RESOURCE DEPLOYMENT
in INR	in USD	GUIDE
> 50 Crores	> \$8.0 M	SV-1, GM-3, DA-1,
< 150 Crores	< \$30.0 M	FV-1, SO-1
> 25 Crores	> \$4.0 M	SV-1, GM-2, DA-1
< 50 Crores	< \$8.0 M	,FV-1, SUP-1
> 3 Crores	> \$500,000	SV-1, GM-2, DA-1
< 25 Crores	< \$4.0 M	
Upto 3 Crores	Upto \$500,000	SV-1, GM-1, DA-1
Note		
SV - Secured (modified) Vehicle		FV - Followup Vehicle
GM - Gunman (armed guard)		INR - Indian Rupees
DA - Delivery Assistant (Custodian)		USD - US Dollar
SUP - Security Supervisor / Executive		M - Million
SO - Security Officer / Manager		

**ROAD TRANSPORTATION - DOCUMENTATION**

STATE	INBOUND DOCUMENT REQD	OUTBOUND DOCUMENT REQD	REMARKS
UT-TARANCHAL	FORM 17/ FORM 16	NA	
JHARKHAND	FORM 504 G (COMMERCIAL)	FORM 504 B (COMMERCIAL)	
KARNATAKA	NA / E-SUGAM (COINS & BULLION)	NA / E-SUGAM	
MAHARASHTRA	OCTROI IS APPLICABLE FOR MUMBAI	NA	MOST OF THE CITIES REQUIRE FORM LBT (LOCAL BODY TAX)
MADHYA PRADESH	Form 50/ Form 49	NA	
KERLA	FORM 8FA FOR BOTH INDIVIDUAL & COMMERCIALS	FORM 15	
TAMIL NADU	NA	FORM JJ	
MANIPUR	FORM 27	FORM 28	TRANSIT PASS IN FORM 29 & INVOICE FOR NON TAXABLE GOODS
TELANGANA	NA / FORM 10	WAY BILL NEEDED	
MEGHALAYA	FORM 35 (NON TAXABLE GOODS) / FORM 40 (IMPORT OF TAXABLE GOODS INTO STATE)	FORM 37	TRANSIT PASS IN FORM 38
MIZORAM	FORM 33	NA	
NAGALAND	FORM VAT 23	FORM VAT 24	
SIKKIM	FORM 25	FORM 25	FORM 25 IS FOR REGISTERED DEALER AND FORM 26 FOR OTHERS
TRIPURA	FORM XXIV/ FORM XXVI	XXVII	

**ROAD TRANSPORTATION - CASE STUDY**

**SPECIALIZED & SECURED HANDLING**

- Transportation of GOLD Plus Nano worth Rs.22 crores (USD 4.5 million), made of 80 Kgs of Gold and Silver & 20 Kgs of Precious stones
- Movement across 4 states, covering 30+ Towns and 8000+ Kms
- Customized vehicle with most Advanced Security features built in, which includes Night Vision camera, Intruder Alarm, GPS Tracking, Engine immobilizer, Special Ignition Controller, Two way communicator & Hydraulically operated Ramp
- Successfully over came the challenges of security, in a high visibility campaign that generated huge foot falls for the client



#### VAULTING STANDARDS

- Vehicle loading bay
- Sufficient 'layers' between loading bay and vault area
- Interlocking doors
- 6" RCC walls and ceiling
- Vault door with dual control lock controls
- Defender safe for storing gold bullion with dual key control
- CCTV cameras covering activity in the vault area and inside the vault
- CCTV recording held for minimum 30 days
- Motion detection sensors, intrusion and smoke alarms
- Generator or UPS backup
- At least two gunmen placed overnight to provide surveillance



#### OPPORTUNITIES

##### GST Roll out

- Will significantly reduce the commercial, statutory & logistics complexities that currently exists
- Substantial reduction in the total supply-chain cost. Reduction in "holding locations / cost", due to ease of transportation & servicing

##### Gold Monetization Programs

- Simple, effective & implementable solution to the 'import' problem
- Needs a highly effective & nimble logistics backbone to support this initiative
- B2C logistics that is quick, secure, far-reaching & cost competitive

##### Scrap Gold Collection

- Reverse logistics capability
- Wide, secured network

- Synergize 'forward' & 'reverse' logistics to offer cost competitiveness

#### Online Jewellery – ecommerce

- Steady increase in the online jewellery sale in the last 2 years
- Traditional Jeweller and Online retailers eyeing this 'profitable' category

#### CHALLENGES

##### Security – Armed Guards

- Of late, police across different states have initiated a crackdown on persons using arms issued to them in individual capacity for commercial purposes. The reason given for such operations is that the use of arms by persons to gain employment as Armed Private Security guards is illegal as it is deemed as commercial application of weapon license issued for personal security.
- Commercial licenses have neither been forthcoming, nor are commercial establishments keen to get the Arms licenses issued in their name, due to the liability it puts on the board members – this stringent liability as per the Arms Act is very unique to India.
- As a result, private security agencies have been technically compelled to employ people who hold Arms License in their individual capacity. Also noteworthy fact is that firearms issued to individuals have restrictions in terms of territories in which they can be used.
- The Arms Act severely curtails the ability to pool armed guards in an efficient manner to service clients and can be particularly difficult in case of inter-state transfer of goods/personnel leading to hiring of personnel holding licenses from different states.

#### CHALLENGES

Security – Constraints on the ground

Accessibility @ pickup and delivery locations



Zaveri Bazaar, Mumbai



T.Nagar, Chennai

## CHALLENGES

### Domestic Aircargo

- Jet Airways, the ONLY Air-cargo option available for Value cargo movement
- Significant reduction & roll back in service to key locations such as Vizag, Vijayawada, Bhubaneswar, Ahmedabad, Kolkata
- Airport infrastructure is woefully inadequate & constrained in handling Valuable cargo

### Import restrictions & Duty structure

- Continued restrictions in imports & high import duty structure, chocking supply
- Increase in smuggling & unaccounted gold movement continues to hurt the large, organized & honest jewellers

## SEQUEL LOGISTICS



Business Gaurav SME Awards  
2011  
Best Small Enterprise  
Logistics Sector



ET Now IndiaMART  
Leaders of Tomorrow  
Award 2011  
Transport and Logistics



YES Bank - Business  
Today Star SME Award  
2012  
Star SME - Services (Small)



Innovative 100 Award  
2013  
One of Top Innovative  
Companies of India (Mid-size)



## THANK YOU

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Website: [www.sequel.co.in](http://www.sequel.co.in)



## Focus Session -2- Lessons from China: Securing Gold Through Investment

Mr Jorge Ramiro Monroy, MD, Emerging Markets Capital



**EMC is the only Asia Based M&A Advisory focused Latin America Mining Transactions**

### M&A Advisory Services

- We help Asian clients identify potential acquisition targets in Latin America which can allow them to expand their business
- We structure deals in such a way that they satisfy the financing needs of Latin American companies as well as the investment needs and style of Asian Investors.
- Once an acquisition is made EMC will help the buyer with the process of integration of the acquired company and the buyer company

### Capital Raising

- We help companies with assets in Latin America to raise capital from Asian investors to assist them in expanding their business and their Asian shareholder base

### Buy Side Deal Origination

- We provide a deal flow of Latin American deals for Asian Investors
- Deals that come through our pipeline have been subject to preliminary due diligence. We look for exclusive off-the-market deals for our investors

### Chinas procurement of gold is driven by state owned companies

- China and India are different in that the drive for overseas natural resources procurement in China is been driven by government owned companies with strategic objectives rather than profits.

- India is driven by private companies whose primary objective is to create returns for share holders.
- China aggressively looking to become a major player international player for precious and base metals
- The Chinese government main objective is to avoid disruptions in supply and to shelter against price volatility, they also want to prop their currency as they are slowly liberalizing the RMB.

### Gold has significant strategic importance for China

- Form of savings for citizens
- Very significant for Chinese Government as they prepare to internationalize the RMB
- They want to eventually liberalize the RMB and prop their currency with gold to a significant ration, far beyond that of western countries
- China is very secretive about their imports of gold as the US thinks they artificially devalue the currency which creates a huge trade deficit for the US
- The recent creation of the BRICS Bank and the Shanghai Cooperation Organization significant

### China is becoming one of the most important mining investors in the world

- Chinese's main objective is to secure natural resources, and gold and copper are viewed by the government as the No. Strategic commodities, essential to the growth of the Chinese Economy
- Government, the direct investment from China has been growing from US\$1.8 billion dollars in 2004 to US\$13.3 billion dollars in 2009.
- Total outbound investment has reached US\$54.66 billion dollars in the past 10 years

### How are Chinese Securing Natural Resources Overseas?

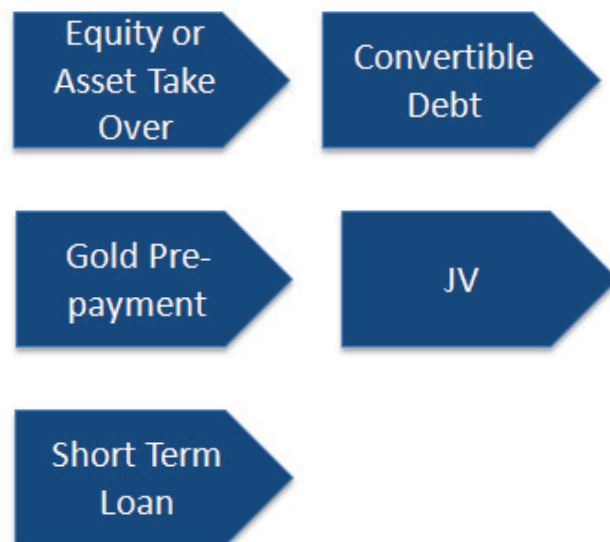
- 1 **Growing Equity Investments** Traditionally Chinese Investors had made majority acquisitions at the asset level. However,

In recent years there have been a growing number of Chinese and other Asian investors taking minority stakes in companies.

**2 Strategic & Financial Investments**

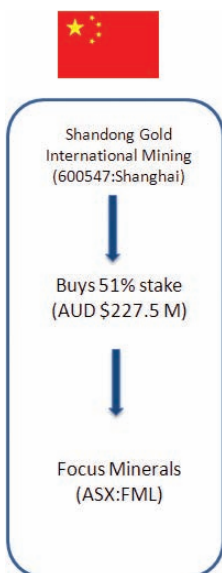
The level of sophistication of these investments reflects how Chinese companies are understanding better

western capital markets and see the benefit of becoming share holders in companies which hold assets they might be interested in buying in the future or merely for financial gain purposes.



**Case Study 1 – Shandong Gold Acquire Focus Minerals**

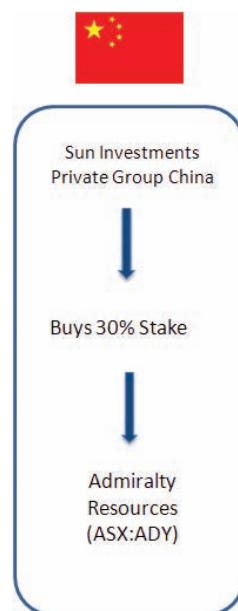
- FOCUS MINERALS Raises \$227.5M THROUGH PLACEMENT TO SHANDONG GOLD
- Investment by Shandong Gold to provide Focus with a robust balance sheet and the backing and expertise of one of China’s three largest gold producers
- Placement proceeds to support Focus’ goal of becoming a +500,000oz gold producer
- Placement price of 5 cents per share represents a premium of 28%



- Shandong Gold will own 51% of Focus on a fully diluted basis

**Case Study 2 – Sun Investments Acquire Admiralty Resources**

- Sun Investments acquires initially a 10% stake
- Through placements in subsequent rounds they rise their stake to 30% + Board Representation and Management Control.
- The company originally owned a copper asset in Chile
- After acquiring a controlling stake they began to look for other assets to inject into the company



**Case Study 3 – China Blue Chemical Invests in Western Potash.**

- China Blue Chemical acquire a 19% stake in Western Potash
- Board representation and control of CFO Office
- Accompanied by an MoU to supply Capex to develop projects
- Accompanied by a preferential off-take agreement
- Company will increase equity position over time

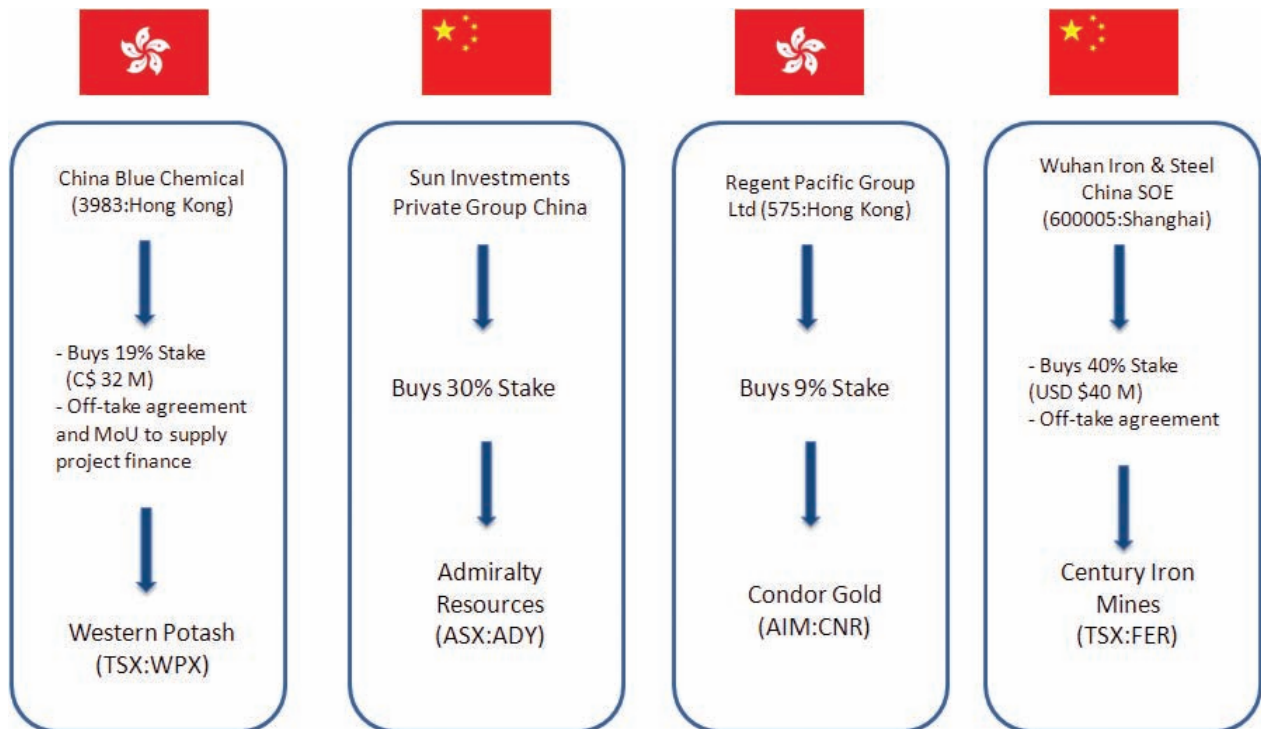


**Case Study 4 – Canarc Resources acquires Santa Fe Resources through Gold Bond**

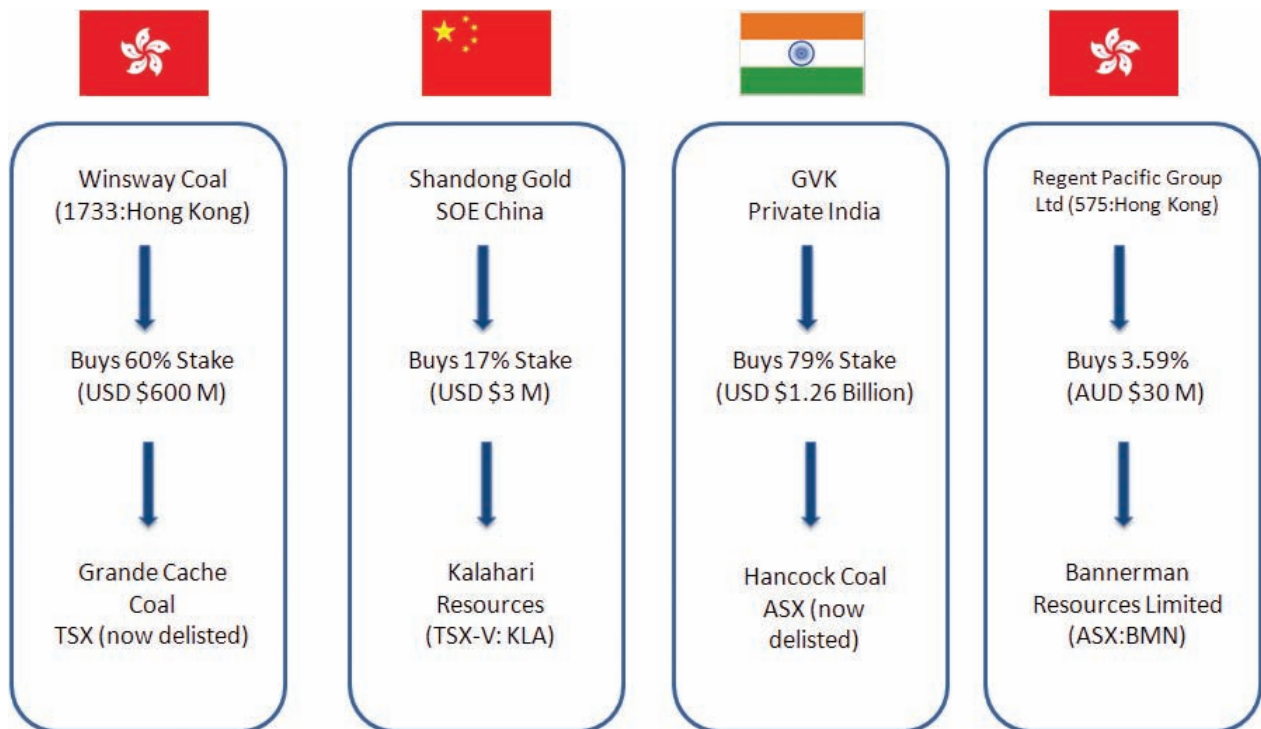
**Features:**

- Underwriting USD22 Million Debt Facility:
- Bond pays investor 8% interest per annum
- Security against mining title
- At the end of the loan period investor gets principal by way of delivery of physical gold at a preferential price.

