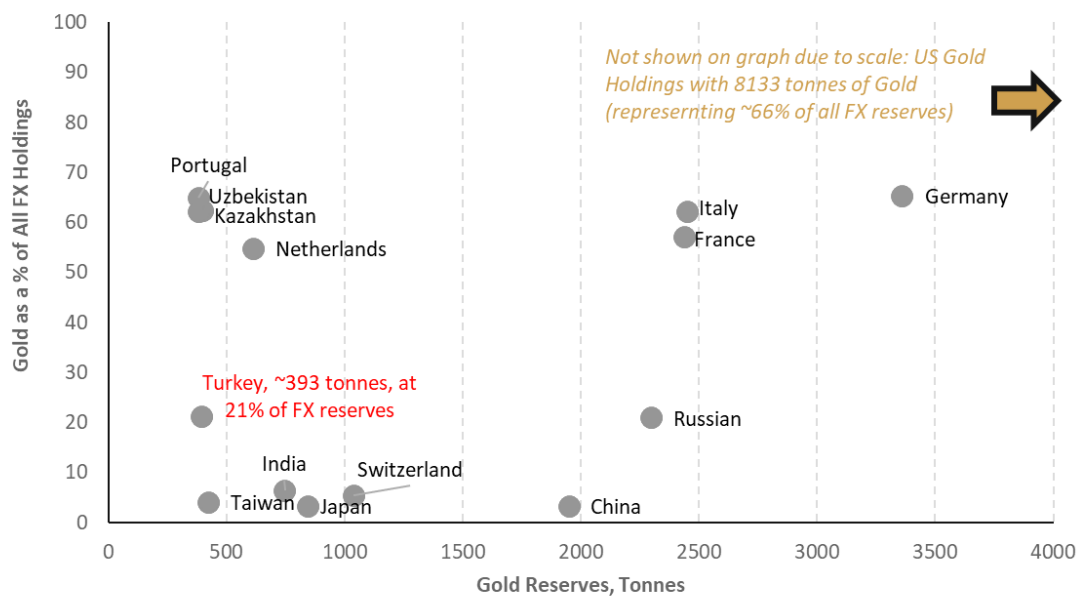
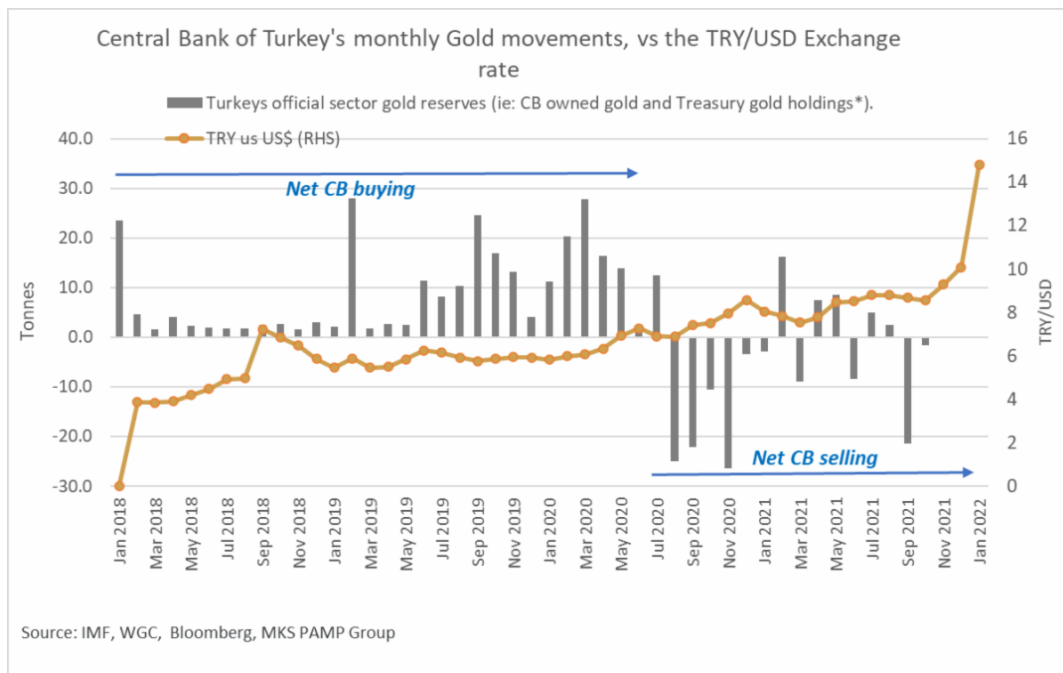


