

The Silver Krugerrand Has Arrived

BY RICHARD COLLOCOTT, EXECUTIVE COMMERCIAL HEAD OF RAND REFINERY (PTY) LTD AND DIRECTOR OF PRESTIGE BULLION (PTY) LTD



The August 2018 launch of the silver bullion Krugerrand is an important milestone for the physical precious metals markets, and is the first new bullion product being delivered under the Krugerrand brand since the launch of fractional gold Krugerrands in 1980.

The introduction of a new bullion product from this iconic global brand will likely attract interest from global investors and collectors alike.

ABOUT THE GOLD BULLION KRUGERRAND

The gold bullion Krugerrand is credited as being the first modern gold bullion coin. It was launched in 1967 as a vehicle for adding value to South Africa's gold mine

PEAK DEMAND FOR THE GOLD BULLION KRUGERRAND WAS REACHED IN 1978, WHEN OVER 6 MILLION OUNCES OF KRUGERRANDS WERE SOLD.

production and as a tool to allow for private ownership of gold. The gold Krugerrand was the brainchild of the South African Chamber of Mines and was innovative in that one of the unique characteristics of the gold Krugerrand is that it is denominated in ounces of pure gold, making it the only meaningful gold coin that has a gold face value, rather than a fiat currency one.

Gold bullion Krugerrands tapped into a significant pool of demand globally, resulting from the fact that its launch was shortly before the lifting of the ban on the private ownership of gold in the USA and other countries in the world. Peak demand for the gold bullion Krugerrand was reached in 1978, when over 6 million ounces of Krugerrands were sold. The gold bullion Krugerrand operated more or less without competition until 1979, when the Canadian Maple Leaf coin was launched.

GROWING DEMAND

Demand for the gold Krugerrand remained strong until 1984, when USA-led sanctions were introduced against South Africa, which had a negative impact on export sales of Krugerrands. The US Mint launched the gold Eagle coin in 1986, the Perth Mint launched the gold Nugget in 1987 and the Austrian mint launched the gold Philharmonic in 1989.



Demand for the gold bullion Krugerrand returned in 2007, at the beginning of the great financial crisis, when investors globally sought quality assets as the equity and debt markets struggled.

ALLURE OF THE KRUGERRAND

In 2016, the gold Krugerrand regained its position as the world's top-selling gold bullion coin and it repeated this in 2017. Based on current data and market information, it looks likely that the gold Krugerrand will be the top-selling gold coin in 2018.



The Krugerrand's success is attributed to its:

- **Liquidity** – With over 60 million Krugerrands sold since launch, the Krugerrand is the most widely held and traded gold coin in the world.
- **Durability** – The 22-carat alloy used makes the coin harder and more durable than 24-carat coins, making secondary trade easier.
- **Consistency** – There have been no changes to the design since launch in 1967. This means that buyers can trade and realise value for coins no matter what year they were produced in.
- **Trust** – Having a track record of over 50 years gives consumers confidence in the product and its origins.

The new silver bullion coin will bear the same iconic design as the gold bullion Krugerrand, featuring the springbok designed by Coert Steynberg on the obverse.



THE NEW SILVER BULLION KRUGERRAND

Building from over 50 years of success and in order to provide the Krugerrand to physical investors in a more accessible form, the South African Reserve Bank authorised Prestige Bullion to proceed with the creation of a silver bullion Krugerrand during 2018. This authorisation has allowed Rand Refinery and the South African Mint, the partners in Prestige Bullion, to develop and deliver the silver bullion Krugerrand, which gives physical silver investors the option of buying the Krugerrand as a silver coin.

The silver bullion Krugerrand launch has been contemplated for a few years; in fact, all of the other major gold bullion coins already have a silver companion. By offering a silver option, the Krugerrand joins its highly respected peer group and offers a credible new silver investment product.

SPECIFICATION AND DESIGN

The specification, finish and many elements of the design will be instantly recognisable, as the Krugerrand's design has not changed since its introduction in 1967.