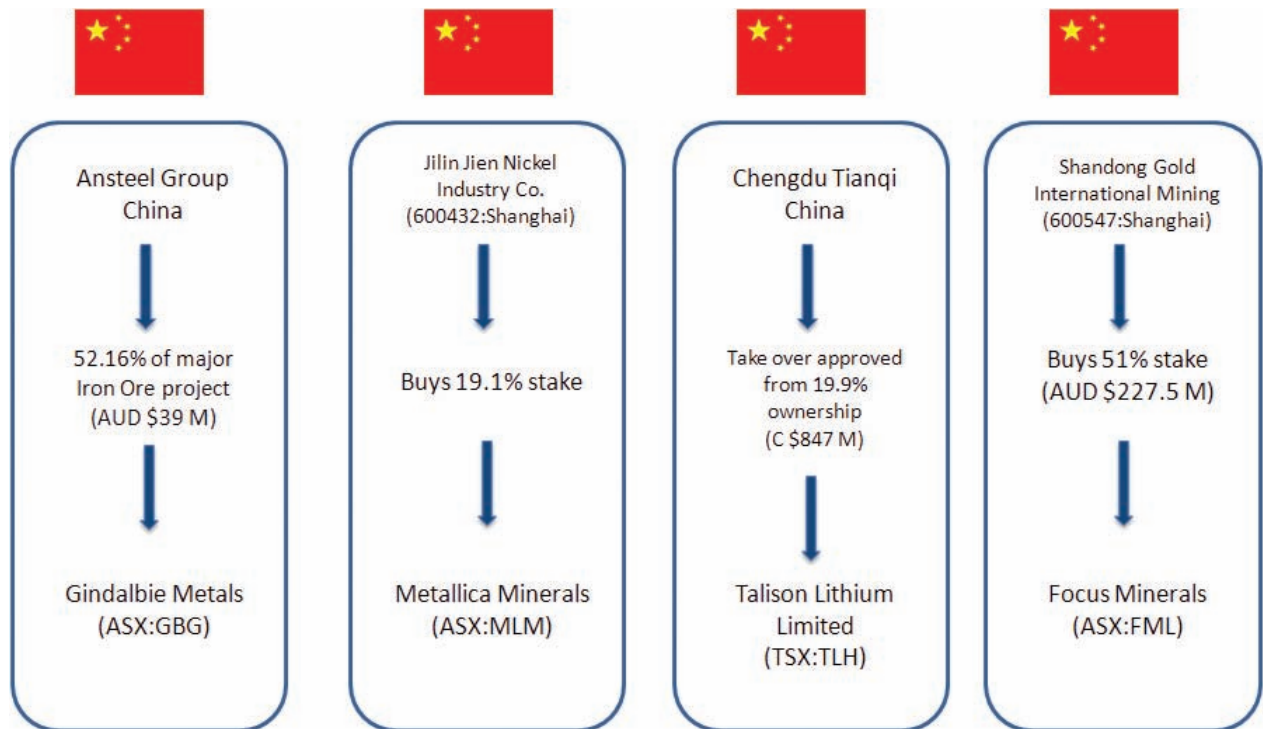
Sample Chinese, Hong Kong and Indian equity investments



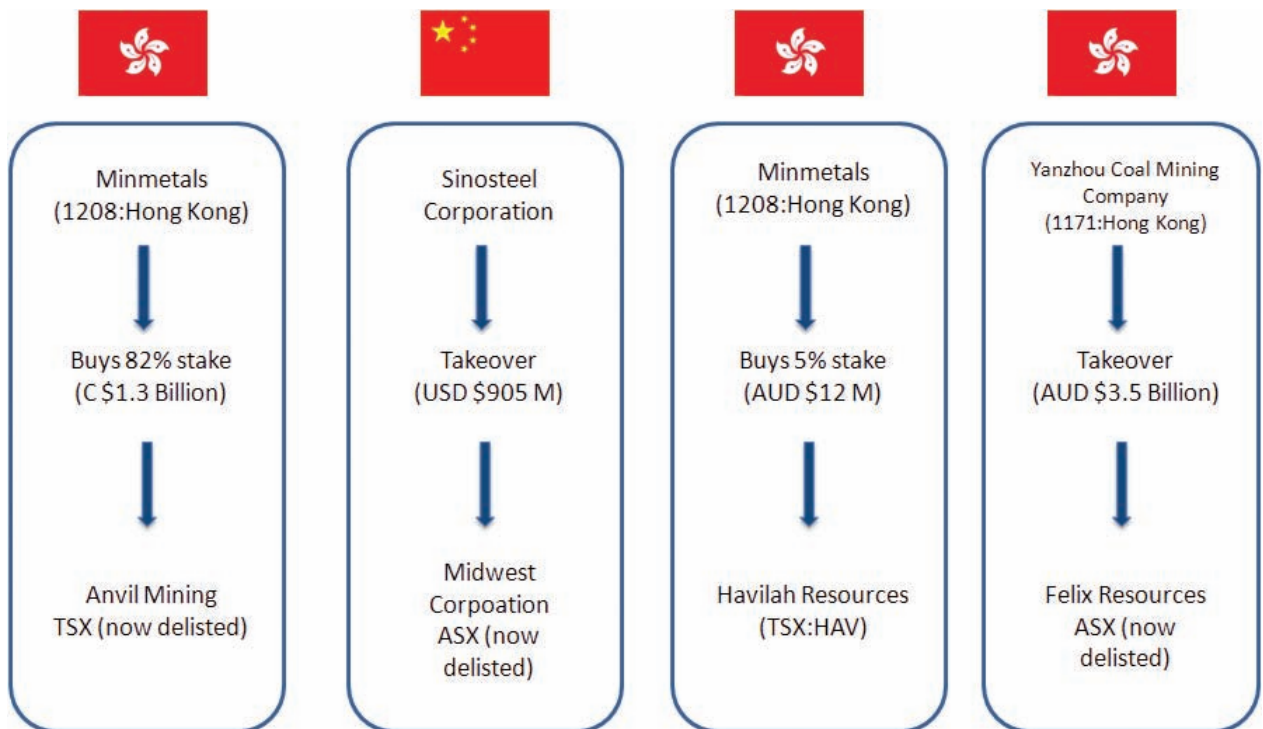
Sample Chinese, Hong Kong and Indian equity investments



Sample Chinese, Hong Kong and Indian equity investments

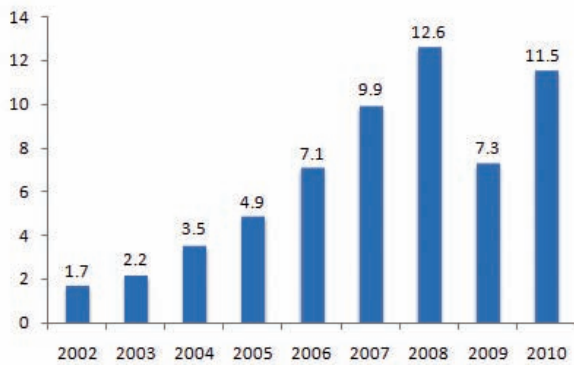


Sample Chinese, Hong Kong and Indian equity investments into TSX and ASX listed companies

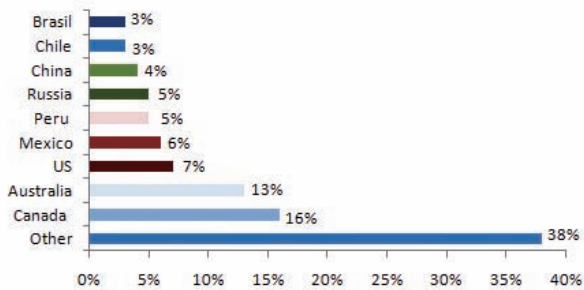


**What are the best jurisdictions to invest in world-wide?**

**2010 worldwide investment in exploration (USD Billion)**

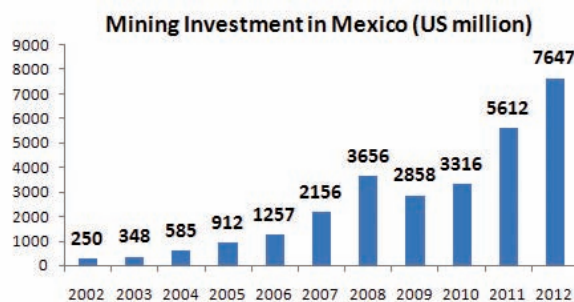


Mexico advanced two spots to become the 4th most attractive place in the world and 1st in Latin America in terms of investment in mining exploration, behind only Canada, Australia and United States.

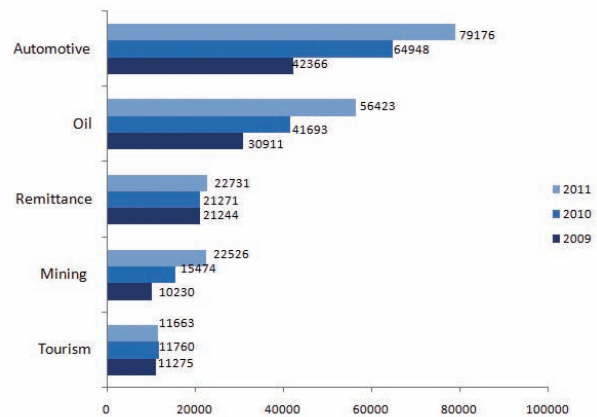


According to the Metals Economics Group, Mexico attracted 6% of the worldwide investment, equaling \$641 million USD.

**Mining Industry in Mexico**



Source: Camimex



Source: Camimex

Mining Numbers	
Annual Production Value	\$20,148 million
Mining Investment	\$7.647 million
Currency Generated	\$22,526 million

Source: Camimex

- Highest figure ever for mining investment in Mexico with \$7,647 million in 2012.
- The total for the 2007-2012 period ascended to \$25,245 million.
- 4th highest currency generating sector in the country.

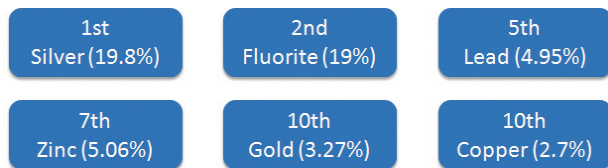
Mining Employment	
2012 direct jobs	332,000
2012 indirect jobs	1,600,000
2,000,000 Mexican families live off the mining industry.	

Source: Camimex

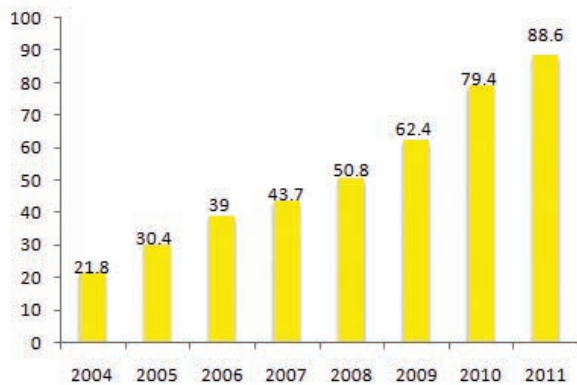
**Mining Industry in Mexico**

- Annual production worth: **\$20,148 million USD.**
- GDP: **1.6%**
- Jobs:
  - Direct: **332,000**
  - Indirect: **1,600,000**
- Mining investment 2012: **\$7,647 million USD (+36%)**

Minerals within Top 10 worldwide production: 18



**Gold**



**Largest Players:**

- Goldcorp Inc., Canada
- Fresnillo Plc., Mexico
- Minera Frisco, Mexico
- Agnico Eagle Mines Ltd., Canada
- Gammon Gold Inc., Canada

Gold Production by State (oz)	
Sonora	883,500 (31%)
Zacatecas	541,500 (19%)
Chihuahua	484,500 (17%)
Durango	285,000 (10%)

Source: INEGI

Total production in oz was 2.85 million

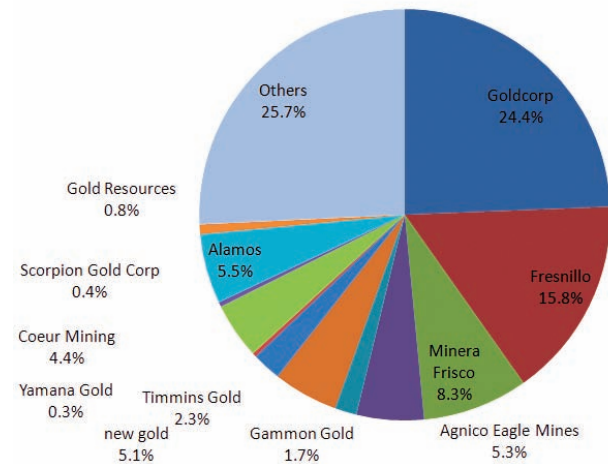
**Mexico's gold production per mining unit (main units)**

Unit	Company	State	Oz (000's)
Los Filos	Goldcorp	Guerrero	306.1
El Coronel	Minera Frisco	Zacatecas	175
Peñasquito	Goldcorp	Zacatecas	168.2
La Herradura	Fresnillo Plc	Sonora	162.9
Mulatos	Alamos Gold	Sonora	156
El Sauzal	Goldcorp	Chihuahua	152

Source: INEGI

**Total Gold Production is 2.8 Million Ounces annually**

**Gold Production 2011**



**About EMC**

Emerging Markets Capital is a Hong Kong based boutique M&A Advisory Firm, dedicated to connecting Asian Investors with quality investment opportunities in Latin America.

Our area of expertise is exclusively in natural resources. We focus on Mexico, Colombia and Brazil.

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## Opening Presentation of Focus Session - 3 Gold Saving Schemes

Mr Ashok Minawala, Past Chairman - GJF

1. For centuries jewellers' were the bankers to the people and trading community
- Jewellers' have financed rulers, citizens and business community in the country
- The masses would mortgage their land, assets & jewellery to take loans from jewellers
- Jewellers allowed their loyal customers to deposit their savings and buy gold / silver when they required it.
- Depositors earned interest and got convenience of safekeeping and jewellery buying at the end.

### Facts

- The new Companies Act 2013 seems to bring, or is suspected to bring in, restrictions on monies being paid by retail clients to their shopping establishments.
- Chapter V of Cos Act restricts deposits in the Company to be made in a certain manner only.
- There are conflicting interpretations on the effect of the above Act specifically on advances paid by clients to their shopping establishments, monies the shoppers pay in installments to buy jewellery from their shops.
- Jewellers run their businesses from Ltd Companies, Pvt Ltd Cos, Partnership firms and proprietor firms.

### Operation of savings scheme

- Gold saving schemes are simple ways for a consumer to save money, pay in installments, get benefit of gold rate, get safekeeping of savings for acquiring an asset.
- Jewellers allow clients to pay for consumer purchases in installments or in one shot at a later date before the sale.
- Jewellers allow clients to pay monies in installments ahead of their planned or intended purchase over a period of anywhere between 12 and 60 months at the most.
- Most schemes are in the time period of 1-2 years.
- Most clients "enroll" into such plans formally through an enrolment form and undertake to pay and then

collect their merchandise on maturity of such plans/ arrangements.

- Jewellers do offer clients some benefits or discounts on such maturity.
- Some jewellers call the last one or two installments as a discount or benefit, some call them incentives for such advance payment.
- Some jewellers try to explain the advance receiving interest for the incentives.
- Schemes are given attractive Branding but are accumulation plans, or savings plans, or rate protection plans, or simply gold purchase plans.
- While jewellers benefit by receiving working capital at low cost, they give consumers advantage of hedging by fixing gold rates against the EMI that acts as a hedge against inflation.
- In smaller cities and towns due to lack of proper banking this is very effective & prevalent.
- There are several plans operated by different jewellers, but all of them are for the single purpose of allowing general consumers to accumulate their savings for the eventual purchase to buy an asset -jewellery.

### What is the difference between a Deposit and an Advance?

The Cos Act defines a 'deposit' to include "any receipt of money by way of deposit or loan or in any other form by a company, but does not include such categories of amount as may be prescribed in consultation with the Reserve Bank of India." The Rules lay down the categories of amounts that are not to be treated as a 'deposits'. Section 2(31) of the Act.

### RBI Rules:

"any amount received by the company, whether in the form of instalments or otherwise, from a person with promise of offer to give returns, in cash or in kind, on completion of the period specified in the promise or offer, or earlier, accounted for in any manner whatsoever, or any additional contributions, over and above the amount under item (a) above, made by the company

as part of such promise or offer, shall be treated as a deposit; ...”

**Do the Cos Act rules apply to companies only or non Company entities too?**

- The Cos Act applies to Pvt / Ltd Cos - and RBI rules apply to all. ie: Pvt / Ltd Cos Partnership, Proprietor
- Such schemes can be operated as long as:
  1. Monies are received as advance for purchase
  2. The term Interest is not used
  3. Or any NBFC terms are not used
  4. As long as the benefit to the customer does not exceed 12% pa, as long as the scheme concludes with a purchase within 365 days with a sale.
  5. As long as long as total monies collected do not exceed 25% of companies net worth it is legally correct to run such schemes.

