

## **Роль России в формировании совокупного спроса и предложения на мировом рынке золота**

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### **Аннотация**

Мировой рынок золота - часть мирового рынка драгоценных металлов, а значит и часть глобального финансового рынка. Если рассматривать рынок золота в именно России, то можно сказать, что развиваться он начал относительно недавно, так как на Московской бирже торговля золотом началась лишь в 2000-х. Спрос и предложение на него формируют очень многие факторы, например, спрос и предложение на мировом рынке золота, а так же курс некоторых валют. Таким образом, курс золота на российском рынке обратно зависим от курса доллара, так как такую же зависимость имеет курс рубля.

**Ключевые слова:** совокупный спрос и предложение, рынок драгоценных металлов, золото, производство.

### **Role of Russia in shaping of aggregate demand and supply in the global gold market**

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### Abstract

The world gold market - is a part of the world market of precious metals, therefore is a part of the global financial market. If we consider the gold market in Russia, then it is possible to tell that it began to develop relatively recently as at the Moscow Exchange trade in gold began only in the 2000th. Aggregate supply and demand on it are formed by many factors, for example, supply and demand in the world market of gold, also exchange rates for some currencies. Thus, the rate of gold in the Russian market is backward dependent on the dollar exchange rate as ruble exchange rate has the same dependence.

**Keywords:** cumulative supply and demand, market of precious metals, gold, production.

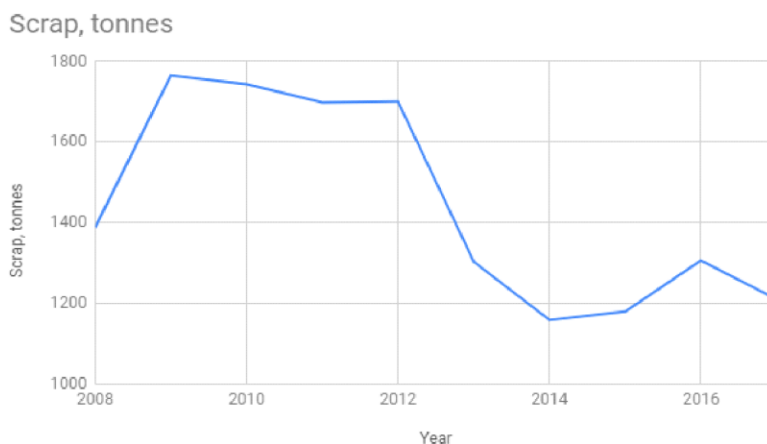
For a long time, gold has been a universal money equivalent, distinguished from a variety of other commodities. Gold is the most hard-to-mine metal. It is 10 times more expensive than silver and almost 250 times more expensive than copper. With the development of human society, the functions and role of gold have changed, but it still plays its own special role in the system of economic relations.

Over the past ten years, global mine production of gold has been steadily growing and only in 2018 amounted to 3,247 tones, which showed a decrease of 5 tons compared with 2017. But Russian gold production actually increased by 17 tones and amounted to 83% of the total European mine production. Russia is in first place in gold production in Europe and third in the world (after China and Australia).

**Table 1.** Dynamics of the mine production of gold in 2008-2017, tons [4]

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Mine Production	2467	2651	2771	2868	2882	3076	3180	3222	3251	3247

The supply of scrap gold in the world decreased by 7% and amounted to 1,210 tons, which is the lowest figure in two years. The dynamics of the supply of gold cannot be called consistent, since it has been changing its direction almost every 2 years.



