Gold Report:

The Pieces of the Puzzle Reveal Supply Trouble Ahead

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Preface:

Most people are just focused on a single simple question:

Why do metal prices keep dropping in the face of what appears to be strong fundamental reasons for prices to move higher?

Many in the financial media are keen to declare that the falling prices on the last few years shows the market has spoken. You can't eat gold, it's as the Wall Street Journal put it recently 'a pet rock' Modern financial systems are doing just fine without anything as antiquated as bullion gumming up the works.

Outside of price action, there is very little to support claims that gold is a relic of the past. There isn't a shortage of data out there. The problem, though, lies in the bigger picture. There are a lot of stories that just aren't getting the right amount of attention from market watchers. These snippets of data go a long way in answering specific questions but it doesn't provide context.

For those who look a bit closer, the real answer to the question about why prices have headed lower isn't the stuff of lengthy debate. The answer seems to be a lot simpler; huge demand for physical metal hidden behind an enormous glut in paper supply. The statistics are all freely available, but never put together to provide a clearer picture. But as recent data has highlighted, demand might in fact have been greater than previously estimated. Behind the scenes, western inventories have been vanishing while leverage and counterparty risk in gold futures trading have skyrocketed. Who's been buying while the price has come lower despite increased demand?

How these separate issues fit together and the answer to who's been buying is explained in this report . The reckoning for metals markets may not be far ahead, so reading this report now about how and why this will happen is worth 5 minutes of your time now.

When Gold rallies, you'll be glad you bought while you can.

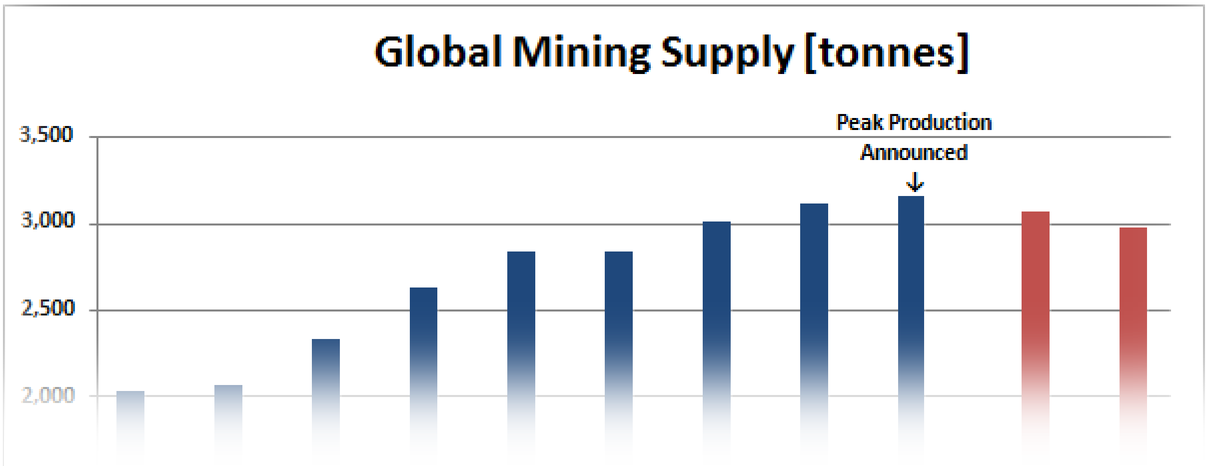
Section 1: Global Supply and Demand

Supply

According to the World Gold Council, China is the leading gold producer, accounting for around 15% of world production. Central and South America supply about 17%, with North America accounting for 15%. Africa produces about 20% of the worlds gold and 14% comes from the CIS region of the former Soviet Union.

The falling price has been challenging for gold mining companies, forcing them to cut capital expenditures, and increase output to make up for loss in revenue. After 4 years, they have significantly cut back on exploratory operations (meaning they stopped looking for new locations to mine gold and hurts new supply in the long term), cutting wages of existing staff, and finally as of last year laying off workers as they struggled to stay afloat.

Research by Thomson Reuters GFMS at the start of 2016, states that global production has peaked at 3,155 tonnes last year and expects output to decline by 3% this year, ending several years of rising output. Lower supply moving forward will put upward pressure on prices.



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