The new silver bullion coin will bear the same iconic design as the gold bullion Krugerrand, featuring the springbok designed by Coert Steynberg on the obverse. The reverse of the coin features the bust of Paul Kruger, designed by Otto Shultz, surrounded by 200 serrations. Each coin has a face value of R1.

ALL SILVER USED IN THE MANUFACTURE OF THE SILVER BULLION KRUGERRAND IS SOURCED IN FULL COMPLIANCE WITH LBMA'S RESPONSIBLE SILVER GUIDANCE.

The silver Krugerrand will be produced in unlimited mintage depending on market appetite. Weighing 31.107g with a diameter of 38.725mm, the silver bullion Krugerrand will be made from silver with purity exceeding 99.9%. All silver used in the manufacture of the silver bullion Krugerrand is sourced in full compliance with LBMA's Responsible Silver Guidance.

It is expected that the silver bullion Krugerrand will join its global peers as a leading physical bullion investment product, and its price shall be determined based on the daily official LBMA Silver Price benchmark. The coins will be available in tubes of 25 or in monster boxes containing 500 coins. Prestige Bullion does not sell directly to members of the public, but rather sells through a well-established network of international bullion dealers.



Richard Collocott is Executive Commercial Head of Rand Refinery (Pty) Ltd and a director of Prestige Bullion (Pty) Ltd.

Richard is responsible for commercial matters for Rand Refinery and global marketing and sales for Prestige Bullion.

Prior to joining Rand Refinery in 2014, Richard worked in a variety of leadership roles in the base metals, precious metals and diamond industries.

Rand Refinery is one of the world's leading gold refineries and has been a good delivery refiner since 1923. Prestige Bullion is a joint venture between Rand Refinery and the South African Mint RF (Pty) Ltd, a 100% subsidiary of the South African Reserve Bank, and is responsible for the management of all South African issued legal tender bullion coins.



ZUIDAFRIKAANSE
RESERVEBANK.

SOUTH AFRICAN RESERVE BANK.

THE SOUTH AFRICAN RESERVE BANK (SARB) AND SOUTH AFRICA'S GOLD

BY MR DANIEL MMINELE, DEPUTY GOVERNOR,
SOUTH AFRICAN RESERVE BANK (SARB)

There was a time when the SARB was one of the main participants in the global gold market. This was back in the 1980s and 1990s, when South Africa was the largest gold-producing country in the world.¹ Much had happened up to that point, and much has happened since. The SARB has had a unique relationship with South Africa's gold industry over the decades, which has shaped its operations in gold over time.

BEFORE WORLD WAR II

The SARB was established in 1921, but it was only in 1925 that it first purchased gold from the local mines and consequently began to take an active part in the gold market. The Department of Finance at the time (now known as the National Treasury) appointed the SARB as its agent to manage South Africa's official gold reserves and market the country's gold output. The central bank thus became the main channel through which South African gold producers had to sell their production gold within the entire Bretton Woods system and throughout the Dollar Standard era until 1997.

The initial arrangements between the SARB and the gold producers consisted of the central bank undertaking to buy the gold they offered at the prevailing market prices. This transactional arrangement continued until 1926, when the SARB started buying gold under a new agreement with the Transvaal Chamber of Mines.

**THE CENTRAL BANK
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GOLD OPERATIONS IN THE 1980s AND 1990s

After the International Monetary Fund abolished the 'official' price of gold and until 1982, the SARB bought the newly produced gold at a price based on the average of the latest two London Gold Fixings, less a nominal realisation charge, converted into rand. Gold producers continued to be paid in the local currency until 1983, after which payments were made in US dollars.

At the beginning of 1985, in an attempt to alleviate the pressure on the rand caused by international sanctions against the apartheid government, the SARB announced that the proceeds from the gold that the gold producers sold would be paid 50% in US dollars and 50% in rand. However, by the end of that year, after South Africa had been forced to declare a debt standstill a few months earlier, gold producers were paid in the local currency only. The SARB only resumed paying the gold producers in US dollars in 1988 and continued to do so until 1997.

The SARB exclusively sold gold on a spot basis until 1986, after which it also became involved in the trading of gold in the outright forward, swap and lending markets. At the same time, the SARB also started trading in the options markets, mainly to hedge a certain portion of its gold purchases against adverse market conditions and to generate premium income.