**Fig. 1. Dynamics of the scrap production of gold in 2008-2018 [4]**

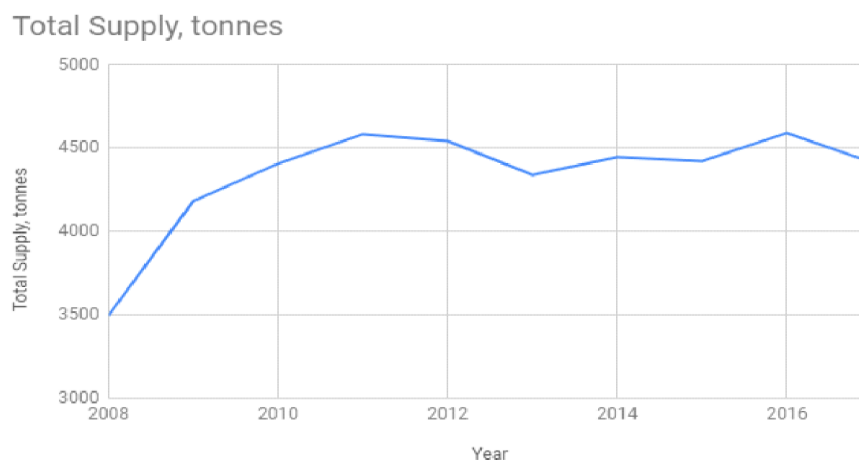
**Table 2. Dynamics of the scrap production of gold in 2008-2017, tons [4]**

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Scrap gold	1388	1765	1743	1698	1700	1303	1159	1180	1306	1210

As it can be seen, the largest part of the total gold supply is formed by the mine production (approximately 73,5%), so the fluctuations in the total gold supply are mostly due to the changes in the global mine production.

**Table 3. Dynamics of the total supply of gold in 2008-2017, tons [4]**

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Supply	3497	4182	4407	4584	4543	4340	4446	4422	4590	4415



**Fig. 2. Dynamics of the total supply of gold in 2008-2017 [4]**

In 2017, the cost of gold production rose by 4% to an average of \$ 642 per ounce, and the production of an ounce of gold increased by 5% to \$ 878.

The role of Russia in the global gold market has recently increased. This is due not only to the growth of domestic gold production, but also to the growth of gold reserves, which ensures steady demand from the Central Bank of Russia.

**Table 4.** Dynamics of the mine production of gold in Russia in 2008-2017, tons [4]

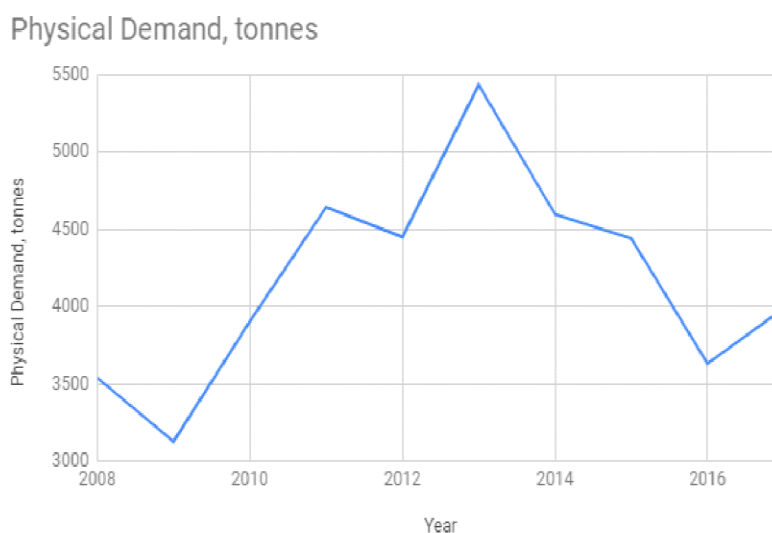
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Mine production	186,4	200,9	195	204,4	214,9	232,7	247,5	249,5	253,6	270,7

