

# The Gold Story

Part 1 - Economics

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Photo by [Michael Steinberg](#) from [Pexels](#)

*Gold is the money of kings; silver is the money of gentlemen; barter is the money of peasants; but debt is the money of slaves. —Norm Franz*

## Gold as a Store of Value

A store of value refers to an asset that retains its worth over time without depreciating. Essentially, this means that if one purchases an asset like gold at a certain point (time  $t$ ), its value when reviewed at a later point (time  $t + n$ ) would have either remained stable or increased. Historically, the value of gold has consistently matched or exceeded the cumulative annual inflation in the United States since 1978.

It has maintained its position as a unit of account and a means of exchange over centuries.

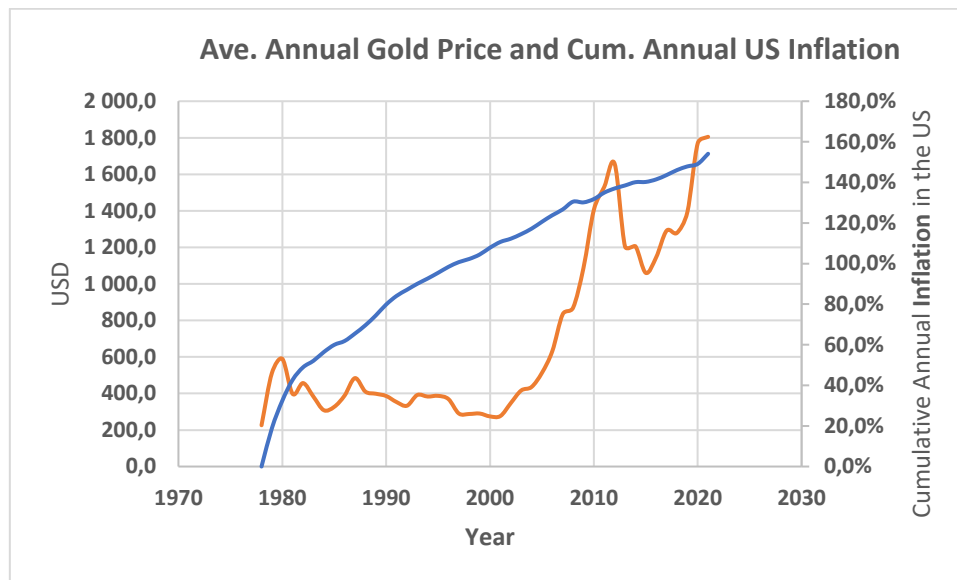


Figure 1 Gold Price since 1978 (ref.1) and Cumulative US Inflation

Gold's attractiveness as a store of value is partly due to its inelastic supply, the costs associated with its production, and the limited availability of accessible reserves.

The store of value is also a function of its properties. It is:

- Fungible
- Scarce
- Portable
- Divisible
- Relatively dense
- Malleable and ductile
- Imperishable
- Ascetically appealing
- Reflective
- Indestructible
- Inert to oxidation

## Gold as a Commodity

A commodity is a fundamental good utilized in commerce, interchangeable with other commodities of the same type. Gold is a prime example of such a commodity. Its value extends beyond its role as a store of value or a medium of exchange in monetary systems; gold has a variety of commercial applications.

Gold's most prominent use is in the jewellery industry. For thousands of years, it has been a key material in crafting ornamental objects, items of adornment, and jewellery. This enduring appeal is due to its unique physical properties: its reflective brilliance, distinctive colour, malleability, resistance to tarnishing, and lustre make it ideal for creating exquisite jewellery pieces. Remarkably, about 50% of gold consumed annually over the past decade has been in jewellery manufacturing.

In the realm of electronics, gold's significance cannot be overstated. It is highly valued for its excellent electrical conductivity and resistance to corrosion, making it an indispensable component in a wide array of electronic devices. These include sophisticated gadgets like cell phones, calculators, computers, GPS systems, and various electronic appliances. Even small amounts of gold are crucial in these high-tech devices.

The medical and dental fields also utilize gold. In medicine, gold compounds, such as sodium aurothiomalate or aurothioglucose, are occasionally used in treating conditions like rheumatoid arthritis. Additionally, certain gold isotopes play a role in cancer treatment through radiation therapy. In dentistry, gold's non-reactive nature makes it a reliable material for various dental procedures.

