Ubuntu Tribe

AURUM MONACO

THE CASE FOR GOLD AND THE GROWING IMPORTANCE OF AFRICA

This research paper sets out:

- An historical context for gold as the original form of money and its enduring importance in today's Global Financial System – in other words 'The Case for Gold'
- A macro overview of the Global physical gold market
- The growing demand for gold from Emerging Markets Central Banks
- African Central Bank Gold Reserves
- The growing influence of Africa in the gold industry
- Where to from here for Africa in the global gold eco-system?

Gold Is The World's Oldest International Currency – The Case for Gold

Gold has played a significant role in most countries' currency systems for well over two thousand years with its' scarcity, lack of corrosion, and indestructability, coupled with its malleability so that coins can easily be shaped, and the universal acceptance in all civilizations, has made Gold eminently suitable as a form of money. The first pure gold coin was made on the orders of King Croesus of Lydia (in what is now Turkey) around 550BC. Gold actually had its origins in Africa, dating back to the times of the Pharaohs in Ancient Egypt 5,500 years ago when the human obsession with gold as a symbol of wealth and power was firmly established. The fascination and unshakeable belief in gold within Asian, African and European communities, that have endured dislocation and disruption over many years, as the ultimate store of value, a safe haven in times of trouble and hardship, is undiminished in today's modern world of complex financial instruments and asset classes. Whereas some still see gold as a 'barbaric relic' (although the numbers in this group have fallen since the GFC in 2008) many consider gold to the hardest form of currency that Governments cannot devalue to suit economic policy. And gold's role as the 'asset of last resort' and store of value is supported by up to date hard data.

Gold Is The Best Performing Asset Class Of The 21st Century

ASSET CLASS	2020 v 2019 % Change	2019 v 2018 % Change	2020 v 2001 % Change	Annual % Average 2020 - 2001	2020 v 1971 % Change	Annual % Average 2020 - 1971
Gold	11.01%	18.24%	504.23%	26.54%	4711.43%	96.15%
Comex HG Copper	-18.54%	6.32%	248.55%	13.08%	364.49%	7.44%
US Equities (.DJIA)	-16.89%	22.34%	136.68%	7.19%	327.62%	6.69%
Brent Crude	-52.30%	22.68%	58.19%	3.06%	774.44%	15.80%
US CPI	0.24%	1.81%	46.27%	2.44%	539.63%	11.01%
TR CRB Index	-31.20%	5.59%	3.81%	0.20%	27.82%	0.57%
USD Index (.DXY)	3.21%	0.22%	-14.79%	-0.78%	-10.55%	-0.22%
US 10 Year Treasury Yields	-60.81%	-31.21%	-85.58%	-4.50%	-87.68%	-1.79%

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

Since the turn of the century gold has been the standout performer in global financial, equity and commodity markets with its value growing by 504% and its real purchasing power parity in USD terms increasing by 458%. Importantly gold's value compared to crude oil has risen by 446% at an annualized average of 11%. A popular misconception is that gold goes up when the USD falls, however as this table shows gold is now a mainstream asset class in its own right with average annualised growth between 2001 and 2020 of 26% while the dollar only posted a loss of 15% per annum.