Throughout the 1990s, the SARB had a policy of drawing down on its short-term foreign-credit facilities to supplement its gross reserves. These facilities consisted of bilateral gold loans, pre-export financing facilities for gold, money-market credit lines and syndicated loans. A gold-denominated syndicated loan for US\$500 million was signed in 2000 and repaid in 2003.

In 1995, local mining companies were granted permission to hedge their gold production against price risk in the international bullion market. This was done through local South African banks but was subject to exchange-control approval. Such approval was customarily granted, but it was subject to two conditions: the position had to be closed out prior to maturity, and the production gold still had to be delivered to the SARB.

1. South Africa was the top gold-producing country in the world until 2006 and presently ranked seventh.

In 1996, the SARB and the Rand Refinery agreed that the central bank would purchase the gold that had been delivered to the Rand Refinery in the form of doré bars² at the London afternoon Gold Fixing price. Prior to this agreement, the SARB would generally have purchased 400-ounce bars of 995 fineness, the so-called 'Good Delivery bars', from the Rand Refinery.

The announcement in 1997 by the Minister of Finance lifted the SARB's exclusive responsibility to sell gold. The gold producers elected the Rand Refinery as their agent, the Rand Refinery tried to achieve direct sales of 50% of their total production and the SARB continued to purchase the balance of their production in doré form.

GOLD CONTINUES TO BE A SIGNIFICANT PART OF THE SARB'S OFFICIAL RESERVES.

THE ICONIC KRUGERRAND COINS

From 1967, the Minister of Finance gave the Chamber of Mines the dispensation to sell South African gold that was earmarked for the production of Krugerrand coins, independently of the SARB, with an understanding that the Chamber's Krugerrand sales would not exceed one-third of the annual gold production. This change to the then prevailing arrangement to offer all gold output to the SARB was precipitated by the success of the Krugerrand (a legal-tender bullion coin). In 1998, the Rand Refinery took over the responsibility for all the marketing and sales of the Krugerrand-denominated bullion coins. Since 2013, the production, marketing and sales of the Krugerrand have been undertaken by Prestige Bullion, a joint venture between the Rand Refinery and the South African Mint. The Krugerrand celebrated its 50th anniversary in 2017 and remains the most famous gold bullion coin in the world.

INVOLVEMENT IN THE GOLD JEWELLERY INDUSTRY IN SOUTH AFRICA

In 1989, the SARB introduced a collateralised gold loan scheme for manufacturing jewellers via authorised dealers (local commercial banks). The main objective of this scheme was to promote and contribute to a viable export market for jewellery manufactured in South Africa. The implementation of a gold loan scheme meant that manufacturing jewellers were able to access work-in-progress gold at bullion lending rates plus a margin for a maximum period of six months.



South Africa was the top gold-producing country in the world until 2006



DEVELOPMENTS SINCE 1997

In 1997, the Minister of Finance announced policy amendments to the effect that gold producers could now sell their own output – on condition that the SARB had given the necessary exemption from the relevant Exchange Control Regulations.

The SARB's role in selling the country's gold production would thus be modified as the government embarked on a process to liberalise exchange controls. The changed procedures for the sale of gold that came

into effect after 1997 did not fundamentally alter the position of the gold-mining industry in South Africa.

In 1998, certain mining companies gave the Rand Refinery the mandate to act as their agent in the pricing and selling of their gold. Other gold producers approached the SARB for exemption from the relevant Exchange Control Regulations to allow them to sell their gold directly to approved counterparties.

As from 2001, the SARB has not purchased any production gold from either the Rand Refinery or mining companies.