For the sixth year in a row, the Central Bank of the Russian Federation takes the place of the largest buyer of gold in the world. The volume of purchases increased from 201 tons in 2017 to 224 tons in 2018. In 2018, Russia's gold reserves amounted to 18% of the global ones. Apparently, a change in the trend for increasing gold reserves in the near future is not expected. In terms of the gold reserves, Russia already occupies the 5th place in the world, ahead of such economic powers as China and Switzerland. Only USA, Germany, Italy and France have larger gold reserves. The increase in gold reserves has a positive effect on Russia's investment attractiveness: it reduces the risk of default on foreign borrowing in the event of adverse changes in the global market situation, as well as reducing the likelihood of sharp fluctuations in the national currency rate. Suffice it to recall that the accumulated volume of foreign exchange reserves was one of the reasons for Moody's upgrade of Russia's credit rating from Neutral to Positive. Also, it should be noted that the Ministry of Economic Development predicts development in the gold mining industry in 2018-2020, so the supply of gold from the Russian Federation could increase in those years.

Russia has a competitive raw material base of precious metals, well-equipped industries adapted to a market economy, associated with the mining and production of precious metals, as well as a modern jewelry industry. These industries and their integrated operation, united by a single process from the extraction, production and sale of precious metals to the manufacture and release of jewelry and coins, now have and will have a significant impact on the overall level of socio-economic development in the country.

The revitalization of the world gold market has led to an increase in funding for exploration and the emergence of projects to create new mines. In Russia, as well as throughout the world, there is a sharp increase in the interest of financiers and entrepreneurs in the gold mining industry - gold mining has become investment-attractive. But two factors do not allow to fully take advantage of the high price of gold at the present time - insufficient intensity of geological exploration and insufficient consolidation of the industry [4]. To remedy the situation, it is necessary to achieve a breakthrough in the organization

and financing of forecasting and prospecting (at the expense of federal funds) and geological exploration (at the expense of subsoil users). It would be rational if medium-scale exploration was financed by the subjects of the federation themselves in the framework of pre-licensing training. The second direction of the necessary transformations of Russian gold mining is the restructuring of the industry. We note two particularly notable phenomena in this sector. The first is the ongoing enlargement of market entities, first of all, of the gold mining companies themselves (experts predict an even greater activation of the integration and absorption processes among the gold mining companies) [3]. The second is the arrival of mining and metallurgical giants from adjacent sectors in the industry. In 2017, the demand for gold in physical terms increased by 10%. This was the first increase in demand over the past 4 years, mainly due to the growth in jewelry production and an increase in demand for gold in industry.



**Fig. 3. Dynamics of the total physical demand for gold in 2008-2018**

**Table 5.** Dynamics of the total physical demand for gold in 2008-2018, tons [4]

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Demand	3538	3125	3903	4643	4449	5434	4598	4442	3630	3988

Jewelry production grew by 13%, reaching 2,214 tons, which was largely due to India. For the first time since 2010, the demand for gold in industry has grown by 4%, to 380 tons. The electronics sector showed the most significant growth rates (5%). The main growth driver is the increased use of gold in the manufacture of wires.

Net purchases in the world grew by 36% and amounted to 366 tons, which contributed to the purchase of more than 200 tons of gold by Russia for the third consecutive year. The rate of gold purchases in Russia rose to 18.6 tons per month, reaching the highest level in the 21st century.

Russian jewelry fabrication posted a double-digit percentage recovery in 2018, after three successive years of contraction, as the improved economy and stabilizing ruble value saw a return in gold appetite.

Between 2000 and 2007 Russia had been one of the most rapidly growing jewelry consumers, with demand expanding at double-digit percentage rates, before the economy was hit by the global financial crisis. Following two years of sharp declines, the gold jewelry market began to recover and once again enjoyed a period of uninterrupted gains between 2010 and 2013, with fabrication volumes recovering by 32% over the four-year period, just shy of the record level of pre-crisis years. The industry embarked upon a new crisis in 2014, however, after an escalation of tensions between Russia and the Ukraine and eventually the annexation of Crimea led to international sanctions against Russia, massive capital flight from the country and rapidly worsening economic conditions. The economy slid into recession in 2015-16, exacerbated by sharply lower oil prices, which along with a marked depreciation of the ruble saw consumer confidence fall to record lows and the local gold price soar to unprecedented levels, hitting retail sales of gold jewelry. As a result, jewelry fabrication faced three consecutive years of sharp declines, which saw offtake contract by more than a third between 2014 and 2016. Last year saw gold jewelry fabrication recover by 12%, driven by improved economic conditions, as the Russian economy rebounded after two consecutive years of negative growth, as well as markedly lower prices in ruble terms, although volumes remained well below levels of previous years.