European Daily Wrap

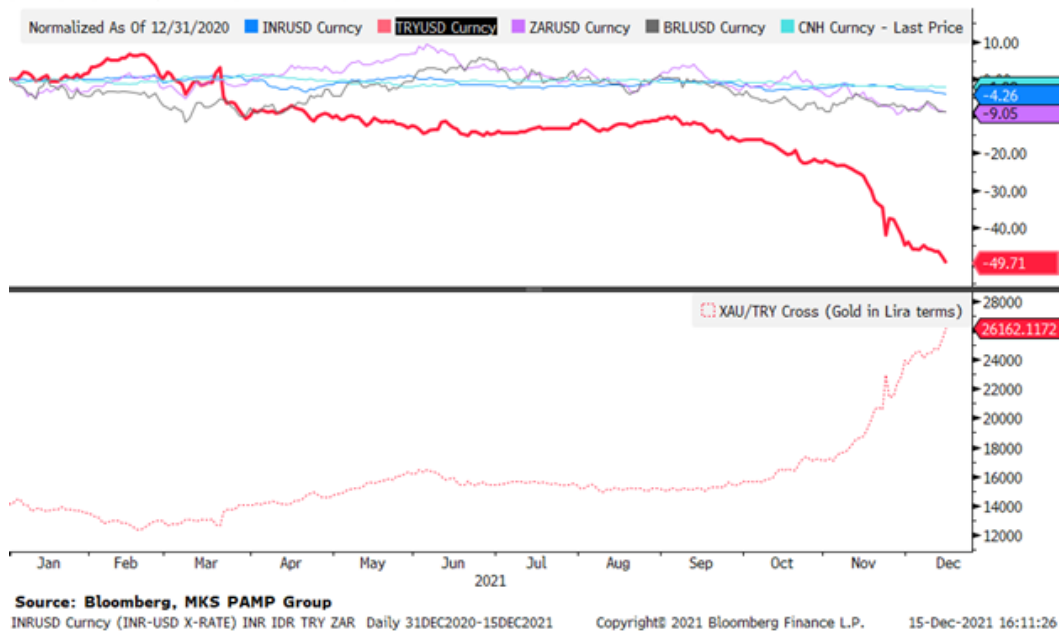
Top 15 largest Central Bank Gold Holdings and as % of FX reserves