Gold's reliability, inertness, and ability to reflect infrared radiation make it valuable in the aeronautical industry. It is used not only for these properties but also as a lubricant in various aerospace applications.

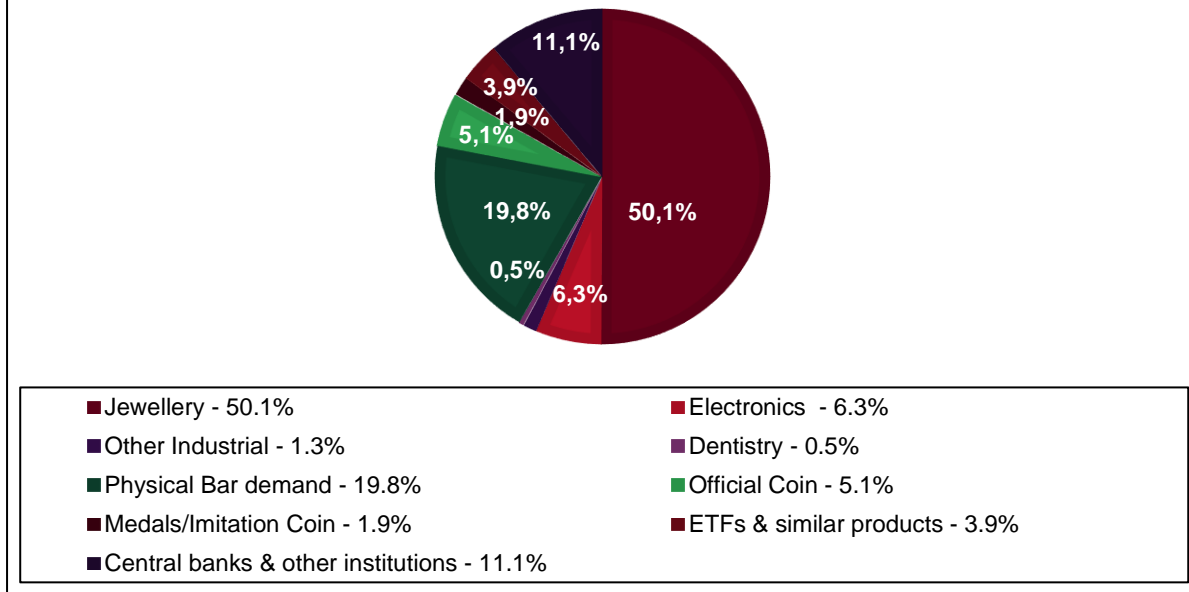
Furthermore, gold finds applications in other sectors like glassmaking and in decorative arts through gilding and gold leaf techniques.

Despite the diverse uses of gold across various industries, it's notable that these industrial demands account for approximately 8% of the total demand for gold. This figure underscores gold's enduring value and versatility, extending far beyond its traditional roles in finance and jewellery.

## Gold Demand

The demand for gold is greatest in the jewellery sector, surpassing other areas such as the consumer market for gold coins and bars. Figure 2 presents a chart that details the distribution of gold demand across various sectors.

## AVERAGE GOLD DEMAND PER SECTOR (2010 TO 2020)



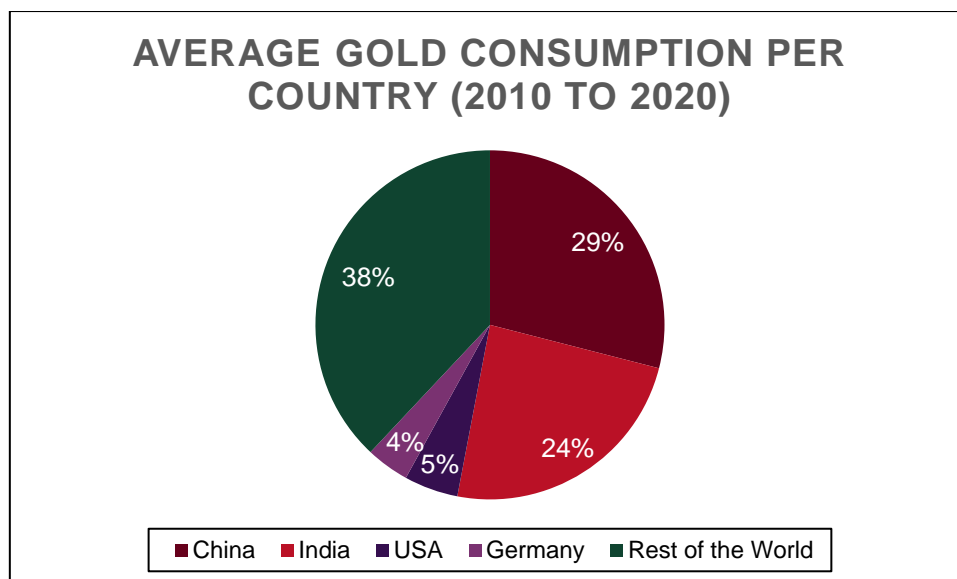
**Figure 2 Average Gold Demand (2010 to 2020) per Sector**