The Central Bank of Russia had remained the largest reported purchaser for the sixth consecutive year, having bought 224 tons of gold in 2018, up from 201 tons purchased in 2017. With its total holdings at around 1,839 tons at end-year, Russia strengthened its position as the 6th largest gold holder globally.

Russia is becoming an increasingly prominent player in the global gold market, and the gold mining industry is one of the major sources of foreign exchange earnings in the Russian economy.

**Table 6.** Amount of gold in state reserves in 2018 [6]

Country	Amount of gold reserves, tons
India	560,3
Netherlands	612,5
Japan	765,2
Switzerland	1040,0
China	1842,6
Russia	1909,8
France	2436,0
Italy	2451,8
Germany	3371,0
USA	8133,5

There are several reasons for the rise in gold prices in recent years. First, the demand for it is steadily spurred by the aerospace, automobile and jewelry industries, primarily in Asian countries. Secondly, as an investment asset, gold traditionally acquires high value at times of instability in financial markets and under the influence of political events of a crisis nature. Favorable price conditions of the gold market are especially important for the Russian gold mining industry, not only as one of the major producers and exporters of precious metals, but also because a significant part of its gold reserves is located in hard-to-ore deposits located in hard-to-reach areas, the development of which requires significant investments. Manifestations of the high conjuncture of the Russian gold market are the intensification of national and foreign companies and financial structures on it (the revitalization of the activities of Russian gold mining companies was manifested, in particular, in the intensification of their competition in the distribution of subsoil objects, reorganizations, consolidation of small enterprises) in the introduction in the gold mining industry of giant companies owning huge reserves of other minerals (oil, gas, nickel, diamonds), as well as increased interest in the market of information on gold mining and of its mineral resource.

In recent years, the situation in the international economy is not stable, therefore, investments in precious metals confidently strengthen the reputation of investments in stable and serious assets.

The dynamics of gold prices in Russia are determined primarily by the situation in the world market. First of all, the fluctuation of the gold rate directly depends on the change in the exchange rate of the US Dollar. The developing countries of southeastern and eastern Asia, India and China over the

past years have been influencing price increases. This is due to the growth of middle-class consumers, who in recent times have increasingly begun to buy jewelry. Financial crises, political instability, popular unrest and environmental disasters - all of these factors have a significant impact on the price of gold. But even with periodic global financial events, the value of gold shows stable growth in the long term in relation to indicators of past periods.