**What is different from such transactions which are part of normal course of business from normal sale transactions from the receipt of structured deposits?**

- a. It is basically the way the scheme is structured and marketed.
- b. When monies are received in EMI's as deposits as mentioned in the ads it will be a deposit.
- c. When monies are received in EMI's as an advance from customers it is part of normal business transaction where the customer finally buys a pc of jewellery at the end within 365 days with a sale.

**When the deposit or advance he has received is not secured will it affect credibility of the jeweller?**

The Jeweller must have a good credibility to run such a scheme.

He must make sure the funds are parked in a manner where he can not have a problem to repay if reqd.

He must follow thumb rule of confining total deposit to stay within 25% of his Cos net worth.

**In case the amounts accepted under the Scheme are treated as 'deposits' and the relevant jewellery company does not satisfy the relevant criterion suggested above then, in relation to the existing amounts, such company:**

would have to report the amounts due along with interest and the payment due dates to the registrar of companies within three months from commencement of the Act or from the date when such payments are due;

would have to return such amounts due within one year from the date of commencement or from the date such payments are due, whichever is earlier.

**Some more Qs?**

If only goods or services are transacted, in normal course of business, , will these “deposit rules” apply?

**NO**

Will the method of accounting matter if the amount received is accounted in different manners? **YES**  
By accounting the money as monies lying on account of ABC Savings Plan. Can we believe that these payments are in normal course of business and hence not under the preview of “deposit rules”. **YES**

Should jewellers be allowed to continue to operate these plans and not inconvenience normal shopping of consumers. **YES under guidelines.**

Should we seek any clarifications to be issued by the govt. **YES we require Gold savings schemes to ruled out of the purview of deposits so no legal hassles.**

How do we manage the media? **Pls be very clear that these are not deposits but advances to acquire gold jewellery.**

**Whenever man makes a better mousetrap Nature makes a better mouse**

**It's not always easy to do the right thing.**

But, doing the right thing makes you strong, it builds character, it forces you to make decisions based upon your beliefs and not what other people think.

In life, and in business, you have to stand for what you believe in and sometimes you have to stand alone.

But, what makes you a leader is having the courage of your convictions.

Wish you all a happy and healthy life and a wonderful day.

Thank you

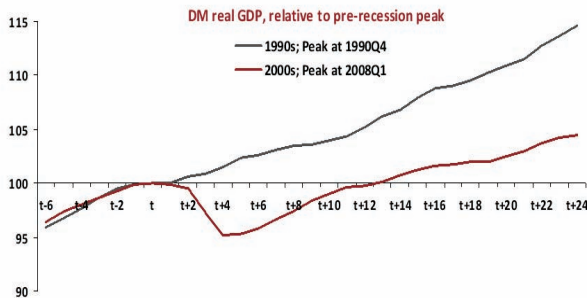


# Opening Presentation of Round-table Discussion Road map for the Indian Bullion Industry for the next 10 year

Mr Shekhar Bhandari, Kotak Mahindra Bank

## Global macro scenario

Global economy reviving, but traction continues to remain weaker than the previous cycle



Note: The point labeled “t” on the horizontal axis corresponds to the pre-recession peak quarter for each cycle

Source: OECD database, KMBL

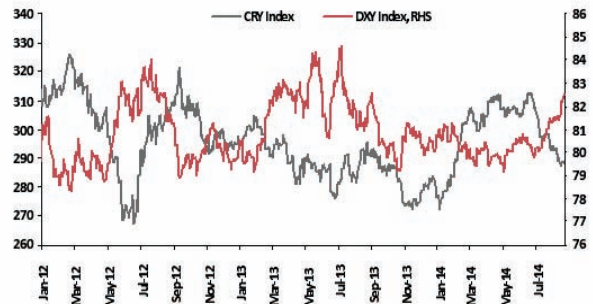
Stabilizing global growth a positive for India’s external demand

IMF Growth Projections				
	2012	2013	2014	2015
World	3.5	3.2	3.4	4.0
Advanced economies	1.4	1.3	1.8	2.4
US	2.8	1.9	1.7	3.0
Euro area	(0.7)	(0.4)	1.1	1.5
UK	0.3	1.7	3.2	2.7
Japan	1.4	1.5	1.6	1.1
EM economies	5.1	4.7	4.6	5.2
EM Asia	6.7	6.6	6.4	6.7



Source::CEIC, IMF, Kotak Economic Research

Commodity prices: US\$ firmness to depress \$ price of commodities



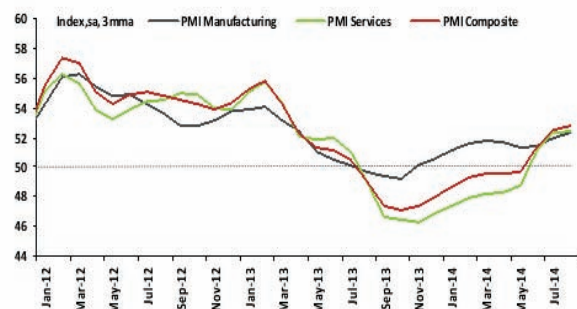
Question remains – If ECB goes in for a QE, what implications will this have on global commodity prices?

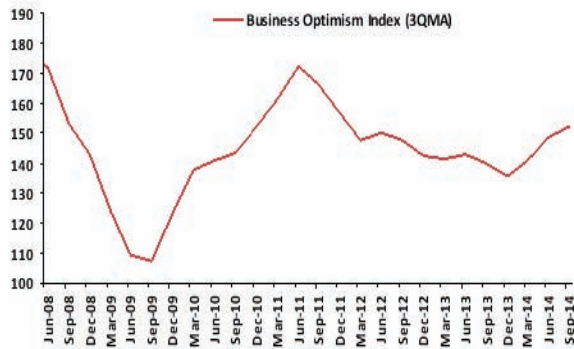


Source: Bloomberg, Kotak Mahindra Bank

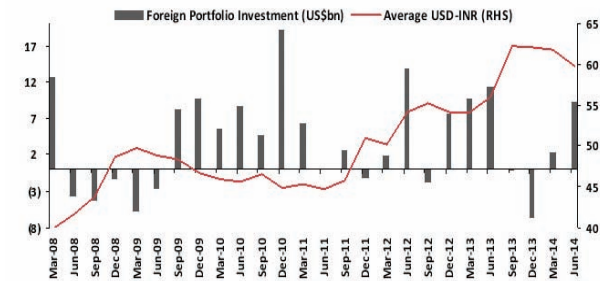
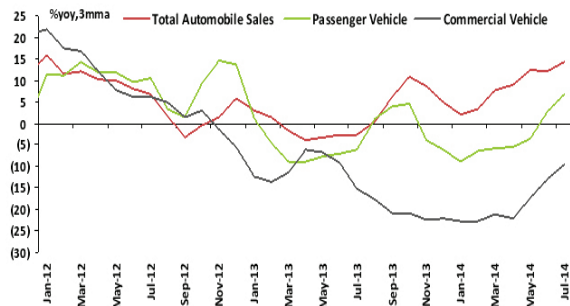
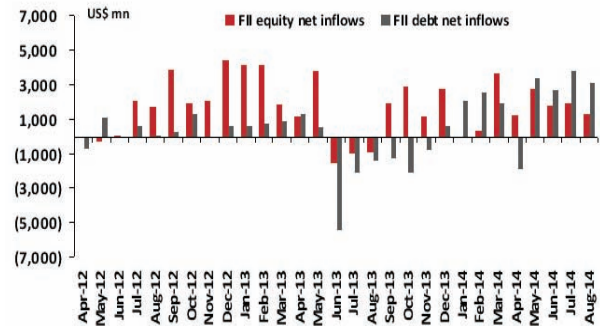
India: macro data hints that worst is over

Lead indicators as well as some real sector indicators point up





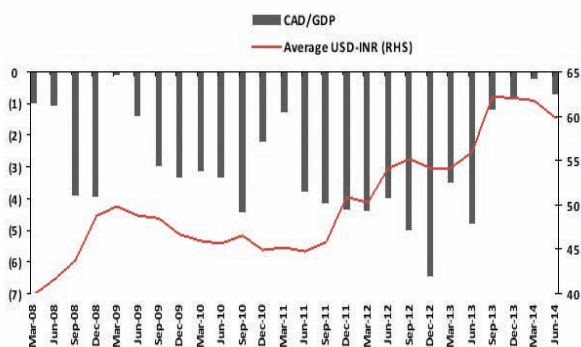
**Foreign capital flows have improved, rewarding stable politics**



Source: Bloomberg, D&B, Kotak Economic Research

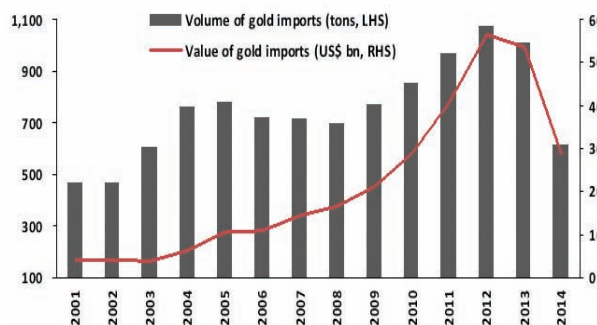
Source: CEIC, SEBI, Kotak Economic Research;

**CAD has corrected meaningfully....**



**Funding of CAD: Capital flows heavily biased towards FII ...**

(US\$bn)	FY11	FY12	FY13	FY14	FY15E
FDI	9	22	20	22	25
FII	30	17	27	5	25
Banking capital	5	16	17	25	8
- NRI deposits	3	12	15	39	10
Short-term credit	11	7	22	(5)	0
ECBs	13	10	8	12	8
Others	(6)	(5)	(4)	(10)	(9)
<b>Capital account</b>	<b>62</b>	<b>68</b>	<b>89</b>	<b>49</b>	<b>57</b>



Source: CEIC, Kotak Mahindra Bank estimates

Government policy traction to crucially determine pace of other flows, such as FDI

Biggest risk: Global issues

1. Geopolitical and implications on oil and commodity prices
2. Fed stance on interest rates – carry trades unwinding

Source::CEIC, Kotak Economic Research

**India : Next 5-10 years**

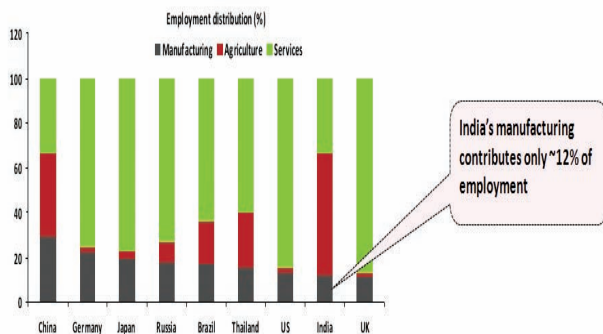
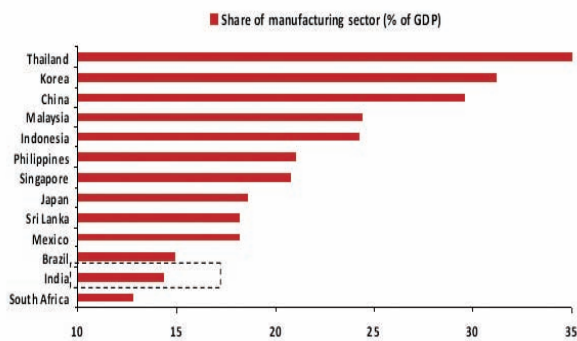
**Policy steps**

- **Outlined agenda of the government looks strong – making India a manufacturing hub etc.**
- **Some steps in the right direction**
  - Streamlining decision making by abolishing GoM; strengthening PMO
  - Speeding up environmental clearances
  - Pushing for greater accountability (less government, more governance)

**National policies to bring about a resurrection of manufacturing sector**

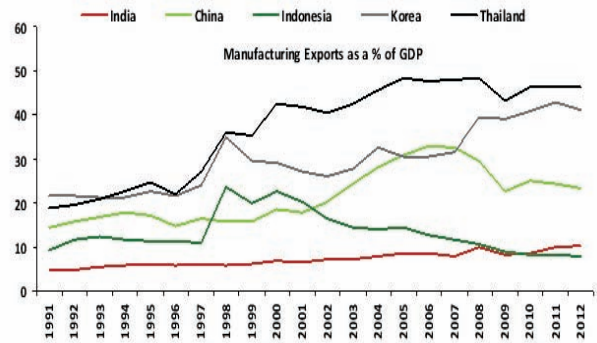
- Labour laws
- Land acquisition
- Infrastructure issues and skilling of work-force

**India’s manufacturing sector needs to gain importance in policy space**

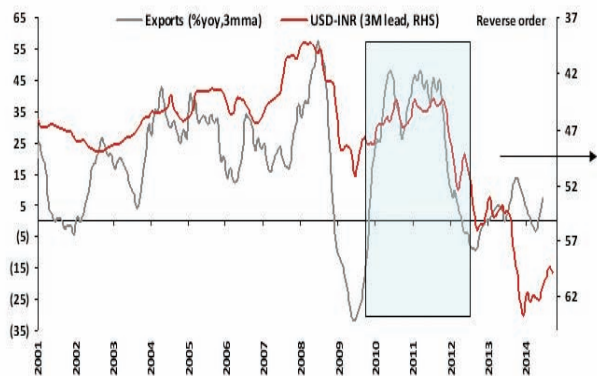


Source: WDI, CEIC, Planning Commission, KMBL

**Key to boosting manufacturing exports – efficiency of the sector rather than currency dynamics**



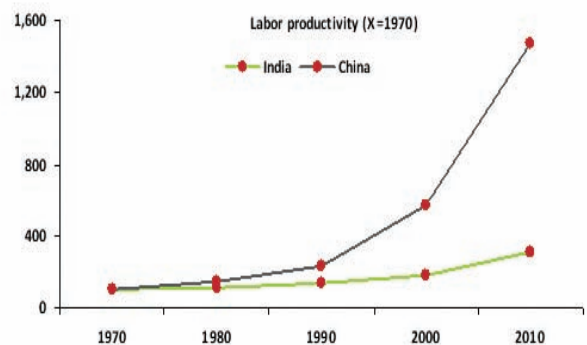
**India’s manufacturing exports have remained stagnant for more than a decade**

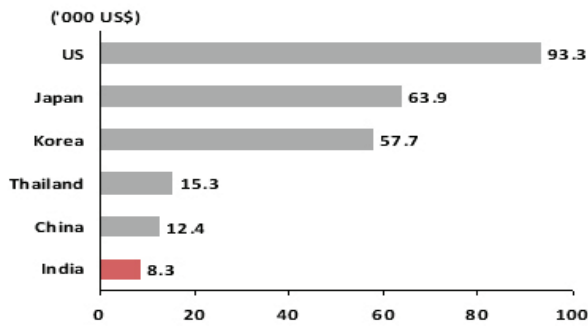


Exports weaken even as INR depreciates sharply!

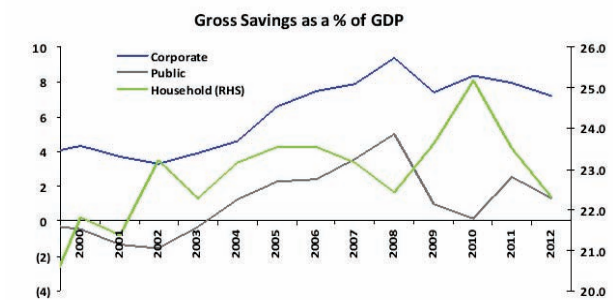
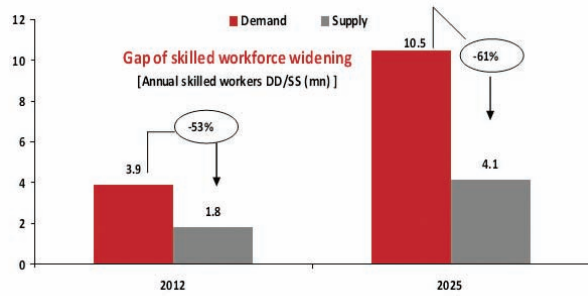
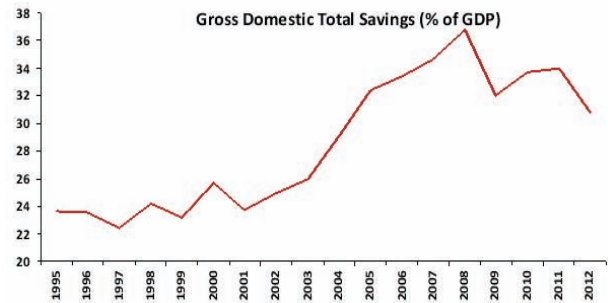
Source: CEIC, KMBL

**Bane for manufacturing: Labor - not competitive enough with widening skill gap**





Savings dip – household segment sees the maximum erosion

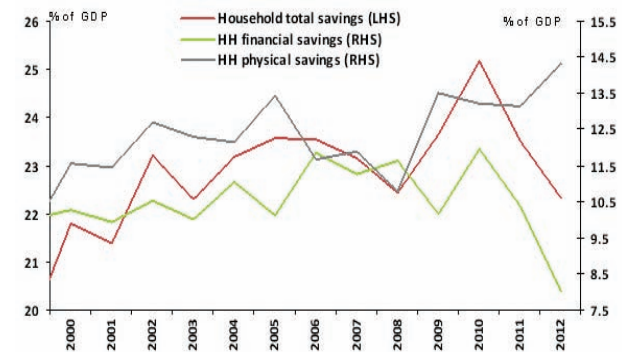
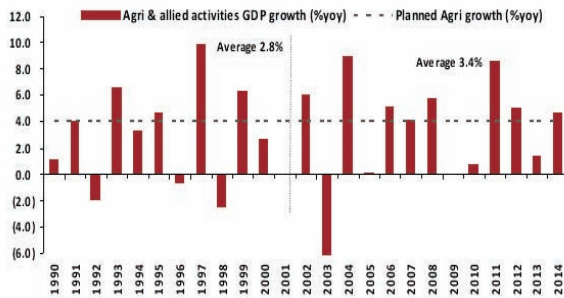


Source: WEF, Asian Productivity Organization (APO) productivity database; BCG

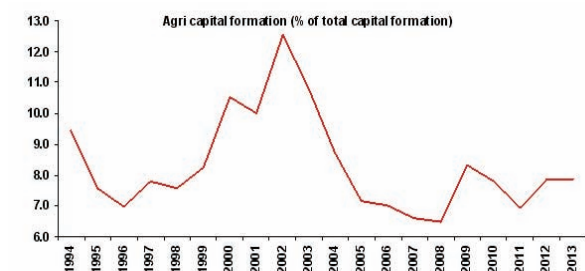
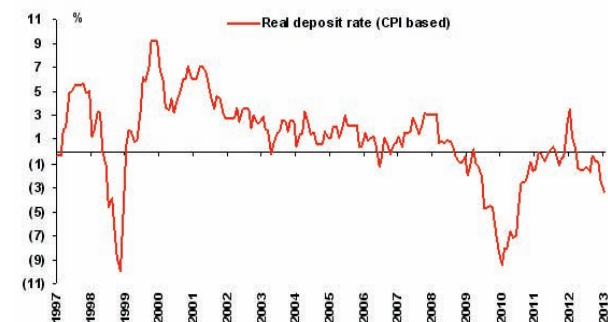
Source: RBI, CEIC

**Agriculture is another area that needs to be revitalized – both from the growth and inflation perspectives**

**Financial savings erosion is large as real returns to sav- ings are low**



**The sector has been largely ignored by the policymakers in 2000s and still depends on monsoon vagaries**



**Capital investment in agriculture remains low at 2.3% of GDP and 8% of total investments**

Source: RBI, CEIC

Source: MOSPI, Kotak Mahindra Bank

**India : : Monetising Gold Reserves**

- 25000 tonnes of Gold above ground
- Recycling
- Processing
- Structuring
- Gold-backed financial products
- Gold imports in 2024 .... !!!