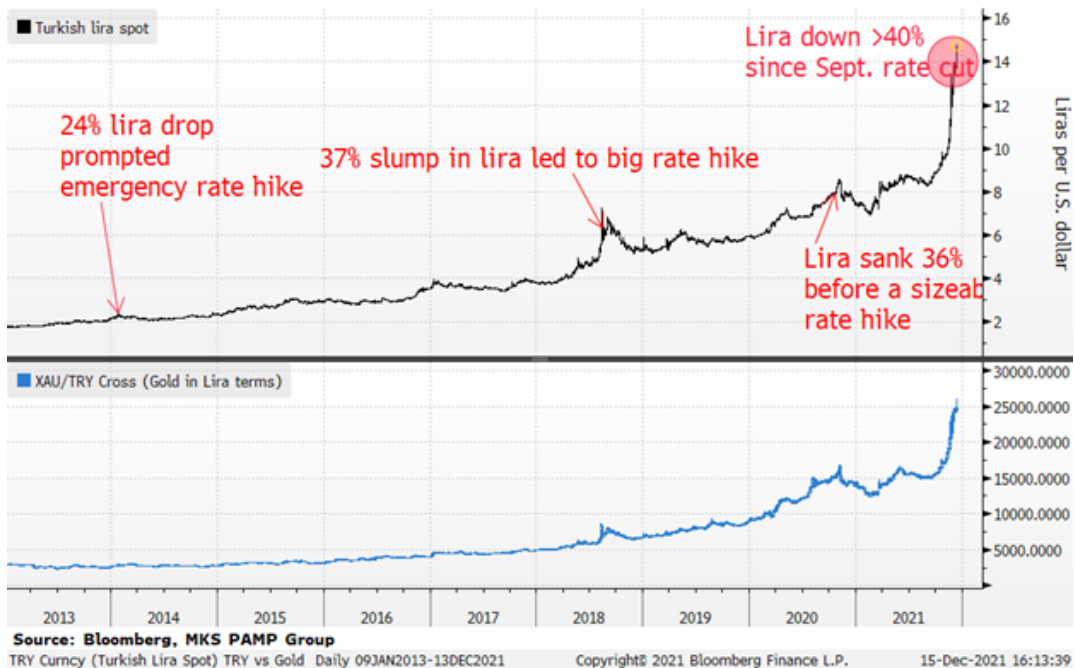
MKS PAMP Group, World Gold Council, Bloomberg



The Turkish Lira vs other EM Currencies performances in 2021 plunging TRY, underperforming its peer set



TRY vs Gold: the Lira has fallen more than previous times that triggered rate hikes



The calm before the (Fed) storm, so heres a quick note around the Gold implications given the economic crisis in Turkey. It perhaps explains (all, some) of the recent short-lived rallies??

The situation in Turkey is dire... while we haven't focused on this, a few questions being asked need to be addressed as the Lira plunges to new lows past 14 vs the US\$ (its been depreciating to new lows vs the US\$ for a full month now; its down 40% since the September rate cut). **The extreme currency moves come as President Erdogan meddles in monetary; his unorthodox view is that higher interest rates fuel inflation and so must be avoided with pressure on the CBRT (Central Bank of the Republic of Turkey) to CUT interest rates in order to boost growth despite inflation;** currently inflation, well the *official* rate (CPI YoY) is 21.3%, and the TRY is down almost 50% YTD, (vs a mix of other EM currencies down between 17% (Argentina's Peso) and 8% (SA Rand)). Graph 1. The market continues to push the TRY into further pain levels ahead of its Central Bank decision tomorrow

Turkey is an important Gold consuming region and its important for 2 reasons:

1. The Central Bank owns 393 tonnes*, the 13th largest Gold holder (*that's almost 13mn oz, more than what all Global ETFs have sold YTD*)
2. Turkey is an important physical consumer and refining hub; consumers purchase 110 tonnes gold/annum, on average from 2010-2020, which is the 5th largest consuming region behind 1) India , 2) China, 3) US, 4) Germany, through this metric

Full Report

Thoughts on Turkey's currency crisis: the Central Bank. Neutral or negative Gold prices