A Macro Overview of the Global Physical Gold Market

GLOBAL GOLD SUPPLY AND DEMAND										
(tons)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Supply										
Mine Production	2,748	2,857	2,929	3,110	3,203	3,300	3,398	3,455	3,509	3,464
Recycled Gold	1,679	1,651	1,670	1,248	1,187	1,121	1,281	1,156	1,178	1,304
Net Hedging Supply	(108)	22	(45)	(28)	105	13	38	(26)	(12)	8
Total Supply	4,319	4,530	4,554	4,330	4,495	4,434	4,717	4,585	4,675	4,776
Demand										
Jewellery	2,057	2,104	2,157	2,726	2,531	2,459	2,101	2,237	2,240	2,107
Technology	461	429	382	356	348	332	323	333	335	327
Electronics	*327*	*317*	*289*	*279*	*278*	*262*	*256*	*266*	*268*	*263*
Dental & Medical	*46*	*36*	*28*	*23*	*20*	*19*	*18*	*16*	*15*	*14*
Other Industrial	*88*	*76*	*65*	*54*	*51*	*51*	*50*	*51*	*51*	*50*
Central Banks & Other Official Sector	79	481	569	629	601	580	395	379	656	650
Investment	1,588	1,759	1,566	856	914	962	1,615	1,318	1,170	1,272
Bars	*921*	*1,190*	*1,015*	*1,358*	*780*	*790*	*797*	*782*	*778*	*580*
Legal Tender, Offical Coins	*196*	*228*	*186*	*271*	*206*	*225*	*208*	*189*	*242*	*224*
Medals & Other Coins	*87*	*84*	*111*	*102*	*81*	*76*	*68*	*76*	*73*	*67*
Exchange Traded Products Build	*384*	*189*	*279*	*(879)*	*(155)*	*(117)*	*539*	*177*	*59*	*401*
Total Physical Demand	4,185	4,773	4,674	4,568	4,395	4,332	4,433	4,266	4,401	4,356
Net Physical Surplus / Deficit	134	(243)	(120)	(238)	100	102	284	319	274	420
Average Gold Price USS Per Ounce	$1,224.52	$1,571.52	$1,668.98	$1,411.23	$1,266.40	$1,160.06	$1,250.80	$1,257.15	$1,268.49	$1,392.60
Value of Surplus or Deficit US$ Mio	$5,254	($12,235)	($6,422)	($10,736)	$4,059	$3,784	$11,348	$12,824	$11,124	$18,731

Sources GFMS, Refinitiv Eikon / World Gold Survey / World Gold Council/Metals Focus

The key points to note are as follows:

- Primary gold mine production has increased by 716 tons or 26% between 2010 and 2019 to 3,464 tons while secondary supply from recycled gold fell by 375 tons or 22% to 1,304 tons. In 2020 the Covid-19 pandemic will certainly have a major impact on Primary gold mine production but it is impossible to assess with any degree of accuracy the scale of losses.

- Total physical supply of gold in 2019 was 4,667 tons, exceeding total physical demand of 3,910 tons by 16.22% compared to a surplus of 13.27% in 2010.

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

- In 2019 the leading gold producers in the world were China (420 tons), Australia (330t), Russia (310t), USA (200t), Canada (180t), Indonesia (160t), Peru (130t), Ghana (130t), South Africa (128t), and Mexico (110t). Looking beyond Covid-19 and 2020 we can expect to see further growth in primary gold mine supply in general but specifically in China, Australia, Peru and especially Ghana, which has emerged as the leading producer in Africa.

- Total demand from the gold jewellery sector in 2019 was 2,107 tons, a marginal increase of 50 tons or 2.5% over the figure in 2010 and importantly it meant that 61% of primary mine supply was consumed by the gold jewellery sector, underlining the enduring importance of jewellery to the health of the global gold industry. Other sources of industrial physical demand are limited in comparison with only electronics (263t) and dental plus medical (14t) worthy of note. The top ten countries in terms of physical demand in 2019 were China (899t), India (690t), USA (150t), Japan (100t), Turkey (98t), Italy (84t), South Korea (81t), Iran (63t), Indonesia (49t), UAE (43t). Looking ahead to 2020 it is clear that the Covid-19 inspired lockdowns around the world will have a significant impact on jewellery demand. As with mine supply it is difficult to gauge how much tonnage will be lost but the World Gold Council reports that jewellery consumption in Q1 2020 was 39% lower that Q1 2019 and the lowest for at least 10 years.

- Combined investment demand for gold bars and coins and Exchange Traded Products was 1272 tons in 2019, a decline of 316 tons or 20% compared to 2010, however this still represented 29% of total physical demand last year compared to 38% in 2010. Looking at 2020 the WGC has reported a surge in investment demand with ETF purchases of 450 tons between January and April and points to a bumper year for physical investment that could even wipe out the supply surplus that has been the norm since 2014.