**THANK YOU**

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## Presentation -1- What makes a successful partnership in India?

Mr Martyn Smith, The Royal Mint

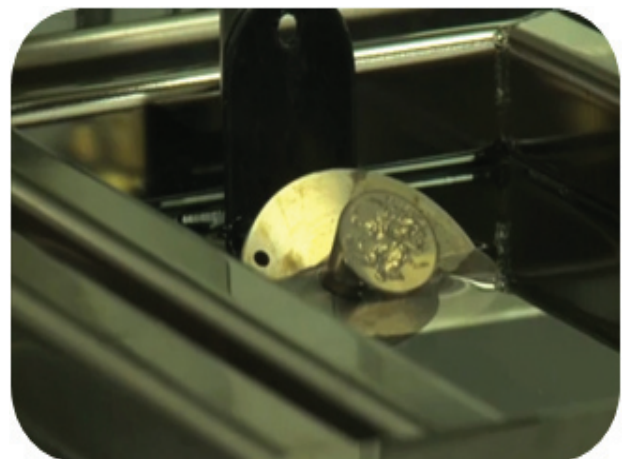
### Skill & Craftsmanship



The Responsibility



The Beginning





Connecting the Dots

The Step Forward



The Step Forward



## Presentation -2- Mapping Global Gold Doré Flows

Mr Philip Newman, Metals Focus

### About Metals Focus

- Truly independent precious metals consultancy
- Experienced team of precious metals specialists, 16-strong, based in 7 countries
- Not just desk-based research – extensive travel programme, with regular visits to key market participants in major markets

### Presentation Outline

- General Background
  - What is doré?
  - The market for gold doré
  - How is gold doré produced?
  - Where is gold doré produced?
- Breakdown of gold doré supply
  - Analysis of captive markets
- The outlook for gold doré supply
  - Key growth regions
- Conclusions



### Metals Focus – Doré Flows Service

The **Gold and Silver Doré Flows Service** offers a detail insight into the global flow of gold and silver doré from mine site to refiner. Designed to aid the industry as it plan ahead, identify opportunities and achieve economies all against the backdrop of falling feed from secondary sources and growing focus on sourcing compliance and risk management.

### The service includes:

- Over 725 mine and projects, with mine-by-mine production outlook to 2030.
- Wide range of project details, including development status, mine site costs, ownership and current information on doré metal content & refining location (where known).
- Monthly database updates (delivered in excel) with a bi-annual report.

For more information, please contact; [charles.demeester@metalsfocus.com](mailto:charles.demeester@metalsfocus.com)

### What is doré?

- Typically a gold-silver alloy, with less than 5% impurities.
- Impurities: non-precious metals, eg copper, lead, bismuth.
- Above certain limits these impurities can be damaging, can incur a refining penalty charge.

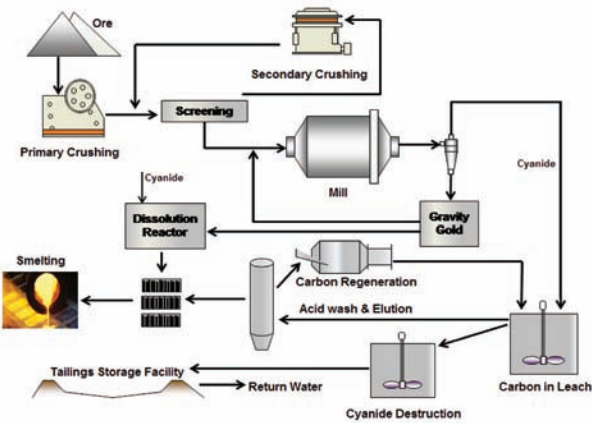
### The market for gold doré

- The market for gold doré is relatively stable compared with base metals.
- Refining a relatively minor part of a gold mine's operating costs.
- Global gold refining capacity ~2.5 times greater than annual gold mine production.
- Miners offered better rates, due to the regular consistent source.
- Gold's high unit value opens up an array of refining options.

**How is gold doré produced?**

- ~85% of global gold production is recovered to doré (or a gold rich concentrate); ~2,550t/yr of gold.
  - Gold is mined from ore, from rock containing: -  
 Open pit 0.5-2.5 g/t - Underground 4-7 g/t
- Processing methods vary depending on the mineralogy of the deposit, typically involves the extraction of gold using cyanide.

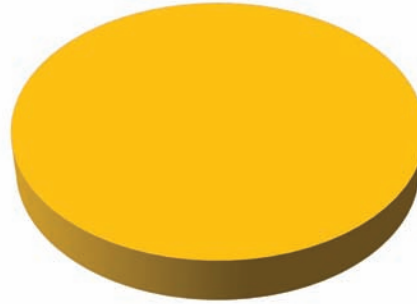
**How is gold doré produced?**



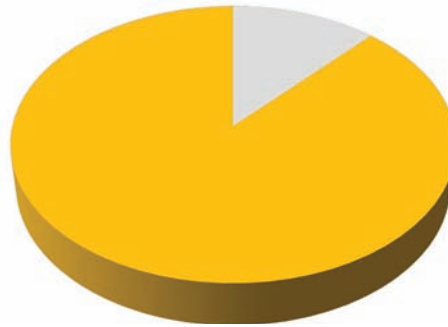
**Breakdown of global gold production**

How much doré is “readily” available?

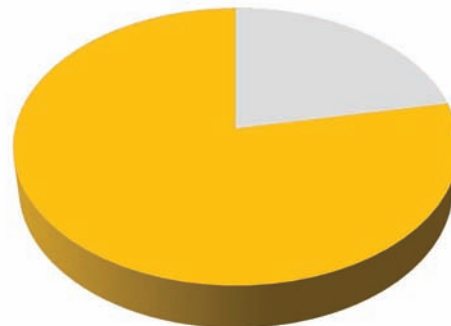
**Global Gold Mine Supply; +3,000 t/yr**



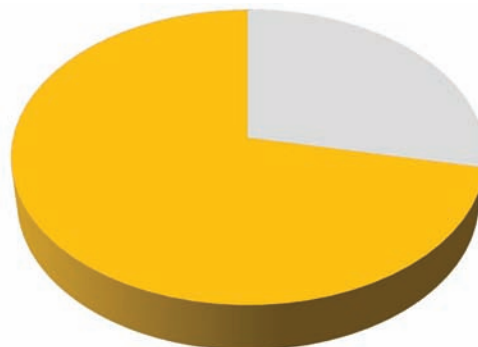
**Less informal gold production; ~350t/yr**



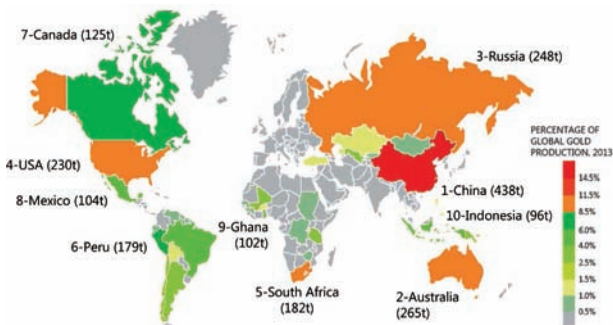
**Less by-product gold from base metal mining; ~300t/yr**



**Less gold recovered to concentrate (Au+Ag mines); ~200t/yr**



**Global gold production in 2013**



Source: Metals Focus

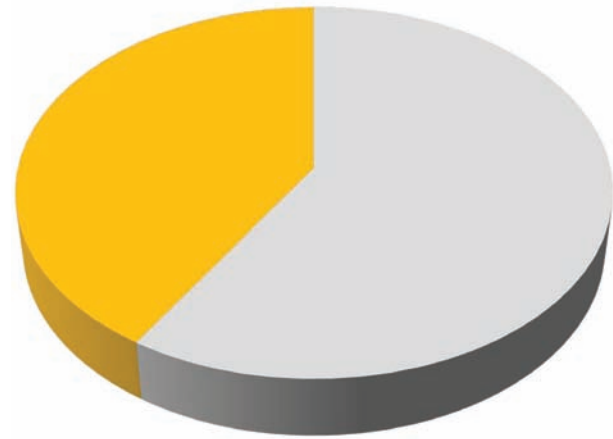
**Analysis of captive markets**



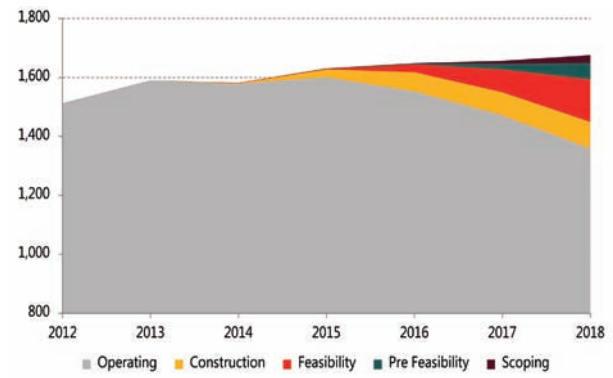
Source: Metals Focus

**Breakdown of global gold production**  
How much doré is “readily” available?

Less captive gold doré production; ~925t/yr  
Leaving ~1,225t/yr, or 40% of global gold mine supply



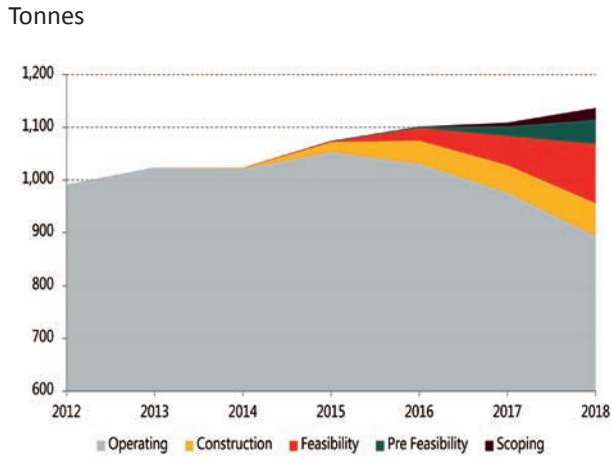
**Outlook for gold doré supply**  
Global gold in doré production capacity  
Tonnes



Source: Metals Focus Doré Flows Service, September 2014

**Outlook for gold doré supply**

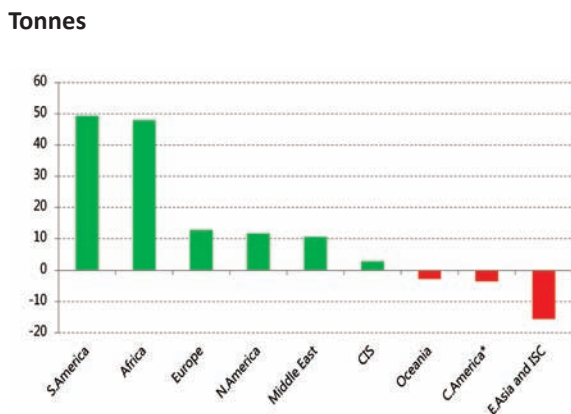
Global gold in doré production capacity, less captive supply



Source: Metals Focus Doré Flows Service, September 2014

**Outlook for gold doré supply**

Global gold in doré production capacity, winners & losers, 2013 vs 2018



\* Includes the Caribbean Source: Metals Focus Doré Flows Service, September 2014

**Outlook for gold doré supply**

Argentina’s production boosted by the ramp-up of Cerro Negro (Goldcorp), which poured first gold in July 2014.

**SOUTH AMERICA**



- In **Brazil**, Yamana Gold brought two mines into production last year (Pilar and Santa Luz), as did Carpathian Gold with Riacho dos Machados. A number of project have the potential to start in the next 5 years.
- Newmont recently greenlighted the development of Merian in **Suriname**. Scheduled to enter production in late-2016, with a potential for 300-500koz/yr.
- **Guyana** Goldfields Aurora project in construction. First pour expected early-2015. Currently expected to produce 125-300koz/yr.

**Outlook for gold doré supply**

- **Democratic Republic of the Congo** has seen three mines enter production in under two years. Twangiza and Namoya (Banro Corporation) and Kibali (JV: Randgold-AngloGold Ashanti). At full capacity, +600/yr of consolidated production.

**AFRICA**



- West Africa has seen a swathe of new projects over the past five years. And the region remains highly prospective.
- In August 2014, True Gold secures US\$120 million to fully fund construction of its Karma project in **Burkina Faso**.
- There are currently a handful of other greenfield projects in West Africa with the potential to enter production in the next 5 years.

**Outlook for gold doré supply**

**NORTH AMERICA**



- Growth in Canada being counteracted by declines in the USA; Mexico maintaining production levels following a decade of sustained growth.
- Along with China, Canada has some of the best potential gold production growth of a country.
- Outside of Ontario, **Canadian** production to be boosted by the ramp-up of a number of mines that have recently entered production, such as Canadian Malartic and Westwood. In addition, Éléonore is due to enter production in Q4 14, and at full capacity (H1 18) will produce 575-625koz/yr. There are also a swathe of development projects with the potential to enter production in the next five years.

**Outlook for gold doré supply**

**There exist the capacity to lift global gold doré higher, however there are a number of hurdles facing the industry:**

- Current market has led to a very sharp drop in project spending across the gold sector, from majors, to developers and most strongly at the grass roots level.
- Our outlook for gold prices and significant company debt mean this is unlikely to reverse anytime soon.
- Many companies have shifted their mindset from growing production to just focusing on returns to shareholders.
- Mining projects getting harder to develop; permit requirements, higher royalties and government free carry shares all cutting into investor returns.

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## Presentation -3- Gold Monetisation Scheme for India

Prof. Errol D'Souza, IIM Ahmedabad



Indian Institute of  
Advanced Study  
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Shimla



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### Monetising Gold: The Specifics

Despite introduction of variety of measures to reduce the CAD (higher import duties, 80:20 quota for imports, restrictions on gold related lending & coin sales) India still reported 3<sup>rd</sup> highest demand for gold in 2013 at 25.2% of world demand.

In Q2 of 2014 India reports the highest demand for gold in the world (26%) as China has reduced its demand.

**Demand for gold in India is not restricted to the well to do as the poor too prefer gold as a form of saving for four reasons:**

- Purchasing gold allows for small amounts to be accumulated at different intervals.
- Gold is not easily lost or destroyed. In fact, as jewellery it can be worn by women and passed on from a generation to the next.
- Gold is lightweight compared to its value.
- Gold is easily divisible into small units which can be liquidated in times of need.

**Important parameters from point of view of individuals who may consider depositing gold:**

- Purity verification in presence of the **individual**
- Purity verification by an international accredited laboratory or government backed one.
- Confidentiality, minimum paperwork, and nomination facility for gold on deposit.
- Flexibility on amount of gold deposited in a gold deposit account.

- Withdrawal of deposit in the form of gold or cash and interest also to be credited in the form of gold in the gold deposit account.
- Integrity of valuation process is crucial for success of a gold monetization scheme.
- Approved assayer who has credibility in ascertaining the quantity of fine gold tendered by an individual is of utmost importance .
- Traditional jewellers do not have standardized testing tools and the accuracy of scales used leaves a wide margin of error.
- Marketing to create awareness about product like gold deposit scheme essential – people prefer fixed deposits followed by gold coins/bullion and real estate. Gold is stored at home or in bank lockers.

**Banks** lacked the following capabilities that are crucial for mobilizing gold for productive purposes:

- Valuation – establishing the purity of gold in a transparent and efficient manner within a defined time frame.
- Storage & Distribution – a well developed logistics to prevent fraud and tampering and which enables inventory tracking.
- End-to-end customized ERP software. Errol D'Souza

**Requirement at this juncture:**

- An organization with a **core competence** of world class refining and minting that can be leveraged to deliver on a gold monetisation scheme.
- Ability to **assay metals** and associated **logistics** of moving metals in a secure manner across locations.