**Fig. 4. Dynamics of the prices for gold on the Russian market in 2008-2018 [5]**

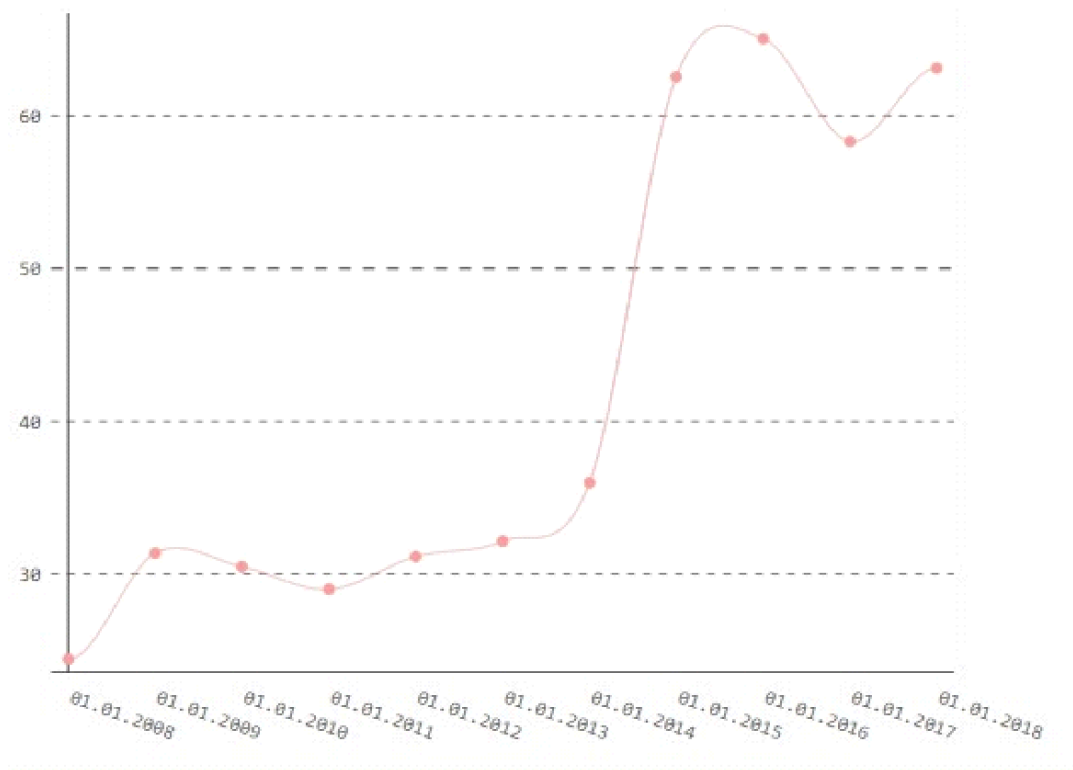
The dynamics of gold prices over the past years are impressive - back in 2001, an ounce cost \$ 272, and in 2011 - \$ 1600. The root cause of the events of September 11, 2001 and the subsequent cheapening of mortgage loans in the United States. The boom of buying real estate on credit ended in the collapse and crisis of the US economy and the world economy as a whole.

After 2008, the situation stabilized somewhat, and gold prices fell slightly. But the decision to take anti-crisis measures, the destabilization of the European Union, events in the Middle East provoked a new upsurge. Let us examine the reasons for the growth of gold in times of economic instability. In fact, everything is much easier than it seems. Any, even the most stable currency in the world is protected by the gold reserves of the state. For this reason, gold is initially considered a more reliable, stable and conservative asset than the US dollar, Euro and other most stable world currencies. Objective reasons for the depreciation of gold, in principle, does not exist, so even if it is cheaper against the background of



economic stabilization in the United States and other countries, the situation is only temporary and lasts until the next crisis.

There is a correlation between the price of a dollar and the value of gold - and it is inversely proportional. When the dollar creeps up, the troy ounce loses in value and vice versa. However, while the dollar is actually a world currency and the price of gold is fixed in US dollars, in countries with economies of "non-dollar", an increase in the value of American money leads to an increase in the price of gold in national currency.



**Fig. 5. Dynamics of the dollar rate in 2008-2018 [6]**

In other words, even with a decrease in the price of gold on world markets, subject to the growth of the dollar, ruble prices for gold will creep up.

The situation on the stock markets also determines the behavior of prices for precious metals through the influence of the interests of investors.

As it can be deduced, the gold market is a component of the precious metals market, and that, in turn, is a link in the financial market. Even though gold has lost some of its functions that it had in the previous centuries, it seems that it will continue to be an important metal in the economies of the states for a long time. Nowadays the gold market is a combination of international and domestic markets — an extensive structure of global and round-the-clock trading in physical metal and derivatives. Gold mining

companies are not in a position to drastically increase the volume of metal production in order to gain additional market share, as reserves of easily recoverable ores are declining and there is a need to use various technologies and complex mining operations. Russia is becoming an increasingly prominent player in the global gold market, and the gold mining industry is one of the major sources of foreign exchange earnings in the Russian economy.

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