- Since 2010, and in the wake of the Global Financial Crisis of 2008 and 2009, Central Banks, otherwise referred to as the Official Sector, added a net 5,019 tons as at the end of 2019. The value of this increase, using the 10-year mean price of $1313 was $210.88 billion, while at the current price of $1700 this equates to $273.03 billion. Although not shown on this table, we know that as at April 2020 Total Central Bank holdings had increased to 34,225 tons with a current value of $1.86 trillion, surely an all time record high in terms of its US dollar value. Looking at 2020 we know that the Russian Central Bank has stopped its buying program from that country's gold mining sector, while reports suggest that China will also ease back on their official purchases, and so we conclude that the pace of purchases from the Official sector will slow this year, especially against the backdrop of theCovid-19 crisis.

- Whereas for many years hedging by gold mining companies had a significant impact on the annual demand versus supply equation, in recent years forward sales have virtually disappeared as highlighted by the fact that in 2019 this was just 8 tons. With gold prices surging to a seven and half year high of $1746 in April in the wake of Global Governments and Central Banks fiscal and monetary actions to support their economies decimated by the Covid-19 pandemic it seems likely that we could see a return of hedging activity by the large scale mining sector in order to compensate for a reduction in mining capacity in 2020.

- Gold's total supply excess over total demand of 420 tons in 2019 was the largest recorded over the last ten years and was a function of an increase in primary gold mine production of 716 tons or 26% over that period, while total physical demand increase by just 171 tons or 4%. We see little over change in the balance of the market in 2020.

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

Growing Demand for Gold from Emerging Markets Central Banks

TOP CENTRAL BANK HOLDERS OF GOLD TONS					
	2020 (April)	2001	2020 v 2001 Change Tons	2020 v 2001 Change %	% of Foreign Reserves
United States	8133.5	8149.0	-15.5	-0.19%	78.20%
Germany	3366.5	3446.0	-79.5	-2.31%	74.00%
Netherlands	612.5	852.0	-239.5	-28.11%	70.90%
Italy	2451.8	2452.0	-0.2	-0.01%	69.60%
France	2436.0	3025.0	-589.0	-19.47%	63.60%
Turkey	453.5	116.0	337.5	290.95%	23.30%
Russia	2290.2	388.0	1902.2	490.26%	20.80%
India	635.0	358.0	277.0	77.37%	6.90%
Switzerland	1040.0	1917.0	-877.0	-45.75%	6.30%
China	1948.3	600.0	1348.3	224.72%	3.13%
Japan	765.2	765.0	0.2	0.03%	2.90%
IMF	2814.0	3217.0	-403.0	-12.53%	
TOTAL CENTRAL BANK HOLDINGS					Average %
World	34,225	33,790	435	1.29%	38.15%

Source World Gold Council

The table above shows that the holdings of gold by the US, Germany, Italy, and France are the largest in the world and form a major percentage part of their respective foreign currency reserves. However the table below illustrates the extent to which Central Banks in Emerging Markets have embraced physical gold in recent years as a key part of their currency reserves diversification programs (away from the USD) with Russia, Turkey, China and India leading the way and many others, particularly in the former CIS nations including Kazakhstan and Uzbekistan, following suit. In our view it is no coincidence at all that the three leading Central Bank buyers of gold, namely Russia, China and Turkey have all had significant political issues with the USA, including sanctions and tariffs, and have clearly made conscious decision to diversify their reserves away from the US dollar and into the safe haven of gold, which is especially relevant for China and Russia as the world's top two gold producing countries at 404 and 330 tons output in 2019.

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

FASTEST GROWING CENTRAL BANK HOLDERS OF GOLD TONS					
	2020 (April)	2001	2020 v 2001 Change Tons	2020 v 2001 Change %	% of Foreign Reserves
Russia	2290.2	422.6	1867.6	442%	20.80%
China	1948.3	395.0	1553.3	393%	3.13%
Turkey	453.5	116.0	337.5	291%	23.30%
Kazakhstan	388.3	56.0	332.3	593%	67.69%
Uzbekistan	330.6	0.1	330.5	330530%	56.39%
India	635.0	358.0	277.0	77%	6.91%
Saudi Arabia	323.1	143.0	180.1	126%	3.23%
Singapore	127.4	0.1	127.3	127300%	2.31%
Poland	228.7	102.8	125.9	122%	9.24%
Mexico	120.0	6.8	113.2	1665%	3.30%
TOTAL CENTRAL BANK HOLDINGS					Average %
World	34,225	33,790	435	1.29%	19.63%