**MMTC-PAMP India Pvt. Ltd.**

This is a joint venture between MMTC Ltd. and PAMP SA, Switzerland, the world's largest independently owned precious metals refiner.

MMTC-PAMP India Pvt. Ltd. was incorporated in 2008 and has set up the **world's most advanced gold**

**and silver refining minting plant** that became fully operational in end March 2012.

PAMP is one of only three 'Approved Good Delivery Referees' of both the London Bullion Market Association (LBMA) and London Platinum and Palladium Market (LLPM) that is responsible for the testing of samples, the provision of reference samples, and other functions in support of the Good Delivery system.

MMTC-PAMP has been accredited as an LBMA Good Delivery Gold Refiner just two years after the start of production – a record for any refinery in the London market history

In its joint venture PAMP ensures that the MMTC-PAMP laboratory in India functions in compliance with high standards by training chemists to work in accordance with the Swiss Precious Metals Control Law (LCMP) and with the directives issued by the Central Office for Precious Metals Control in Bern (BCMP).

Its state of the art assay laboratory is equipped with services such as the ICP, Spark Spectrometer, and precise wet lab and quality control instrumentation and is manned by experienced Chemistry Masters trained extensively at the PAMP assay laboratory in Switzerland.

**Proposal:**

MMTC has retail outlets in all the regions of India

Time for the Government of India that is a co-owner of this world class entity to throw its weight behind **MMTC-PAMP opening purity verification centres** in various locations around India that can assay the gold that is brought by individuals who wish to participate in a gold monetisation scheme

**Purity Verification Centre –**

**Objective:**

To provide customers with a world class facility for purity determination in a defined time frame.

Facility to book an appointment online or through mobile apps for assaying.

Gold brought by customer to be verified in her presence so as to provide confidence.

Should have an online software for posting the results of the assaying and to auto credit metal accounts.

**Equipment:**

- A hand-held X-ray fluorescence (XRF) analyser to conduct a preliminary quick shot verification to identify the karat of the gold. If the customer is satisfied with this initial verification then she can give the ok to proceed.
- Accurate weighing in Mettler-Toledo balances to be calibrated daily with check weights.
- Induction melting furnace(s) to ensure better homogeneity during melting so as to improve purity testing. This involves a process that can take up to 15 minutes and minimizes the formation of slag.
- Molten metal is then to be poured into specially designed moulds, then cleaned by pickling and its purity verified by a high performance XRF machine which has the accuracy of +/- 0.1% for homogenized metal.

**Logistics:**

- The centres should be connected with the refinery with a full-fledged logistics department that has integral insurance cover for metal movement throughout the country.

**Identification and KYC norms –**

- For many families gold is part of the family inheritance for generations.
- In many instances gold is purchased from unorganized goldsmiths who do not provide ownership documents or a purchase trail.

Current minimum cap on gold deposits at 500 gm excludes many middle income households

- Minimum cap on gold deposits can be reduced to 50 gm and/or gold deposited valued up to INR 1 million.
- Only identity & address proof should be required for deposit of gold under 50 gm/INR 1 million.

Deposits exceeding 50 gm should include KYC requirements and include PAN declaration.

KYC to be implemented to improve confidence in the system and to introduce transparency.

Since metal account is to be an add-on to a savings account, KYC documentation will be simplified.

- Returns offered on gold deposit schemes hitherto have been unattractive.

SBI from Sept 2010 offers 0.75% p.a. for 3 years and 1% for 4 to 5 years with interest calculated in gold currency and payable in equivalent rupees.

Possible to pay 2 to 3 per cent annual grammage return to make scheme attractive.

Recommended return is feasible given that banks will be allowed to use these gold deposits to meet their domestic currency reserve requirements.

- Period of deposits that SBI offers of 3 to 5 years should also be changed to provide flexibility to customers.

Minimum deposit can be for a year with multiples of one year extensions to provide flexibility to depositor.

Period of deposits can be 1 to 7 years.

Premature payment with a penalty after a lock in period of 1 year could be continued.

Bank can also offer loan facility to depositor higher than 60% LTV ratio since collateral is gold of verified purity

- **After the assay** at the Purity Verification Centre the **depositor is immediately credited with a fine metal balance** in her bank metal account.

In the earlier system the depositor had to wait for 90 days to receive a certificate of gold content as the assay was done after the material reached the India Government Mint.

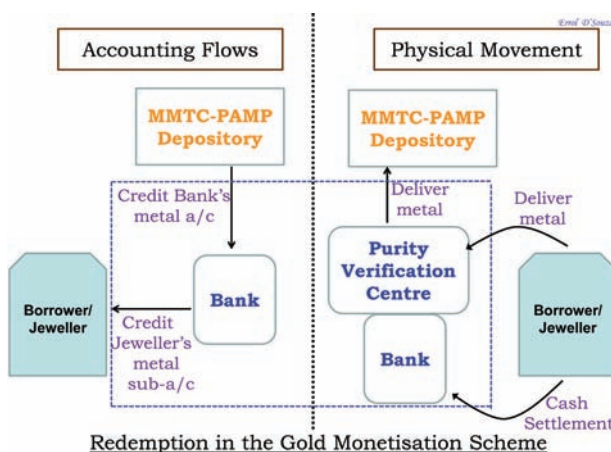
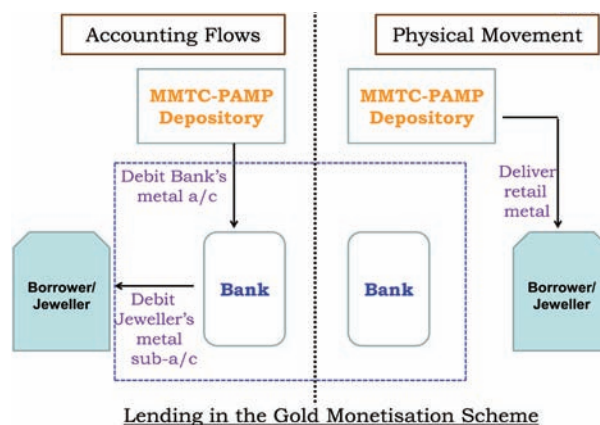
Under the current recommendation the individual can view her account online and verify the metal credit that has been uploaded after the purity has been ascertained.

**All back end logistics** (transport of gold, storage, and in-  
surance) **should be managed by MMTC-PAMP rather than by banks** that do not have the expertise on this count.

Purity verification centre receives scrap metal that it transfers to the refinery which in turn refines the metal within a limited period of say seven days.

Refined metal can then be transferred and assigned to the bank loco MMTC-PAMP.

Metal is now available with the bank for lending and it can also begin to pay interest on the corresponding deposit made by the customer from this time onwards (< 7 days).



**Banks handle the currency side of the transaction and MMTC-PAMP provides the entire infrastructure related to the precious metal part of the transaction** allows each side – banks and the refinery –to leverage their competencies whilst providing value to customers in a transparent and credible manner.

Achilles heel of the earlier Gold Deposit Scheme was related to the delivery of the physical gold.

Now MMTC-PAMP maintains dedicated Brink’s vaults and storage at various locations. This creates an all-India loco stock that would facilitate lending by banks to jewellers.

Physical gold is now transported across locations which requires some minor **taxation issues to be addressed** —

- Since banks will purchase gold to settle gold loans and **metal stocks will be generated at various locations** it would require that **depository vaulting services be exempted from service tax.**

**As a corollary, redemption of gold deposits will involve the movement of the precious metal. The delivery charges for all metal movement should also be exempt from service tax.**

- Purchase of gold by the banks will depend on its availability which could be either inter-state or within the state.

For inter-state purchases Central Sales Tax (CST) is liable to be levied on the transaction and in turn banks will then charge VAT to the jeweller. **To facilitate movement of the gold across locations it would be important to exempt CST** for the purposes of the monetisation scheme.

- At the time of making a deposit the depositor will usually not be in a position to provide evidence that customs duty has been paid on the gold she is depositing. (A jeweller providing gold scrap for refining gives a declaration that customs duty has been paid failing which there is an excise charge that is incurred.)

For households who have gold handed down for generations or who have purchased it from small jewellers there will be no paper trail available as to the customs payments on the import of the gold.

Hence, gold deposited under a monetisation scheme should be **exempt from the payment of excise** (currently 1 per cent).

Banks had shown little interest in gold monetisation schemes as they were not part of their core activities and they lacked facilities to melt the jewellery and test it for its purity.

All-India accredited assayer overseeing this part of the scheme reduces the cost to customers and the banks. Also, transactions will be in demat form.

For banks to be incentivized further it is recommended that they be given the option of using some of the gold deposited into their accounts to fulfil their domestic currency reserve requirements.

**Table 3: Suggested Reserve Option Coefficients across various tranches of the Reserve Option Ratio for Gold in India**

Reserve Option Ratio Tranches	Gold Reserve Option Coefficient
0 to 20 per cent	1.0
20 per cent to 25 per cent	1.3
25 per cent to 30 per cent	1.5

Safekeeping contract could be signed between RBI and MMTC-PAMP allowing for maintenance of required reserves in a designated gold vault at MMTC-PAMP.

Then, since customer’s gold is already at MMTC-PAMP all it involves is a demat transaction.

20,000 tons of gold lying unproductive in the country and yet banks are marginally involved in the monetisation of gold.

Currently gold imports tied to level of exports – the 80:20 rule.

To incentivize banks further they could be issued an increased entitlement to import gold the better their performance in the proposed gold monetisation scheme.

Data to implement this can be provided by MMTC-PAMP on a quarterly basis showing bank-wise receipt of deposit metal.

Within first month of scheme in place it is possible to collect 15 tons of gold with 10 assaying centres.

By end of first year this can be scaled up to 40 tons of gold per month.

Possible by end of first year to collect 100 to 150 tons of gold from the scheme.

This amounts to 12.1 per cent to 18.2 per cent of the gold imported into the country in the last year.

It also equals 0.5 per cent to 0.75 per cent of the estimated 20,000 tons of gold lying unproductive in the country.

Cost of funds for the scheme of 4.9 per cent to 6.95 per cent compares favourably with the 8 per cent to 10 per cent cost of dollar borrowing from external sources – next slide.

Cost of Funds for Gold Monetisation Policy		
Cost of Assaying		
a) Purity Verification Centre	0.1% - 0.2%	
b) Refining Cost	0.5% - 0.75%	
c) Logistics Cost	0.5% - 0.75%	
d) Refiner Administrative Costs	0.5% - 0.75%	
<b>SUB-TOTAL</b>		<b>1.6% - 2.45%</b>
Cost of Banks		
a) Gold price hedging costs	Nil	
b) Operational expenses	0.3% - 0.5%	
c) Interest paid to depositor	2.0% - 3.0%	
d) Risk premiums	1.0% - 1.5%	
<b>SUB-TOTAL</b>		<b>3.3% - 4.5%</b>
<b>TOTAL COST</b>		<b>4.9% - 6.95%</b>



## Opening Presentation of Panel-3 Making Gold Monetisation Scheme Work

Mr Bhargava Vaidya, BN Vaidya & Associates

### HISTORY

- Shop Floor Stock was Low
- Gap Run by Most Jewellers
- Gold Deposit Scheme (Gds) Also
- Popular with Many

### THEN

- High Interest Rate for Gold
- Accumulation with Jewellers
- No Legal restriction on acceptance of Deposit or Collective Savings scheme

### Analysis of Gold Scheme 1999

#### Background

- No Gold lease through Imports
- Market Lease rate on Gold around 9 %
- Fixed & stable rate of Import duty
- Plan to use Hallmarking Centers

### Negative Points Gold Deposit Scheme 1999

- Available of Cheaper International Gold lease ( 1% against deposit cost of 3 %)
- Trouble from Local Levies (Octroi etc)
- Duty variation risk and balance sheet cost of it
- No incentive for bank or staff

### WAY OUT

- Institutional
- Legal Support
- Structural Changes
- Execution issues
- Taking all stake holders along.

### INDIA

#### A

#### MAJOR

#### BULLION & JEWELLERY

#### HUB

**\*\* My Dream\*\***

#### Full Fledged Metal Bourse

#### Mumbai Bullion Fix



## Presentation-4- Gold and Silver Price Drivers Current Demand Trends and Outlook

Mr Cameron Alexander, Manager, Precious Metals Demand Asia, GFMS Thomson Reuters

Good Afternoon

As mentioned, my name is Cam Alexander and I manage the GFMS precious research across Asia and the Middle East. It is genuine pleasure to be back In India to meet with so many industry participants and good friends.

Thank you very much for sticking around for the final presentation of the conference. With a promise of a cold drink not too far away I appreciate your continued interest.

Today, I wanted to briefly look at the fundamentals of both the silver and gold markets this year and how these factors may be shaping the price.

And a brief look at where we think the Prices for these precious metals may be tracking for the rest of the year and into 2015.

### TWO METALS, BOTH WITH DUAL CHARACTERISTICS

- Gold is both a commodity and a currency; while
- Silver is both industrial and precious

A simple message here.

Both metals play a dual role.

Gold serves as a commodity and a currency while silver can be viewed as precious metal and also, importantly, as an industrial metal.

Lets look at gold firstly,  
NEXT SLIDE

### WORLD GOLD SUPPLY AND DEMAND

(tonnes)	2009	2010	2011	2012	2013	2014(f)	2015(f)
Total Supply	4,104	4,346	4,509	4,455	4,255	4,214	4,022
Physical Demand	3,023	3,809	4,512	4,316	4,956	4,501	4,197
Physical Surplus/Deficit	1,081	536	-3	140	-701	-287	-174
ETF Inventory Build	623	382	185	279	-880	-200	-200
Exchange Inventory Build	39	54	-6	-10	-99	-	-
Net Balance	418	100	-182	-130	278	-87	26

Source: GFMS, Thomson Reuters

As you will see from the table here we had broadly steady mine output in 2013, and only a small increase in industrial fabrication.

The really big changes last year came from jewellery and retail investment products on the one hand, and “professional” selling on the other. That simple 278 tonne “surplus”, thus encompasses a wealth of short-term dynamics, characterised in particular by the headlong rush for the exit from western investors, the associated price slump and the frenzy with which investors in the east snapped up all the metal that the west could throw at it – and more, partly explaining the backwardation that developed in mid-year.

This year (refer GDT) has been much quieter as some investors overbought last year, while others are uncertain about the price direction and have been prepared to wait on the sidelines, which in turn has

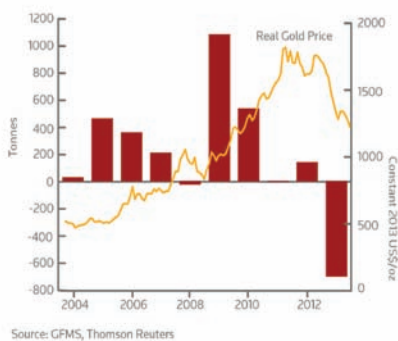
contributed to a lacklustre price performance. Weak premia in India and China are testament to this.

ETFs to date at a 29 tonne loss.. The overall market characterised by Small movements, reflecting overall caution.

COMEX inventories stood at 243t at start of year; now at 305t, a gain of 68 tonnes.

Arguable ,therefore , gold is behaving much more like a commodity at present, and since it is in relatively even balance, with reasonable liquidity, conditions are somewhat moribund. Illustrated by the benign price action; NEXT

**GOLD: PHYSICAL MARKET BALANCE; TONNES**



We saw from the earlier slide that the physical gold market was in a deficit last year – in the order of 700 tonnes

Looking back to 2009 – when the market was in significant surplus, we had an acute drop in jewellery demand as prices were trending higher, and a surge in available scrap flows (Note – peak) with these supplies meeting most of the requirements of the market. Scrap rose from 1350t in 2008 to 1726t in 2009 and has been gradually waning since to at 1267 in 2013. We are Expecting ~1100 this year then basing out at 1,000 next year.

So with scrap supply continuing to drop and mine supply also largely static the physical market is expected to remain in deficit for some time yet.

**GOLD AGAINST THE \$:€ RATE, JANUARY 2013 TO AUGUST 2014**

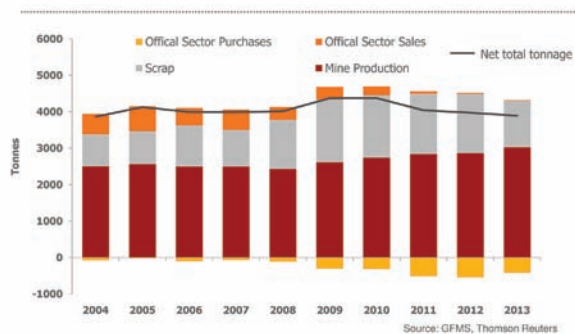


The Dollar : € range has not actually been that wide and with the exception of the massive sell-off in June 2013 it is arguable that for much of that year the \$ and gold moved broadly in tandem, reflecting risk-on / risk-off mode, with both acting more or less as safe havens. To be fair, gold had entered recovery mode in the latter part of 2013 and wasn't doing a huge amount.

Early 2014 and the relationship weakens and veers towards the historic inverse, with GOLD picking up some geopolitical premium while the \$ remained under some pressure. More recently the renewed concerns over the Eurozone have put the EURO under renewed pressure, while the lack of investment interest in gold has left it languishing and the \$ is again the safe haven of choice.

I Shall return to Some of the key financial drivers of sentiment later in the presentation; for now, lets delve a little into the market's underlying fundamentals.