2. Doré bars are a form of gold which needs further refining to attain an acceptable status.

SOUTH AFRICA'S GOLD RESERVES

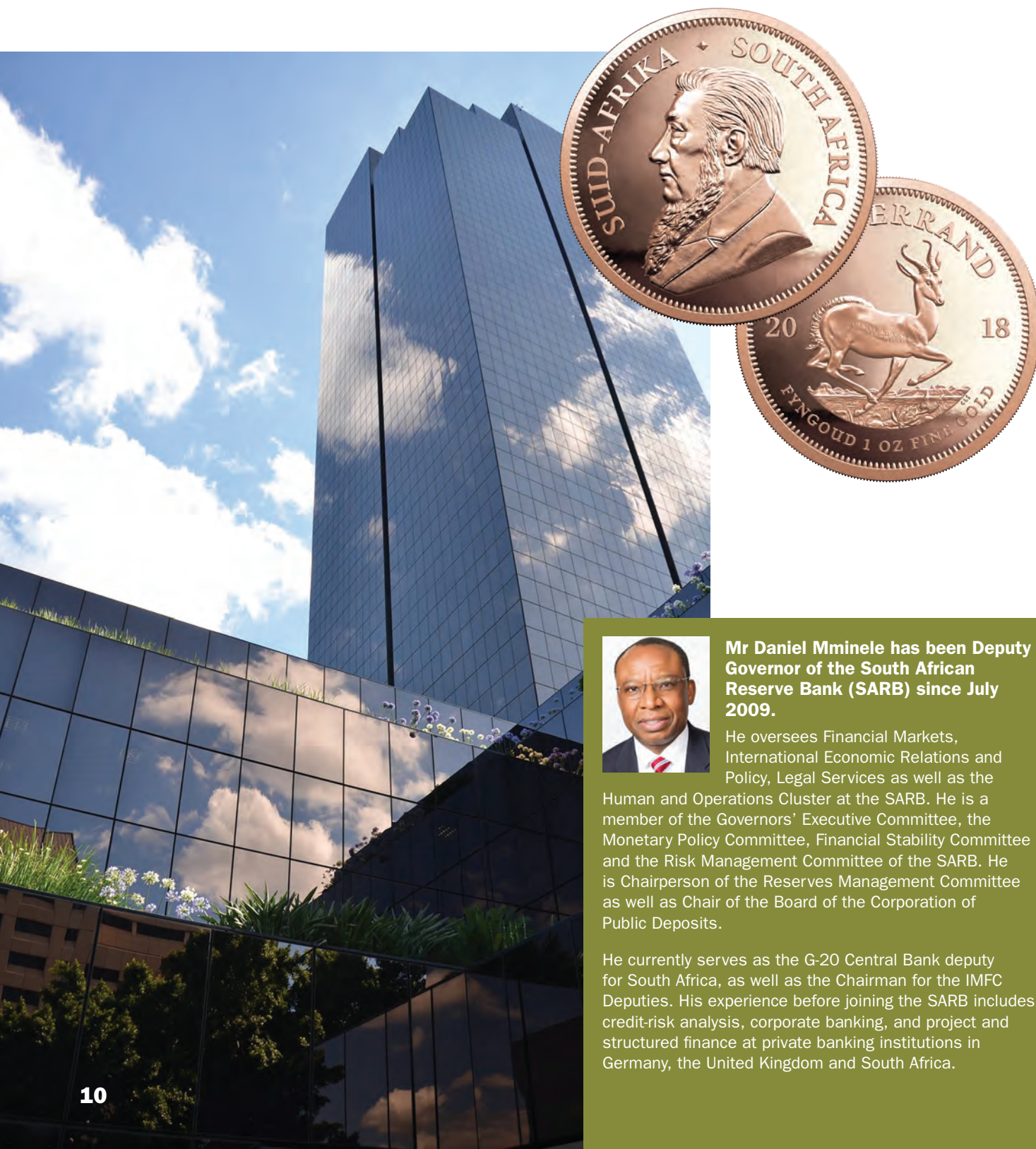
As of December 1989, the SARB's gold holdings averaged approximately 75% of total reserves. From January 1990 to December 1999, this ratio declined to an average of 48%. It fell further, to an average of 12%, between January 2000 and today, mainly due to the increase of foreign-exchange reserves over the period. The gold holdings have been kept virtually constant at 125 tons for the past 20 years.

Although the SARB was not a signatory to the Central Bank Gold Agreement, it elected to conduct its gold reserves management within the ambit of the Agreement to show its support for responsible trading in gold.