Source World Gold Council

African Central Bank Gold Reserves

AFRICAN CENTRAL BANK OFFICIAL GOLD HOLDINGS Tonnes		
	2020 (April)	% of Foreign Reserves
Algeria	173.64	11.80%
South Africa	125.31	11.86%
Libya	116.64	7.10%
Egypt	79.39	9.19%
WAEMU	36.39	10.72%
(Burkina Faso, Cote d'Ivoire, Mali, Senegal, Niger, Togo, Benin)		
Morocco	22.12	4.39%
Nigeria	21.46	2.77%
Mauritius	12.44	8.84%
Ghana	8.74	5.96%
Tunisia	6.79	4.51%
Mozambique	3.93	5.32%
Guinea	3.89	14.09%
		Average % of Foreign Reserves
Total Central Bank Holdings in Africa	610.74	8.05%

Source World Gold Council

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

The absence of any African nation in either the largest or fastest growing Central Bank tables is both disappointing and surprising given the fact that the African Continent produced a total of 819 tonnes in 2019 that represented 23% of global gold production. Within the African context, the geographic split is interesting with North African countries such as Algeria, Libya, Egypt, Morocco and Tunisia all combining to hold a total of 399 tons or 65% of total gold reserves held in Africa. It is also seems strange to note that, although South Africa does hold second positions with 125 tons of gold reserves, being 11.86% of total foreign currency reserves, this figure seems low number considering the fact that it was the largest gold producer in the world, by a distance, for many years. Ghana it now the number one gold producer in Africa but only holds just under 9 tonnes of gold representing less than 6% of its strategic foreign currency reserves, which is simply not enough, certainly for a country that has such an abundance of gold as a key natural resource.

The growing influence of Africa in the global gold industry

Africa versus Global Primary Mine Production (tonnes)	2019	Export Duties, Other Fess	Gold Royalties
Ghana	130.0	3.62%	3 - 5%
South Africa	128.0		3.50%
Sudan	76.6		10.00%
Mali	61.3	3.00%	5.00%
Burkina Faso	59.3		3.00%
Tanzania	47.7	1.00%	6.00%
Dem.Rep. of Congo	44.9	ASM 1.5%, LSM 3%	3.50%
Zimbabwe	42.2		3.50%
Ivory Coast	40.9		3 - 6%
Guinea	27.3		5.00%
Senegal	17.5		5.00%
Egypt	14.7	1.00%	5.00%
Nigeria	14.0		3.00%
Gabon	11.3		4 - 6.5%
Ethiopia	11.0		8.00%
Others	92.2		
Total Africa	818.9	Africa's Share of Global Production	
Total Global	3,502.6	23.38%	

Africa produced a total of 819 tonnes of gold in 2019, representing over 23% on global gold production. Probably the biggest take away from this table is the fact that South Africa slumped from over 600 tonnes in 1993, when it was the world's leading gold producer by some distance, to 128 tonnes in 2019. However the good news is that other countries in Africa have stepped into fill the gap with Ghana has emerging as the leading gold producer on the continent with its' estimated 130 tonnes of production in 2019 split between large scale mining operations of major international companies that accounts for 60% of total gold production and a growing small scale artisanal sector that has now reached 40%. While mining exploration companies are continually scouring the world for new gold mining sites, Africa has these in abundance.

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

Where to from here for Africa in the global gold eco-system?

1. We believe that it is important for the various gold producing countries of Africa to join together and to follow the lead of other major precious metals markets and create a pan African Precious Metals Association (APMA) to represent the African continent in the global precious metals industry as a whole and give Africa a regional voice on a global stage.

2. A key focus of this new body would be to create its own world class Responsible Supply Chain Policies and Procedures, which would by based on OECD guidelines, just as the LMBA Good Delivery and Dubai Good Delivery protocols are, but within the African framework, taking into account different challenges that exist, but always maintaining the principals of ethically sourced, eco friendly, legal and socially responsible green gold. The newly formed APMA would draw on the expertise and wealth of experience that already exists in this vibrant market place, and one of its' key targets would be to develop and establish a African Good Delivery List of Accredited Precious Metals Refiners and implement world class Responsible Supply Chain Policies and Procedures.