**WORLD GOLD SUPPLY**



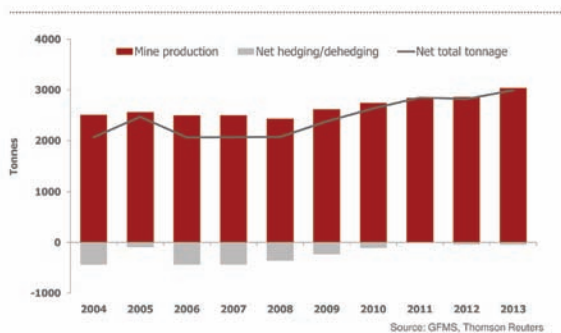
A brief look at the components of supply shows that mine production is remaining broadly steady, with good husbandry very much the name of the game in the face of high costs , while scrap supply has continued

to decline. In fact scrap return peaked in 2009, before the price topped out, underscoring our belief that much “near-market” material has now been absorbed and that it will take either a surge in prices or a rise in distress conditions to see a resurgence in scrap selling in the foreseeable future.

Central Banks, meanwhile, remain net buyers, although their appetite is not as strong as it was.

GO TO NEXT

### WORLD MINE SUPPLY



World mine production hit 4,255 t in 2013 and it is possible that this may turn out to be close to the peak.. Cost-cutting measures and a reduced pipeline to new operations suggest that the profile will be flat over the next year to eighteen months.

The tribulations of the mining industry are illustrated by the points made in this slide:

GO TO NEXT

### THE CURRENT STATE OF THE GOLD MINING INDUSTRY

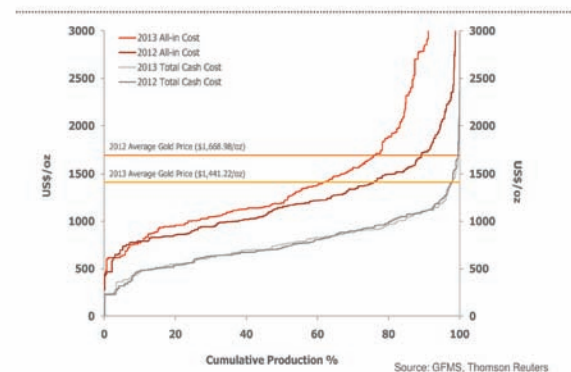
PREVIOUS DECADE	NOW
Higher gold prices resulted in lower cut-off and processed grades.	Lower gold prices leading to higher cut-off and processed grades.
Increasing production on capacity expansions.	Increased production on higher processed grades.
Surging mining cost inflation in tandem with rising gold prices.	Lower gold prices force producers to control mining costs – efficiency.
Rampant M&A activity at excessive valuations.	Falloff in M&A, large impairments and asset divestments.
High gold prices promote development of new projects, high capital investment expenditure.	Lower gold prices force a rethink to capital investment allocation and prioritisation.

Over the past decade gold prices rose in parallel with surging mining costs inflation. There have been two factors behind cost inflation 1) declining grade profiles at existing operations, and 2) rising commodity prices (oil, energy, above CPI wage inflation, commodity super-cycle driven by a booming demand from China). As prices rose, rampant corporate activity resulted

in producers paying excesses prices for increasing capacity either organically, or through acquisition (M&A). Producers added more and more previously marginal ore into mine plans, increased capacity which cumulatively resulted in increased production.

With the massive fall in the gold price last year, producers took multibillion dollar write downs from all under-conservatism of the past and were forced to reshape their mine plans, raise cut-off grades and implement strict cost cutting and efficiency measures for containing cost inflation. The industry is reeling at these prices, and are streamlining their businesses where possible, including asset divestments and in some cases mines are being placed on Care & Maintenance.

### WORLD TOTAL CASH AND ALL IN COST CURVES 2013 VERSUS 2012



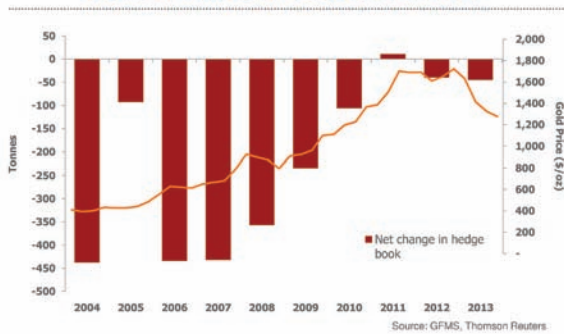
The focus in 2013 was very much on cost-containment. All-in costs (a proprietary tool that is designed to reflect the full cost of mining, including ongoing capital expenditure, indirect costs and overheads - as well as Total Production Costs), rose by 27% in 2013, to \$1,620/oz. This was bloated, however, by a number of impairments, as lower prices meant that revised mine plans were drawn up, reserves were recalculated and goodwill from prior acquisitions was written down. These impairments form the “extraordinary costs” in the “All-in cost” breakdown.

Prior to these impairments, then, the total production cost plus corporate administration, interest and sustaining capital expenditure, all of which are regularly incurred costs, amounted to \$1,206 in 2013, compared with \$1,181 in 2012. We must make clear, though, that these recurring costs are not the whole “All-in cost”, that has to include extraordinary costs also.

The largest contributor to cost increases was external supplies. On the other hand, foreign exchange movements helped to keep cost rises down, last year, as did an improved strip ratio and lower royalties, stemming from lower gold prices.

If we look at the cost curve in the slide, then 147 mines, representing 62% of the production of those mines analysed by the GFMS Mine Economics team, had All-in costs lower in 2013 than the annual average of \$1,411. So in simple terms almost 40% of mines were under water last year when gold averaged over \$1400.

**ANNUAL MINE HEDGING ACTIVITY**



The global Hedge book fell by 48 tonnes during 2013 to stand at just 75 tonnes at end-2013. Producers have remained reluctant to add hedges; indeed when prices were plummeting in mid 2013, some producers bought back position – notably some in Australia, thereby reducing liabilities or in some case crystallising a gain. Only ten companies added to their hedges on a net basis, while 36 companies reduced their positions. Meanwhile the aggregate value of the hedge book swung to a net asset in the second quarter of the year – the first time it has been in the plus column since we started analysing the data in 2003.

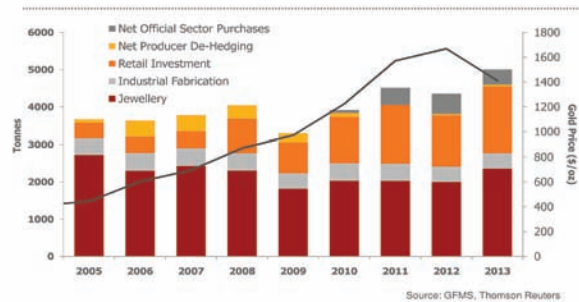
GO TO NEXT

**EVOLUTION OF THE GLOBAL HEDGE BOOK**



This year,, largely due to the Polyus hedge that has been put on in the second quarter of this year, amounting to ~11 tonnes, it is possible that we may revert to net hedging in 2014.

**WORLD GOLD DEMAND**



Turning to demand, we can see that this is much more variable than supply for a number of reasonably well-understood reasons. Physical demand is driven not only by wealth and disposable income, but, in the case of investment grade jewellery, --price expectations and the desire to hedge against all kinds of risk and to hold a safe haven investment.

Thus jewellery soared in 2013 from 2,000t in 2012 to 2,360t in 2013. Demand though is sluggish this year most notable in the Far East, although India remains under a degree of pressure.

Early estimates point to a fall in jewellery fabrication in the first half of more than 15% while retail investment has slumped close to 50% on a yoy basis.

We are expecting a healthy rebound in jewellery demand next year as the market recovers and the pipeline in China is worked through. Interest in bars is expected to be much the same however, not only as lower prices favour a reversion towards jewellery, but also as investment against financial risk moves somewhat to the sidelines.

GO TO NEXT

**NET OFFICIAL SECTOR GOLD PURCHASES/SALES**



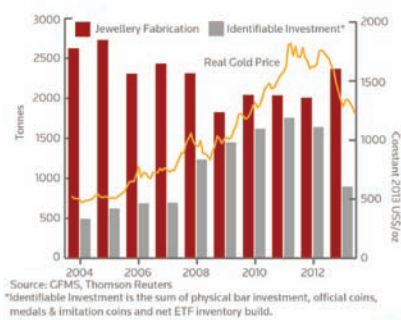
The official sector remained a net draw on the gold market in 2013, with net purchases of 409 tonnes. While down significantly from the 544 tonnes of 2012, this is still elevated by historical standard and largely reflects the continued desire on the part of Asian and CIS countries to diversify their portfolio holdings.

Gross sales last year are currently estimated at just twelve tonnes, with gross purchases of 421t.

Looking to 2014, while Iraq has already announced purchases of 60 tonnes and Russia (the largest recorded purchase in 2013 at 77 tonnes) is again in the market and on the basis of reported figures Russia overtook Switzerland in February this year as the seventh largest official sector gold holder.

GO TO NEXT

### JEWELLERY FABRICATION AND IDENTIFIABLE INVESTMENT



Much has been made of the West to East flows of metal last year, with surge in demand from these developing world markets offsetting significant falls in the west.

It is Worth Reviewing the extreme level of demand last year from the developing world and the support this provided to the gold price.

China jry fab increased 45% yoy to over 870 t in 13 up from 600 India 607 from 618 2% drop – not bad considering

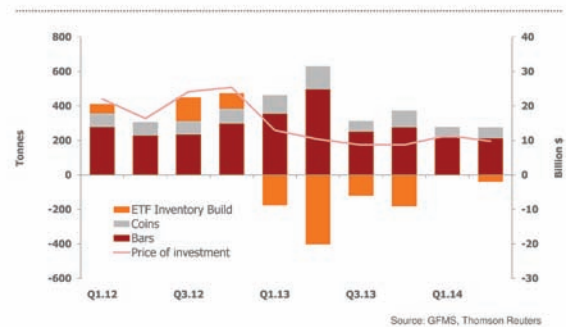
Bar demand in China surged near 50% - 360t from 240t India 30% rise 266 from 205

### So Looking at Asia overall

Demand surged almost 30% to 2925t from 2279. t A very different story in 2014 for most markets in the region with heavy losses in several markets. So this

year, there is no shining knight to ride in and pick up the slack.

### OVERALL IDENTIFIABLE QUARTERLY INVESTMENT LEVELS



If we look at a quarterly breakdown of investment demand in the last few years we can clearly see the significant ramp up in physical demand and redemptions from ETF in the first half of last year.

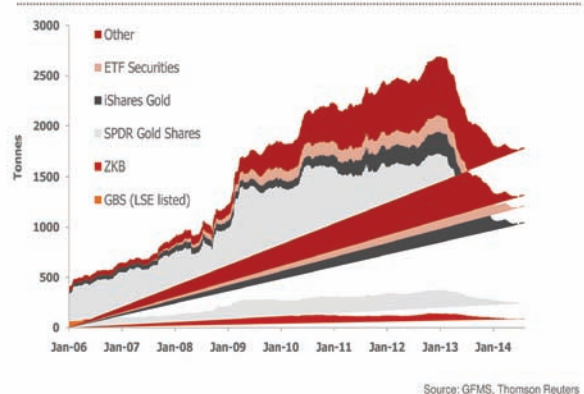
What is also of note is the sizable drop in investment demand this year.

Bar Demand dropped 37% in the first quarter and in the second quarter is believed to have retreated 57% from the heady levels of last year.

Of course some of this can be placed at the success of the other asset classes – particularly in western markets where equities continue to deliver impressive gains, while in the East a lack of price expectation and overstocking from last year’s surge has seen demand for bars and coins slump.

GO TO NEXT

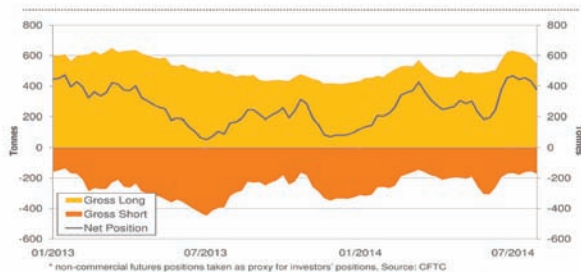
### GOLD ETFS AND OTHER SIMILAR PRODUCTS



While consumers in the East were stampeding to get their hands on gold it was a very different story in western markets where the market was dominated by liquidations. In 2013 we have an 880 tonne migration from the major ETFs, for a net daily dollar outflow of \$40Bn. Making the first year of negative outflows since the launch of the first gold ETF in 2003.

In 2014 to date there have been some sizeable influxes and similarly hefty effluxes. As of the end August, the sellers still had the upper hand, with a drop of almost 34 tonnes

**INVESTORS\*\* POSITIONS IN COMEX GOLD FUTURES**

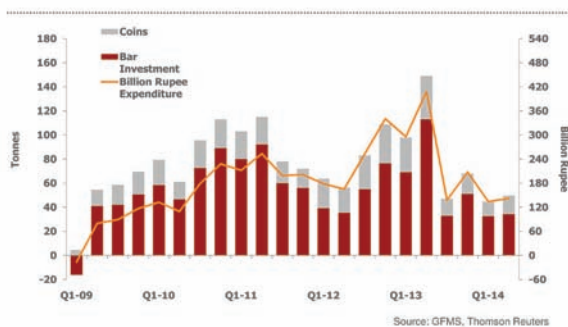


While last year was characterized by the significant level of redemptions from the Exchange Traded Funds there was also heavy selling in the Futures market.

The first quarter of 2014 saw a positive shift in investor sentiment that pushed prices back up above \$1380. Net investor positions were boosted by a healthy recovery in long positions.

Net investor positions on COMEX have been on a declining trend since the second week of July after rising through the second quarter. The trend sustained and has now fallen to the lowest level in this quarter. This can largely be attributed to lower price expectations since the beginning of the third quarter, following the reduction in quantitative easing and weak demand from Asia,

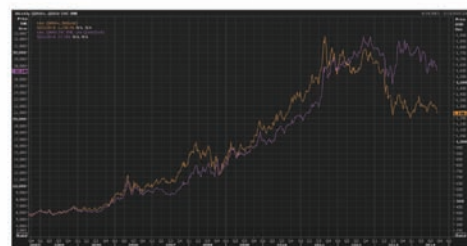
**INDIAN MEASURED BAR AND COIN DEMAND**



Recent buying for Akshaya Tritiya was relatively healthy; steady wedding-related purchases. Elections kept high-value purchases under a cap along with an increase in new-for-old; jewellery. It would appear that Supply pressure was released following the RIB relaxation on 5-star trading houses

In 2013; - Inventories were run down in India, which led to increased premia, but this then reversed, when the rupee price touched a record in late August. At this point unofficial supplies accelerated, scrap return increased and professional investors took profits, driving the domestic price to a discount to the international. Meanwhile the unofficial side of the market has been vibrant, while domestic consumers are shifting towards established brands and hallmarked jewellery; this has actually helped fine gold demand as under-carating has been reduced. Even so, as this slide shows, imports dropped substantially after the July imposition of the 80:20 rule. Net imports here is net of round-tripping, not net of exports. We estimate round-tripping at 104 tonnes last year – this is down from 170 t in 2012 following legislation that prohibited the export of medallions and coins from the SEZ, effective May 2013. GO TO NEXT

**GOLD IN US\$ AND RUPEE TERMS**



Source: Thomson Reuters Eikon

Gold basis INR down by 18% from peak and in dollar down by 35% Customs duty of 10% and local premia providing the floor to price in India.

**CHINA CONSUMPTION**

Lunar New Year : First quarter  
Wedding season: Lunar month of September, this year it is from 24<sup>th</sup> Sep to 21<sup>st</sup> Nov



Chinese gold demand shrunk in the first half of 2014, an over 60% decrease on physical bar investment driven predominately by the government’s anti-corruption activities as well as lack of investors’ confidence in gold, and an over 20% fall on jewellery demand owing to the over-purchase last year and lack of price stimulus this year.

The first quarter enjoyed a 10% increase for gold jewellery, credited to Chinese New Year restocking and demand hike, while the second quarter suffered from a severe decrease of over 45% attributable to the gold demand rush in Q2 last year as well as overall weakness in demand driven by over-purchasing and more rational consumer sentiment.

Demand is likely to keep sluggish for the rest of the year before Chinese New Year preparation.

**GOLD AGAINST OTHER ASSET CLASSES**

	2008	2009	2010	2011	2012	2013
EU/US\$ Rate	0.5	0.37	0.26	0.27	0.51	0.37
US/Yen Rate	0.21	0.25	0.16	0.14	0.12	0.16
Silver	0.6	0.63	0.58	0.63	0.60	0.68
Oil (WTI)	0.21	0.20	0.32	0.13	0.30	0.17
GSCI	0.25	0.22	0.40	0.20	0.36	0.32
CRB Index	0.23	0.28	0.23	0.21	0.15	0.23
S&P 500	-0.1	0.07	0.17	-0.03	0.16	0.2

Source: GFMS, Thomson Reuters

Clearly the strongest relationship here is with silver, but that is to be expected, with an average of .62. The \$ € relationship comes in at .38, which talks to our earlier assessment of how the two can work hand in hand as safe haven assets, subject to what is driving the market’s fears at any one time. The inflationary indices are more or less self-explanatory, and although it may be surprising given the current low level of inflationary exceptions, it shows that the old relationship still persists to a degree – and similar arguments pertain when we look at a shorter-term analysis;  
So.. GO TO NEXT

**GOLD AGAINST OTHER ASSET CLASSES**

	Q1. 2013	Q2. 2013	Q3. 2013	Q4. 2013	Q1. 2014	Q2. 2014
EU/US\$ Rate	0.09	0.37	0.44	0.62	0.34	0.07
US/Yen Rate	0.27	0.14	0.07	0.38	0.50	0.14
Silver	0.51	0.78	0.63	0.54	0.50	0.55
Oil (WTI)	0.25	0.40	-0.05	0.02	-0.10	0.23
GSCI	0.37	0.48	0.18	0.11	0.03	0.24
CRB Index	0.12	0.47	0.22	-0.03	-0.09	0.09
S&P 500	0.11	0.31	0.16	0.05	-0.3	-0.26

Source: GFMS, Thomson Reuters

And this, especially the point about the lack of correlation with the S&P, but the interesting thing to note is the recent increased in the relationship with oil, which largely reflects the geopolitical tensions, So.. GO TO NEXT

**GOLD AND THE S&P 500**



Source: Thomson Reuters Eikon

**GOLD PRICE & TRADE-WEIGHTED DOLLAR**



Source: GFMS, Thomson Reuters

Gold averaged \$1,411 in 2013 and in 2014 to End August the average was sitting around \$1294

We can see on this slide the major drivers that impacted both the gold price and indeed the USD in the last 18 months.