A GOLD-DENOMINATED SYNDICATED LOAN FOR US\$500 MILLION WAS SIGNED IN 2000 AND REPAID IN 2003.

Today, while the SARB's activities in gold are much more akin, by design, to those of other central banks, and although it maintains mostly a passive management strategy when it comes to its gold portfolio, the central bank of South Africa continues to be keenly interested in the activities and developments in the gold market, and is also cognisant of the important role that the gold-mining industry plays in the development of South Africa and the potential impact it has on the local economy.

Gold continues to be a significant part of the SARB's official reserves. The precious metal continues to play an important role as a 'safe haven' in times of financial crises, as a store of value and in diversifying reserve portfolios.



Mr Daniel Mminele has been Deputy Governor of the South African Reserve Bank (SARB) since July 2009.

He oversees Financial Markets, International Economic Relations and Policy, Legal Services as well as the

Human and Operations Cluster at the SARB. He is a member of the Governors' Executive Committee, the Monetary Policy Committee, Financial Stability Committee and the Risk Management Committee of the SARB. He is Chairperson of the Reserves Management Committee as well as Chair of the Board of the Corporation of Public Deposits.

He currently serves as the G-20 Central Bank deputy for South Africa, as well as the Chairman for the IMFC Deputies. His experience before joining the SARB includes credit-risk analysis, corporate banking, and project and structured finance at private banking institutions in Germany, the United Kingdom and South Africa.



Rhona O'Connell is a recognised authority in the precious metals sector.

She has worked as a metals market analyst in many aspects of the industry, including the mining sector, LME brokers Rudolf Wolff, and the equity markets; as well, as acting as the group precious metals analyst at Shearson Lehman.

She is now the Head of Metals Research and Forecasting for the GFMS division of Thomson Reuters, responsible for a team of over 15 analysts.

She holds an honours degree in Law from the University of Cambridge.

All brands are investing heavily in electric powertrains, with the primary focus on Asia. In the western hemisphere, progress will be slower and focused on pick-up trucks and SUVs as this is where the demand (and margin) lies. In a KPMG report of early 2018, 72% of senior executives surveyed in the United States said that they would invest in Full Hybrids and Plug-In Hybrid EVs, 69% in pure EVs, and 67% in both battery electric vehicles with a range extender fitted and in Fuel Cells. The dates in the table below are aspirational rather than cast in stone and carry GFMS opinion in the right-hand column.

IF THE TRAJECTORY FOR 2040 PROVES ACCURATE, THEN THE COMBINED HEVS AND EVS SECTOR OF THE AUTO INDUSTRY COULD ACCOUNT FOR ALMOST 2,200 TONNES OF SILVER.

The implications for silver from the development of this technology stem from its importance in complex electronics and a host of safety features, as distinct from the solar cell aspect. Combined usage in 2018 in HEVs and EVs is estimated at 123 tonnes, and is forecast to double by 2020 and to reach 450 tonnes in 2025. If the trajectory for 2040 proves accurate, then this sector of the auto industry could account for almost 2,200 tonnes of silver in that year.

Automotive silver usage is thus expected to grow by an annual average of almost 4.8% per annum. By 2040, the industry could be absorbing over 4,500 tonnes of silver annually, up by almost 3,000 tonnes against today's levels, a gain equivalent to just under 10% of current global demand.

Country	Plan	New EVs only	Comments
China	Banning new ICE sales		Actively considering and studying a ban
Norway	Becoming 100% electric	2025	Very likely. Leader in field. Made great progress
Netherlands	Banning new ICE sales	2030	Very likely. Leader in field. Made great progress
India	Becoming 100% electric	2030	Proposed. Very ambitious
Israel	Banning new ICE sales	2030	Energy minister proposed ban. Looks likely
Germany	Banning new ICE sales		Hotly debated topic kicked off with diesel bans in some cities
France	Banning new ICE sales	2040	Proposed
UK	Banning new ICE sales	2040	Very likely. Commitment present
Scotland	Banning new ICE sales	2040	Very likely. Commitment present
California (U.S. state)	Banning new ICE sales	2040	Bill proposed



K R U G E R R A N D

S I L V E R

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