- Graph 1 shows Turkey's Gold reserves standing at <400 tonnes, a top 15 holder, which makes up >20% of FX reserves, vs its other top Gold holding peers. It's interesting in that 1) there's plenty of gold to 'utilize' if need be, \$22bn worth at current prices. 2) At >20% of FX reserves this is a relatively decent contributor, especially vs other EM countries, in which Gold holdings don't move the needle much (they account for <10% of FX reserves).
- Turkey's CB as recently as September 2021 sold 21.4 tonnes of Gold "amid a currency crisis". Graph 2 simply outlines their monthly CB Gold activity vs the TRY/USD exchange rate. Clearly, **they were net Gold purchasers pre COVID (from 2018 to mid 2020, the Turkish CB bought on average 9 tonnes/month). However post COVID (and when the exchange rate convincingly weakened through the 7 handle vs the USD), it's been a net seller to the tune of 6.1 tonnes/month (from Aug 2020 to October 2021, latest data). It's clear from past trends, that Gold holdings will continue to be sold (lent or swapped*) amidst the current currency crisis.**
- Past and notable examples around how Central Bankers act during times of economic crisis include 1) European debt crisis in 2011, in which fears arose that Portugal, Italy, Ireland, Greece and Spain etc would monetize their very chunky gold holdings (>60% of FX reserves) given doubts over their abilities to pay back bondholders and thus default on debt. The sentiment around that fear, of further CB selling, limited Gold upside. In the end, none deleveraged their Gold. 2) Venezuela. Since Chavez (who first threatened to nationalize its Gold industry), to questions over Venezuela repatriating its Gold home from British/overseas vaults from 2011, to the more recent economic/political crisis between the rightful leader (Guaidó vs Maduro), Venezuela's rather public "flows" of its gold holdings has been ongoing for over a decade! Overall, from its peak of 365 tonnes in 2014, it sold 204 tonnes to the most recently reported level of 161 tonnes (*but the data is only reported as of June 2018 to the IMF*). That selling pace, of 51 tonnes/year (2014-2018) or if one assumes no Central Bank gold is left (then 52 tonnes/year, from 2014-2021) is still far less than the current Turkey CB selling pace of 73.2 tonnes per year (or 6.1 tonnes/mo)...

Thoughts on Turkey's currency crisis on the gold consumer: net headwind for gold prices

- The traditional view, from Western investors, is that the extreme fear (around inflation, currency depreciation, subsequent geopolitical and protest risks) will induce a local bid into Gold. The truth is more nuanced but also a lot further from that. **One can't apply (Western) investment drivers to physical demand participants, where Gold is just another asset to sell or lend in order to generate cash in times of extreme crisis (which is the case)**
- Past examples include Gold-consuming Asian countries during COVID in which local Gold traded at steep discounts to London gold (as cash, masks, and medicine took precedence over physical Gold investments); the 2011 Arab Spring uprisings in MENA saw Egyptian physical gold also plunge to a steep discount vs London gold as locals sold holdings for food/shelter.
- The second factor to appreciate, is that even if consumers want to ramp up Gold holdings (whether it's via physical metal or investment vehicles etc) and can, **their purchasing power, given such a weak LIRA, simply implies much lower quantities.** Gold in local terms (XAUTRY) is sitting at TRY26,000, which is double levels seen at the start of this year and 3x the levels seen pre-COVID!
- **There may still be some gold purchases from investors with either exposure to Turkey or who perhaps have the belief that Gold may react to some of the structural factors Gold traditionally is a hedge to (depreciating fiat currency, geopolitical risk, lack of CB**

independence, economic crisis, risk of contagion in the region etc). We have yet to see proof of this in Western vehicles (eg: ETF flows), nor in price action, sentiment or media traction.

- **Overall, Gold does well in the leadup, or the fear of a crisis; it does not perform in a Western crisis (Lehman, COVID, 9/11) and gets swept up in the risk-off selloff in the short-term; similarly, Gold, in more traditional physical hubs, does well in the leadup or the fear of to any political or economic crisis, but during an economic crisis, it's traditionally used as a source of necessary income.**

Overall, the bearish drivers (around physical sales from consumers and potential further CB sales), simply outweigh any potential bullish drivers (stemming from the investment community), for now.

Note:

#1 the IMF (and the WGC) report CB gold holdings on a monthly basis, which the market utilizes avidly. They show major changes in reported CB reserves and the reason (if that's disclosed) for the changes, which are not always the result of sales or purchases (i.e.: transfer, trading activity, local purchases). Also, Central Banks differ in whether gold put on swap is included or not in reported reserves. **The takeaway is one cannot confirm nor deny any action by any Central bank unless it is disclosed by them to the IMF.***

*#2** that since 2011, gold has been added to Turkey's balance sheet as a result of gold policies aimed at supporting the banking system's liquidity management, and both figures are reported (Banking system/commercial sector gold and Gold reserves held by the CB & Treasury). **We have only analyzed the CB & Treasury Gold holdings.***

**approved for all external purposes*

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