Looking at last year there were a couple of significant turning points for the gold price.

This year we have seen the Ukrainian unrest in March provide stimulus to gold and more recently a further announcement by the ECB to cut lending rates to 0.05% and into negative territory for bank deposits -and the unfolding situation in Iraq/ Syria with which also has the potential to inflame prices with gold again seen as a safe haven asset.

However ,Professional Investors instead are liquidating gold assets and turning to Equities - or risk on assets -which is largely unsupportive of gold. If we look back to the price peak in 2011 when we had almost a perfect storm in an economic sense Gold could not break through \$1900 after several attempts. Today, In an environment of economic expansion, albeit at very modest levels, it would be very hard to mount a case for an escalation in investment driven demand to level much higher than mid \$1300s in the short term.



**Outlook;**

- So for 2014 and 2015; small deficits in gold to remain in place but continued drift lower in ETF holdings reflecting professional disinterest and underwhelming price performance.

Mine supply peaking this year - with a 2% rise expected - 3100 t falling back below 3000 t in 2015. Scrap to see further weakness as prices decline – 14% A return to net hedging for the first time since 2011. Over all Supply to rise 4%

**On the demand side.**

Jewellery fabrication is expected to decline this year (7%) with many markets falling well short of the resurgent 2013 levels.

Official sector purchases to remain largely on par with last year. @ 412 tonnes.

- Retail investment also expected to drop by more than a third. Significant declines in offtake across price sensitive markets.
- ETF also expected to see further liquidations in 2014 - in the order of 130 tonnes.
- Current forecast sees a net deficit in the market of around 190 tonnes.

The Ukrainian crisis and Middle Eastern conflict have provided a respite for the price of gold though in our view this not sustainable.

So for 2014 we are expecting average of \$1,230 (drop of 13%) and , declining to below 1200 in 2015 , basing out that year and from there we begin the start of a steady climb thereafter.

**SILVER**



Turning our attention briefly now to Silver.

**WORLD SILVER SUPPLY AND DEMAND**

	2009	2010	2011	2012	2013	2014(f)	2015(f)
<b>Total Supply</b>	28,357	33,303	32,273	31,268	30,640	32,279	31,897
<b>Physical Demand</b>	26,733	32,117	33,247	29,685	33,626	31,810	31,912
<b>Physical Surplus/Deficit</b>	1,624	1,185	-974	1,585	-2,986	470	-16
<b>ETF Inventory Build</b>	-4,784	4,124	-746	1,714	50	622	467
<b>Exchange Inventory Build</b>	-476	-230	379	1,935	274		
<b>Net Balance</b>	-2,684	-2,709	-603	-2,062	-3,306	-152	-482

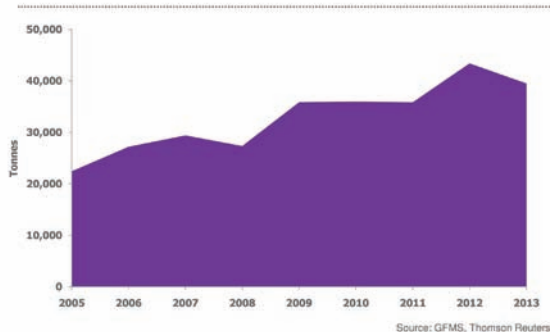
Source: GFMS, Thomson Reuters

The majority of the silver market is price-inelastic, as we shall see, but the dynamics of 2013 and 2014 are interesting. The drop in overall supply in 2013 was driven by a very sharp fall in scrap supply while mine production increased, and silver de-hedging also decreased and is expected to revert to a positive hedging number this year). Physical demand, meanwhile, jumped in 2013, driven in particular by a strong surge in coins and bar demand and a smaller though significant, increase in jewellery off take..

We expect the unexciting price action of 2014, as silver licks its wounds in line with gold, plus an improvement in economic activity overall, to see a further strong gain in jewellery demand, while we are looking at coin and bar demand to fall back). This is expected to deliver a very small surplus, and in 2015, we are expecting the market to be effectively in balance,. The PV market would appear to have bottomed out and this will help to bolster industrial demand, while the jewellery market is expected to inch higher, although bar and coin demand is under some pressure this year and is not expected to make much of a recover going forward.

Overall, this year is expected to see silver remain in a small physical surplus –so small, in fact, that rather like gold it can be seen as broadly in balance – So.. GO TO NEXT

### IDENTIFIABLE BULLION STOCKS INVENTORY ESTIMATES

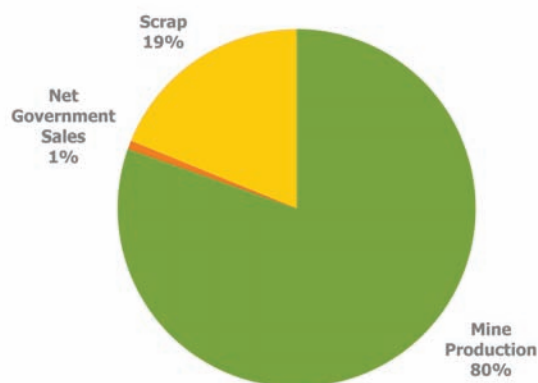


This slide shows the bullion stocks that we can identify as a result of primary and confidential research with bullion houses and other influential members of the market and we estimate that at the

end of 2013, these inventories amounted to 39,495 tonnes. That is equivalent to 15 months' world fabrication demand. And this, bear in mind, is an under-statement of the total.

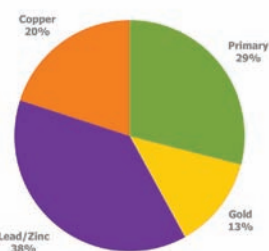
GO TO NEXT

### WORLD SILVER SUPPLY



One of the keys to the performance of the silver price is that much of the market overall is actually unresponsive to price movements. While this slide shows that 80% of world silver supply came from mine production in 2013...

### 2013 WORLD SILVER SUPPLY BY SOURCE (mine and scrap)



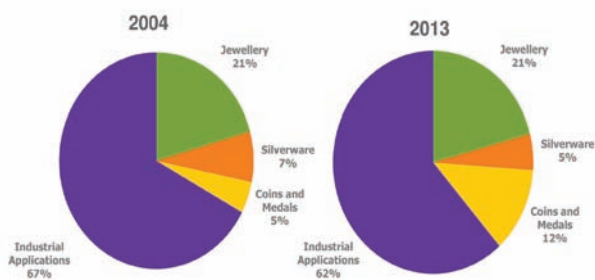
We are expecting mine production to continue its upward curve for several years yet, with gains coming particularly from the gold mining sector and most notably from North America. On a three-year view, the largest regional gains are expected to come from South America, with an increase of over 65 million ounces particularly from primary silver mines and also from gold operations. Global output from lead-zinc and copper mines is also expected to increase,

but to a lesser extent and we expect that by 2016, lead-zinc's share of silver production will be down to approximately 34% of total, with copper at 20%, gold at 18% and primary production at 29% of the market.

Meanwhile Scrap supply of silver fell sharply in 2013 and we expect it to continue to contract in 2014, but to start to increase in 2015. This is partly driven by the falling return of photographic scrap, which continues to be eroded as a source of supply, in 2014; but then in 2015 an improvement in economic activity could well see a fresh switch into digital imaging in hospitals in parts of the world where, up to now, poor economy performance has prevented the change in technology.

Industrial scrap is far less price-elastic than jewellery and coin and there is a gradual rising trend in some of these sectors, notably electronics and the recycling of ethylene oxide catalysts. The major trend, however, is competition among recyclers and electronic scrap is generally the key focus for stakeholders looking to maintain or grow their volumes. We are looking for a drop of another 5-10% in global silver scrap return this year.

**WORLD SILVER FABRICATION DEMAND**

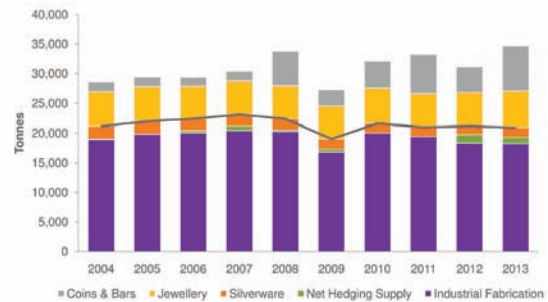


A snapshot of silver demand in 2004 and 2013 demonstrates that, on balance, not much has changed in terms of the distribution between industrial applications, jewellery, silverware and coins and medals. We should underline, though, that the strength in coins and medals (excluding bars) can be highly price-elastic and therefore this sector was strong last year, at almost 6,200 tonnes or 18% of total physical fabrication demand. We are looking for

a further gain of some 6% this year, towards 6,550 tonnes.

Looking at the industrial demand patterns a little more deeply:-

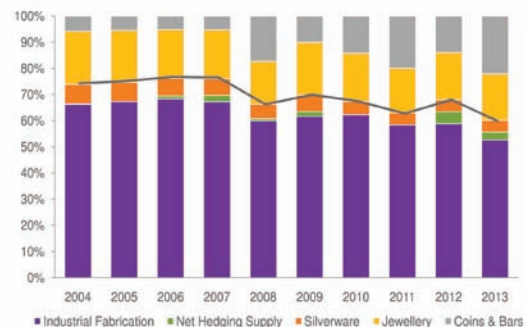
**SILVER DEMAND BY END-USE (tonnes)**



This chart shows how on an overall basis, silver demand has been broadly stable over recent years, although the surge in coin and bar is clear in 2013 as investors looked both to gold and silver.

When these elements are considered on a percentage basis, however: -

**SILVER DEMAND BY END-USE (%)**



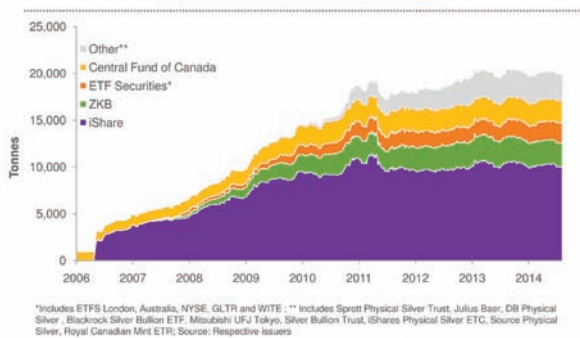
Jewellery has comprised just 19% of world silver demand on average (including bars and coins) over 2009-2013, compared with 50% for gold.

Jewellery, bar and coin, over the same period, comprised an average 35% of total demand over the same period, compared with 71% for gold, reflecting the surge in coin and bar demand in the wake of the financial crisis in Europe in particular.

Jewellery demand reached a record last year, with growth of 9.6% - and 75% of that growth came from India and China, aided by a 15% fall in rupee prices as well as the problems in the gold market

So, while price-elastic and investor driven demand is a substantial part of silver offtake, it does not approach that of gold and the balance resides in the industrial sector..

**SILVER ETF HOLDINGS**



So here we have a market whose price discovery mechanism also falls, largely, to investor led activity. And these investors have been largely dormant in recent months. Much as they have on gold.

ETFs have gained ~490t so far this year to ~20,100t, equivalent to 33 weeks' global industrial demand.

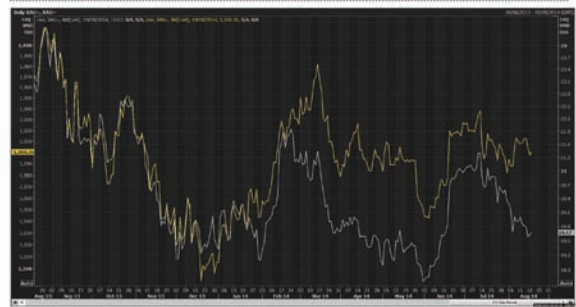
**SILVER AND OTHER ASSET CLASSES**

	Q1. 2013	Q2. 2013	Q3. 2013	Q4. 2013	Q1.2014	Q2.2014
XAU	0.55	0.78	0.66	0.55	0.51	0.60
EUR/USD	0.24	0.34	0.34	0.44	0.18	0.26
S&P 500	0.17	0.40	- 0.22	0.02	- 0.15	- 0.29
VIX	- 0.16	- 0.54	0.14	- 0.23	0.17	0.24
Copper	0.55	0.62	0.56	0.30	0.20	0.32

If we look briefly at the relationship between silver and the other asset classes it should be as no surprise that the strongest correlation remains with gold. Correlation 58% in the year to end June 2014

While interestingly the correlation with copper (or the industrial indices) has continued to weaken this year.

**SILVER VS GOLD OVER ONE YEAR**



Source: Thomson Reuters Eikon



And over a longer view we can clearly see the relationship between the two metals.

Silver often exaggerating any move - up or down.

**SILVER VS GOLD OVER 20 YEARS**



Source: Thomson Reuters Eikon



And Indeed over a 20 year view we can see the tight relationship the metals share.

**SILVER VS COPPER OVER ONE YEAR**



Source: Thomson Reuters Eikon



Industrial demand comprised 60% of silver uptake between 2009 and 2013 inclusive, and was 54% in 2013 itself, following the upsurge in jewellery and coin/bar purchases .., we are expecting 58% in 2014 with PV driving

increases and as coin demand falls.

Copper as a wholly industrial metal; correlation in yr to June 2014 was 34.5, though down to 20% in Q114 and 32 in Q2,

**SILVER VS S&P 500 OVER ONE YEAR**



Source: Thomson Reuters Eikon THOMSON REUTERS

Not surprising we see a negative correlation between silver and the S & P 500.

Correlation in q1, q2 this year; -15 and -29 (gold's correlation with S&P, -3 and -26%

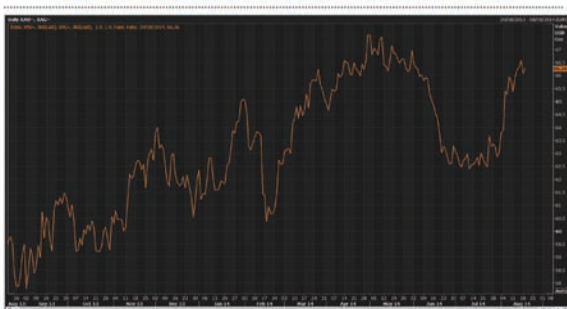
**GOLD: SILVER RATIO OVER 20 YEARS**



Source: Thomson Reuters Eikon THOMSON REUTERS

Looking briefly to the Average gold silver ratio over past 20 years the average is 61%

**GOLD: SILVER RATIO OVER ONE YEAR**

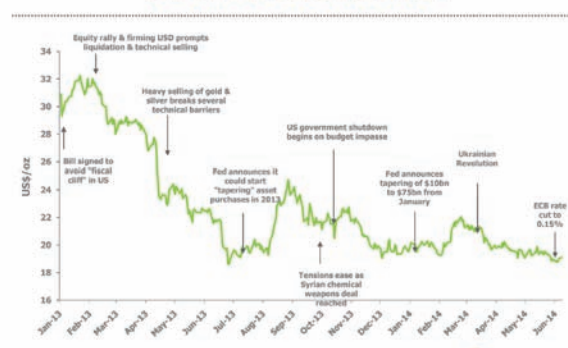


Source: Thomson Reuters Eikon THOMSON REUTERS

And we are currently sitting around 65.8. We actually expect it to widen further, over this year, possibly to towards 67.

Remembering ----- Our gold price forecast is \$1,270 this year, slipping to \$1,175 in 2015, and starting to bottom out, rising through 1200 in 2016, and then entering a long term secular bull market reaching an average of \$1,400 in 2019 and quite possibly as much as \$1,600 by 2023.

**SILVER PRICES 2013-2014**



Silver averaged \$23.79 in 2013 and in 2014 to end August the average was \$20.10. We are expecting an average this year in the region of around \$20. a drop of 19%.

For the majority of 2013 and the first months of 2014 silver has tracked gold, although it has been the underperformer in the second and third quarters of 2014, drifting lower as gold rallied in March on geo political tensions. The spread of COMEX investor positions in the market, shows how opinion is divided within the silver market. Similarly the decline in coin sales in North America is contrasting with increased jewellery fabrication this year. We believe that investor demand, with evidence of bargain hunting developing occasionally, will be enough to absorb the surplus that silver will generate this year, but the overall investor appetite for silver is relatively weak and we do not believe that it can improve enough to drive prices noticeably higher.

Silver could well test support at \$17.50 during the northern hemisphere summer this year. Equally,

any move below \$17 is likely to generate strong physical demand and this could easily drive a spike higher, fuelled by covering in of the very heavy short positions on COMEX.

Silver is also likely to rally in line with gold towards year-end, but we expect this to be a weak attempt at higher prices and the \$21 level is likely to provide resistance. Silver is notoriously volatile and we could see a spike towards \$23 on short covering, but we do believe that any such move would be very brief. Looking further ahead, we expect gold to ease again over much of 2015, and therefore we would not be surprised to see silver testing support between \$16 and \$17 next year, but with an average in the region of \$18.

