

Central Banks have been net purchasers of gold since the second quarter of 2009

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The latest interim Update to the GFMS Gold Survey 2009 reports that, on a quarterly basis, the official sector became a net purchaser of gold during the second quarter of 2009 and has remained so since. GFMS expects that IMF sales will augment official sector sales this year, but that modest purchases elsewhere will constrain volumes overall. The Survey estimates that net sales from the sector were down 90% in 2009 against 2008 levels, although the study does warn that estimates may be revised in the future as a result of the lag that often exists between central bank activity taking place and subsequently being identified.

The sector shifted onto the buy-side of the market during the second quarter and has remained there since. The "collapse" in net sales is largely attributable to the substantial fall in CBGA disposals; these were down by 160 tonnes from the already low level of 2008. The final CBGA year itself (ended 26th September) saw sales of just 157 tonnes, compared with the quota of 500 tonnes. The third CBGA, which followed on seamlessly from the second, has annual quotas of 100 tonnes and will accommodate any on-market sales effected by the IMF. The latest figures from the European Central Bank make very interesting reading; the weekly reports from the ECB imply that the amount of gold held in the Euro system of central banks has fallen by less than five tonnes since the start of the most recent CBGA. This is unprecedented and is a fair reflection of the changed attitudes in the official sector towards gold and its role in the international financial system, stemming both from gold's positive price performance and from concern over asset risk, especially following the recent crisis.

GFMS is expecting official sector sales to rise this year, driven largely by sales from the IMF, unless of course a surprise buyer emerges to absorb all or part of the 191 tonnes of IMF gold that remain available for disposal. Net purchases outside the CBGA are expected to be continued, though volumes are thought likely to remain low.

The Study describes both gross sales and gross purchases and records that one interesting development was the "impressive" rise in overall purchases of gold last year. Estimated gross purchases from official sources were at the highest level since 1997 and with the exception of a very small volume from Malta, all of the identified gross purchases were from nations outside the CBGA. Published purchases included not only the Indian, Sri Lankan and Mauritian purchases of IMF gold, but also acquisitions by Belarus and Mexico; there were also a number of moderate transactions that have not been brought into the public domain.

On the sale side the study notes, *inter alia*, that CBGA disposals in 2009 amounted to roughly one-third of official sector gross sales (this takes account of IMF sales although it must be remembered that the IMF disposals were off-market and conducted with other official sector counterparties). In a focus piece on the Central Bank Gold Agreements, GFMS identifies sales of 1,898 tonnes (the ceiling was 2,500 tonnes) during the five-year duration of the second CBGA. Of the nineteen signatories to the Agreement, only nine are pinpointed as sellers, with France contributing just over 30% of the total. The second largest contributor to the sales was Switzerland, followed by the European Central Bank itself and then Spain.

Sales from current members of the CBGA are expected to remain "unimpressive", with the appetite for sales much reduced, as those with an inclination to sell are likely already to have done so to a large extent. The CBGA members are expected to remain as net sellers, however, given the possibility that new sellers could emerge in the future, although sales patterns may well be patchy.

Many countries within the European group remain "overweight" in gold. On the basis of the latest reported IMF figures France Germany and Italy all hold more than 65% of their gold+foreign exchange holdings in the form of gold, while Portugal holds over 80% in gold. Swiss holdings are now down to 30% of total, while the ECB's holding are approximately 20%. The world average is approximately 11%.