3. Another key focus for the newly formed APMA would be to recommend, promote and oversee the harmonization of gold royalties and other related fees across the African continent, which would remove any economic incentive for smuggling and support legitimate cross border trade in precious metals and boost flows of dore bars for refining into valued added products by world class refineries that should be established in the major gold producing countries in Africa. There is enough gold to go around, and competition fuels innovation, success and profitability.

4. For many years South Africa was easily the largest gold producer in the world but between 1986 and 1994 it was heavily hit by sanctions against it policy of apartheid. This meant that they had to sell their gold at a discount to the international price of gold and send their bars to refineries in Switzerland, where the 12.kg ingots were re-melted into value added products such as kilo bars, ten tola bars, 100 gram bars and smaller denominations, which were then sent to global demand markets such as the Middle East and Indian sub-Continent. From 1995 onwards Rand Refinery, the world's largest gold refinery and based in Johannesburg, worked with banks such as Standard Bank London (owned by Standard Bank of South Africa) to ensure that the value addition of South Africa's gold was internalised within the country. It is worth noting that South Africa has had a policy that all primary gold production in its country had to be refined by Rand Refinery, which was not owned by the Government but by South Africa's major gold mining companies, and this has made it easy for the Government to control its gold industry and extract maximum value for the country. It also produced a legal tender gold coin called the Krugerrand from 1967 and this has become one of the most popular forms of investment in physical gold in the world, affordable by 'the man in the street' as well as major investors.

5. As mentioned above, if the leading African gold producers have their own world-class precious metals refineries a key focus for Africa's forward looking gold policy should to follow the same path as South Africa and ensure that Africa as a continent gains as much benefit as possible from its' gold assets. Africa should ensure that both its large scale and artisanal mine production is refined in the country of production and then sold as value added value products locally and globally, and to that effect it would make sense to encourage a wider gold refining gold industry rather than relying on just one refinery in each country. Further each major gold producing country should design and issue its own range of legal tender gold coins under a brand name that has significance for the country.

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin

6. As part of the policy of internalising the full value of its gold, and as a matter of urgent policy, we strongly recommend that it should be mandatory that all artisanal gold production should be offered for sale to the Government of the African country through its' respective Central Bank, or other suitable official vehicle, with the sellers receiving a fair and competitive price, certainly beating the net revenue the small scale producer currently receives when sending and selling their gold to overseas locations. This does not mean that the Artisanal sector has to sell to the Central Bank but rather the Government has the right of first refusal. Further we also recommend that discussions are held with the large scale mining companies to propose that at least 40% of gold that has been mined and produced in country must be offered to the Government of the country under the principal of the right of first refusal, again at a fair and internationally competitive price. This way each African gold producing country has access to its own gold that can either be put into that country's official gold and currency reserves, or to be used as collateral for long term financing structures to fund infrastructure developments in the country.

7. As alluded to above, we strongly suggest that African Central Banks adopt a policy of building its official reserves of gold by purchasing production from the local gold mining and refining sectors to the extent that its' gold reserves represent at least the global Central Bank average holdings of 18% of total foreign exchange reserves. Even in this modern world of highly complex financial derivative structures and a wide range of digital assets, a country that has a significant amount gold held in reserve is regarded as having a sound economy with a solid credit rating.

8. Finally, and perhaps most importantly, Africa should also encourage its banks to become full service bullion banks to provide the necessary gold products and services to fund the growth of both the public and private sectors in the gold industry, to ease the burden on African Central Banks and help to complete a vibrant and large-scale gold eco-system. These newly developed African bullion banks would not only serve the gold mining industry but also help private wealth managers to promote the purchase by HNW clients of value added gold bars and coins produced by African gold refineries as part of a currency and investment portfolio diversification strategy. Also it would be the role of African bullion banks to fund and encourage the development of a vibrant gold jewellery design and manufacturing sector that would ensure that Ghana and the rest of Africa retains as much value add as possible from its gold, which remains as the most valuable and desirable asset class in the world even after 5000 years

Jeffrey Rhodes and Gerhard Schubert

19th May 2020.

Contact us: The Ubuntu Investment Company, Suite 204, Grand Baie Business Quarter, Chemin