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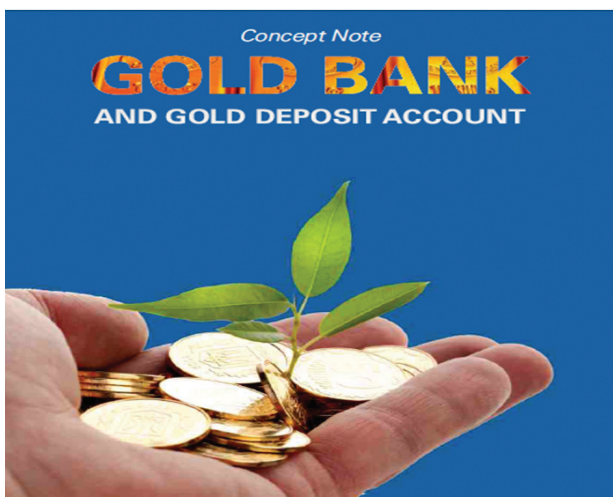
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## Part of Panel 3: Gold Bank and Gold Deposit Account

Mr Munindra Verma, President and Country Head, Trade, Finance and Services, Yes Bank



Munindra Verma – President and Country Head, TBG Bullion Business and Trade Finance & Services  
Date: September 13, 2014

### Gold Deposit Scheme (GDA)

- **Product Description Features of the Scheme**
- **Differences from previous GDA concepts**
  - Conceptual
  - Operational
  - Intentional
- **Details of Product description**
  - Account Opening
  - Transactions
  - Other features & benefits
- **Product Flow**
  - Involving INR deposit
  - Involving Gold Deposit

### Flow Structure – Detail

#### Opening of Gold Deposit Account (involving INR deposit from customer)

The outcome of this process will result in the following:

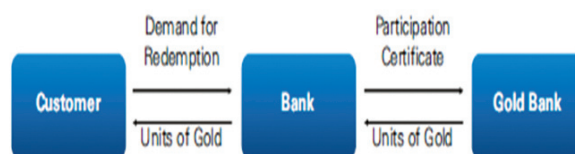
- Customer gets notional units of gold
- Bank gets gold deposit, which can qualify for SLR maintenance
- GB gets gold liability on its balance sheet



#### Flow Structure – Detail (Cont.)

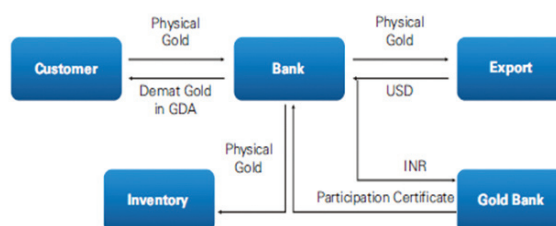
#### Closing of Gold Deposit Account (involving deposit from customer)

- The outcome of this process will result in the following:
  - Customer gets physical units of gold
  - Bank loses gold deposit
  - GB reduces gold liability on its balance sheet



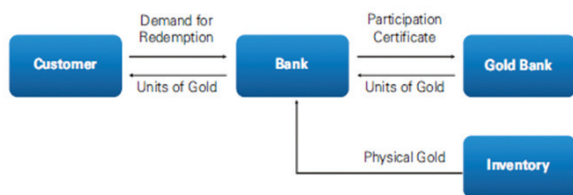
#### Opening of Gold Deposit Account (involving customer's physical gold)

- The outcome of this process will result in the following:
  - Customer gets notional units of gold
  - Bank gets gold deposit, which can qualify for SLR maintenance
  - GB gets gold liability on its balance sheet



#### Closing of Gold Deposit Account (involving customer's physical gold)

- The outcome of this process will result in the following:
  - Customer gets physical units of gold
  - Bank loses gold deposit
  - GB reduces gold liability on its balance sheet



- Interest Rate on Gold Deposit Account (RBI Policy Variable)
- Gold Deposit Account and Money Supply (RBI Policy Variable)
- Capacity of Gold Deposit Account (GB/Gol/RBI Policy Variable)
- Taxation (Central Government Policy Variable)
- Others

**Benefits & Impact – Proposed GDA**

**For Customer**

- Incentivizes the customer to defer his gold import to a future date
- Place current stock of non-jewellery gold with the banking system and earn a nominal rate of interest
- All other benefits of e-form of gold
- Is able to earn some nominal interest on his GDA
- Does not have to spend on storage of gold

**Thank You**



**For Bank**

- GDA with the bank can potentially qualify for SLR

**Economy**

- Deferral of gold imports and hence lower pressure on the current account deficit and Rupee.

**Impact**

- Banks could increase their lending considering the SLR status of the GDA
- Lowering the pressure on CAD and Rupee, the GB can play an important role in preserving RBI’s FX Reserves
- The expected incremental increase in bank lending (and deposits through the multiplier impact) could increase the money supply (M3) in the economy

**Gold Bank – Balance Sheet Impact**

An illustration of GB’s balance sheet is produced below:

Illustrative Balance Sheet of Gold Bank	
Liabilities	Assets
Principal (USD)	Gold
Interest (LIBOR)	
Participation Certificate	INR (G-Secs)

**Issues & Concerns**

- Participation Certificate
- Gold Deposit account and SLR (RBI Policy Variable)

## Part of Panel-4 Market, Products & Portfolios – The Exchange Contribution

Mr Shivanshu Mehta, MCX

### Commodities as an Asset Class- Portfolio Benefit

- Commodities are an unique asset class that can provide valuable diversification benefits to an investment portfolio.
- Used in combination with traditional assets like stocks and bonds, they can potentially reduce overall portfolio long-term risk while increasing upside potential.
- The historically low correlation between commodities and financial assets means that commodities may perform well in neutral or negative years for stocks or bonds.
- Hedge against Inflation
- Global Underlying – Broadly difficult to manipulate

### Portfolio Diversification – Risk & Returns

Portfolio Distribution					Parameters			
	Criteria	Nifty	Bond	Gold	Silver	Annualized Returns (%)	Annualized Volatility (%)	Sharpe Ratio (%)
1	Without Commodity	100%				20.1%	21.9%	57%
2		80%	20%			17.5%	17.5%	57%
3	With Commodity	40%	20%	40%		17.6%	14.0%	73%
4		30%	20%	30%	20%	18.5%	15.8%	69%

Period Considered: Jan 2009 – Dec 2013

### MCX Overview

- MCX commenced operations on November 10, 2003
- Largest and only listed commodity exchange in India
  - 84.89% market share FY 2013-14
  - Average daily turnover in FY2014: INR 278 billion
  - Highest daily turnover of INR 1,199.41 billion achieved on April 15, 2013
  - Bullion market share of 99.46% in FY 2013-14
- Extensive reach: 2100+ members, operations through 476,000+ terminals including CTCL across over 1900 cities and towns across India
- Globally, 10th Largest commodity futures exchange in terms of number of contracts traded during CY -13 (source: FIA survey 2013)
- Won the FOW Award for its Gold Petal Futures contract under the most innovative new contract

launched by an exchange in the metals category at the FOW Awards for Asia 2012 organized at Singapore

### MCX GOLD - PRODUCT OFFERING

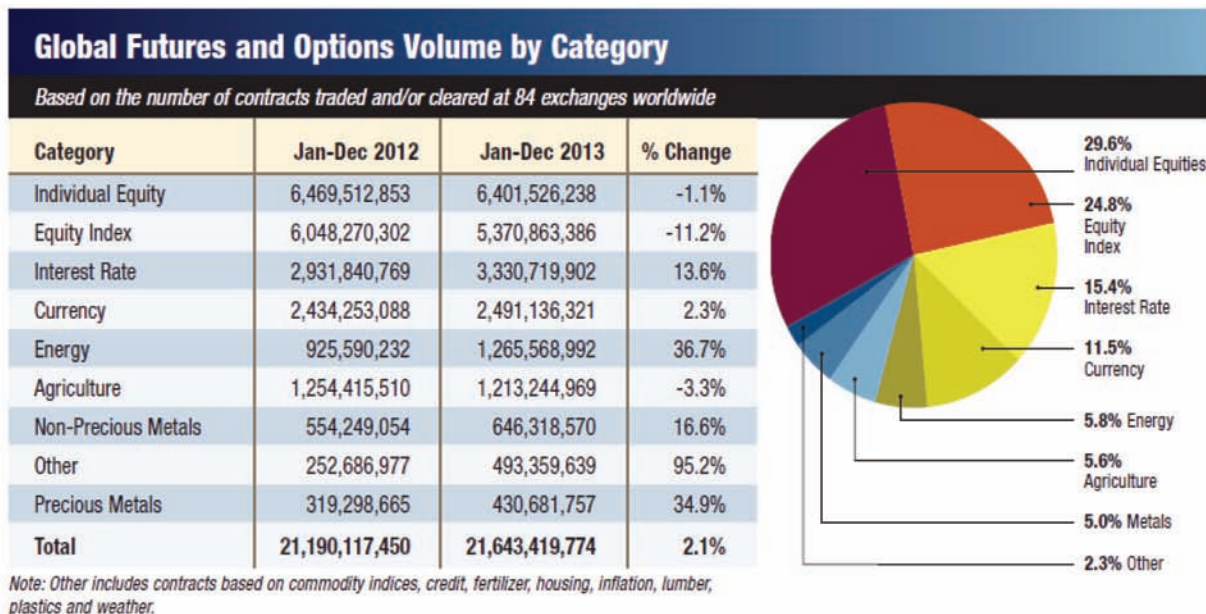
#### MCX Gold Portfolio



All gold contracts are deliverable contracts with wide choice of denominations for market participants  
Ideal for Hedgers' as they account for domestic premia/ discounts/duties/levies

**GLOBAL F&O VOLUME BY CATEGORY**

Global Scenario



Source: FIA Study

**FIA Annual Volume Survey 2013**

**Top 20 Metals Futures & Options Contracts**

Rank	Contract	Contract Size	Jan-Dec 2013
1	Steel Rebar Futures, SHFE	10 tonnes	293,728,929
2	Silver Futures, SHFE *	15 kilograms	173,222,611
3	Copper Futures, SHFE	5 tonnes	64,295,856
4	High Grade Primary Aluminum Futures, LME	25 tonnes	63,767,903
5	SPDR Gold Shares ETF Options **	N/A	49,003,859
6	Comex Gold Futures, Nymex	100 troy ounces	47,294,551
7	Copper Grade A Futures, LME	25 tonnes	40,486,017
8	Silver MIC Futures, MCX	1 kilogram	33,611,357
9	Special High Grade Zinc Futures, LME	25 tonnes	30,270,370
10	iShares Silver Trust ETF Options **	N/A	29,722,604
11	Silver M Futures, MCX	5 kilograms	20,267,222
12	Gold Futures, SHFE	1 kilogram	20,087,824
13	Copper Futures, MCX	1 tonnes	19,758,713
14	Gold Petal Futures, MCX	1 gram	19,021,199
15	Comex Copper Futures, Nymex	25,000 pounds	17,127,383
16	Gold Futures, Moscow Exchange	1 troy ounce	15,892,846
17	Gold M Futures, MCX	100 grams	15,860,098
18	Comex Silver Futures, Nymex	5,000 ounces	14,475,593
19	Primary Nickel Futures, LME	6 tonnes	13,678,490
20	Standard Lead Futures, LME	25 tonnes	12,931,067

• **MCX : Creating Retail Penetration in Bullion Bullion Futures established as a retail investment/trade roduct across length & breath of India from 2003 onwards**

- Presence of MCX terminals at more than 7000 locations (by postal codes)
- More than 45000 Authorised Persons (Franchisees of Members)
- More than 2100 Members
- 476000 terminals
- Extensive commodity awareness programs across country along with various physical associations/our members
- Daily Unique Client Codes trading(FY 14): Silver 26000, Gold 13600
- India's first exchange to have a successful Gold coin contract
- In the backdrop of CAD related measures, Exchange traded instruments in place of physical form is a suitable option

**Benchmark – Price & Quality**

- Transparency
- Quality benchmark: All LBMA approved Bars & coins with tamper proof packing
- MCX Price has become a benchmark for value-chain and end-users alike (India as Price giver)
- Reflects ground reality including premium/discount of Spot market
- Most Jewellery buyers across the country demand MCX price reference
- Convenience & Assurance of Delivery
- Hedging: Most leading Bullion value-chain players across India actively hedge/deliver on MCX
- This is because our contracts are ideally suited for hedging
- Revival of Deliveries: MCX Gold August Contract had highest delivery over the last one year (post CTT): 1110 kgs

**Way Forward**

- Ear to Market - Continuous Product innovation
- Financial Inclusion
- Current tax structure being non-uniform ,

hampering freedom of movement across states

- Inter-state movement - VAT benefit is lost, hence requirement of GST
- Lack of PMS in commodity Markets- Managed Funds
- FCRA amendment: New products: Options and Indices and wider participant profile: FII, MF, banks having exposure for themselves and their clients would be able to hedge in domestic exchanges



THANK YOU





# 11<sup>th</sup> INDIA INTERNATIONAL



Supporting Bodies



Association of Gold Refiners and Mint

Partners

Goldletter INTERNATIONAL



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Amrapali  
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Energy & Environment | Real Estate | Infrastructure  
Mining | Automobile | Financial Services

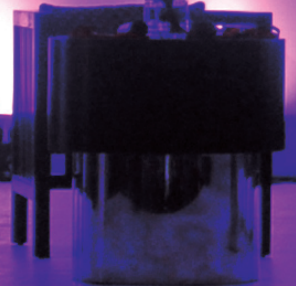


**SGX**  
SINGAPORE EXCHANGE



11<sup>th</sup> INDIA INTERNA  
GOLD CONVENTIO

12-14 Sept 2014, JW Marriott, Pune





Standard Bank

# GOLD CONVENTION - 2014

INTERNATIONAL  
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Title Sponsor  
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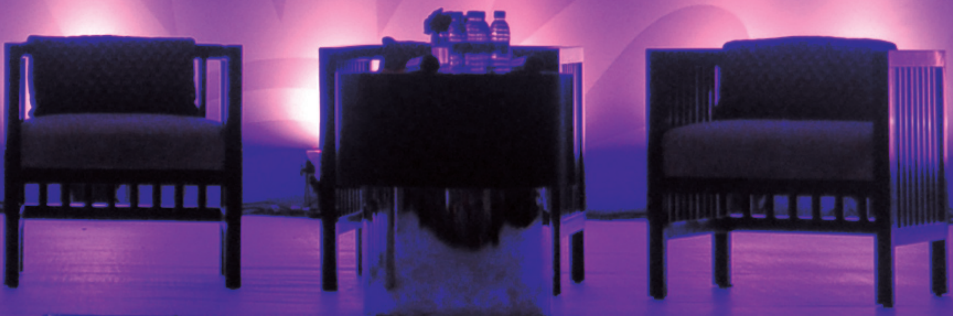
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# 11<sup>th</sup> INDIA INTERNATIONAL GOLD CONVENTION™ - 2014

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Refinery Partner



Partner Exchange









# INDIA INTERNATIONAL CONVENTION - 2014

JW Marriott, Pune

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- Can be offered as a mobile unit

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Registered Office: 206/207, 2nd Floor, Trade Centre, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051.



# DMCC

## MADE FOR TRADE OUR GOLDEN RULE IS RESPONSIBLE SOURCING.

DMCC is committed to working with global stakeholders to develop and promote the implementation of industry best practices; our responsible sourcing accreditation programme is globally recognised and fully aligned with the OECD guidance.

DMCC's responsible sourcing accreditation will allow your company to comply with conflict-free gold sourcing regulations globally, thereby enabling your products to be traded anywhere in the world.

Our goal is to create an inclusive gold industry that is responsible and able to provide assurances on the adequacy of its due diligence procedures and supply chain management practices. If you are a company that deals with any form of gold in your supply chain, you are eligible to become one of our accredited members.

DMCC has three accreditation initiatives for responsible sourcing of gold based on DMCC's Practical Guidance and Review Protocol as follows:

- **Responsible Market Participant (RMP)**  
Accreditation of responsible sourcing practices based on 3rd party independent assurance, designed for all gold market participants: traders, jewellers, processors and aggregators.
- **Market Deliverable Brand (MDB)**  
An accreditation initiative available to refiners demanding to certify their production quality and technical capabilities as well as their responsible sourcing practices.
- **Dubai Good Delivery (DGD)**  
Regarded as the international benchmark for large refineries that deliver to financial institutions and hold the highest quality and technical capabilities for the production of gold. This accreditation goes beyond responsible sourcing practices to review all aspects of a refinery's operations. Open to refineries with a minimum of 3 years of operations and producing at least 10 tonnes of gold annually.

For further information on how to become a member, email [commodityservices@dmcc.ae](mailto:commodityservices@dmcc.ae), call +97144336711 or visit [dmcc.ae](http://dmcc.ae).

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#### Gold Minted Products

Item	Purity
Ganesh Ji 20 gram	999.9
Tree 20g	999.9
Tree 10g	999.9
Tree 5g	999.9
Tree 2g	999.9
Tree 1g	999.9

#### Silver Minted Products

Item	Purity
Lakshmi Ji - Ganesh Ji 100g	999.0
Lakshmi Ji - Ganesh Ji 50g	999.0
Lakshmi Ji - Ganesh Ji 20g	999.0
Lakshmi Ji - Ganesh Ji 10g	999.0
Tirupati Balaji 20g	999.0

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- International standard assaying laboratory
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- Environment friendly unit
- Strong brand goodwill
- Pan India distribution network

## Services Offered:

- Refining services
- Assaying services
- Vaulting services

## The Edelweiss Advantage:

- **Best prices:**  
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- **Flexibility of choosing the currency for rate fixing:**  
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Find innovative solutions to bullion purchase problems that ensures you get the best deals at all times
- **Wide network - The Edelweiss Group:**  
Edelweiss Bullion has a strong network to deliver bullion across India so that you receive the delivery of bullion at the location nearest to you