Between 2010 and 2020, the demand for gold in the form of jewellery, coins, medals, and physical bars averaged around 77%. Its application in industry and medicine constituted about 8.0% of the demand. Consequently, only approximately 15% of gold's use was related to financial transactions and investments. These statistics highlight that gold's primary role is as a commodity, with its price over this decade being largely driven by supply and demand dynamics. As an investment asset, gold differs significantly from company stocks, cryptocurrencies, or hedge funds. The key factors influencing its price and value are predominantly the demand in the jewellery sector, private ownership in the form of coins and bars, and its industrial and medical applications.

However, like all commodities, gold's price is also subject to market speculation, geopolitical events, and the overall economic climate. These factors tend to have a short-term impact, contributing to some degree of price volatility over time.

### Highest Consumers of Gold

China and India rank as the top two gold-consuming nations globally. Together, these countries, which made up 36% of the world's population in 2021, accounted for 53% of the total global gold consumption from 2010 to 2020.



**Figure 3 Average Gold Consumption per Country**

Projected to experience a GDP per capita growth of 9 to 10 percent in the coming years, both China and India are anticipated to see an increase in gold consumption over the next decade. During the period from 2010 to 2020, the demand in these countries was primarily driven by the jewellery manufacturing sector. Meanwhile, the demand for gold bars and coins has been predominantly led by China, followed by Germany, Thailand, and the United States, in that order.

### Central Bank Demand

Gold's appeal extends beyond being a reliable store of value; it is also a liquid asset and tends to move in cycles. Consequently, central banks worldwide hold it as a key reserve asset. By the end of 2019, it is estimated that around 197,600 tonnes of gold had been extracted historically.

In 2020, global central banks held approximately 34,000 tonnes of gold, which represents 17.2% of the total above-ground gold stock. This positions gold as the third-largest reserve asset globally, following foreign exchange reserves and Special Drawing Rights (SDRs).

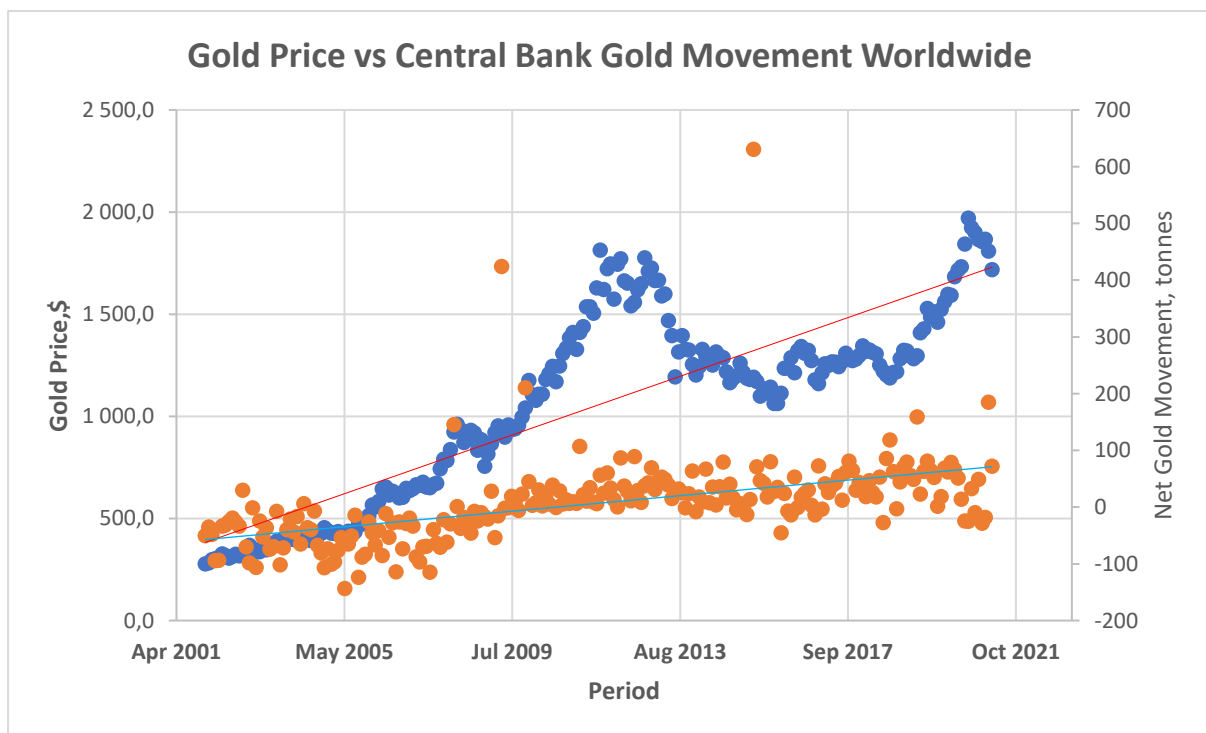
As of June 2021, the countries or institutions with the largest gold reserves are:

1. The United States – 8134 tonnes
2. Germany – 3361 tonnes
3. IMF – 2814 tonnes
4. Italy – 2452 tonnes
5. France -2436 tonnes
6. Russian Federation – 2292 tonnes
7. China - 1948 tonnes
8. Switzerland – 1040 tonnes
9. Japan – 646 tonnes
10. India – 695 tonnes

Countries where gold is the greatest portion of their reserves in June 2021:

1. Venezuela – 82.6%
2. United States – 78.0%
3. Germany – 75%
4. Portugal – 74.9%
5. Italy - 69.5%
6. Netherlands – 67.8%
7. Kazakhstan – 66.6%
8. France - 65.1%
9. Uzbekistan – 60.6%
10. Greece – 59.4%

There has been a net increase in central bank gold reserves over time.



**Figure 4 Net Flows of International Gold Reserves and Gold Price**

Over the twenty-year span from 2001 to 2021, there has been a consistent net increase in gold holdings within Central Banks globally, a trend that continues regardless of fluctuations in gold prices. Figure 5 illustrates the countries that have significantly augmented their gold reserves

between 2002 and April 2021.

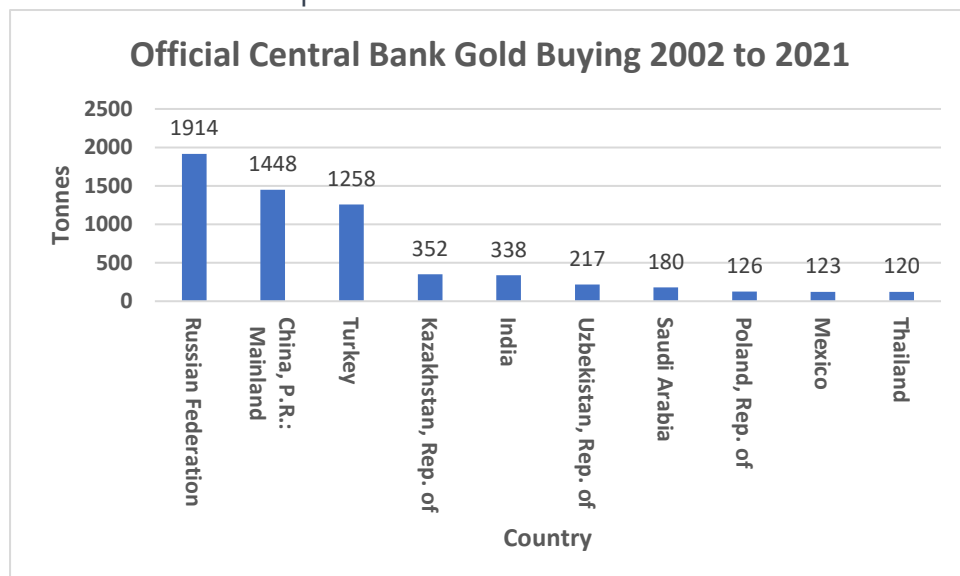


Figure 5 Gold Added to Reserves by Country

Emerging markets have led the way to adding gold to their reserves.

Countries who sold the most gold from their reserves between 2002 and April 2021 are shown in Figure 6.

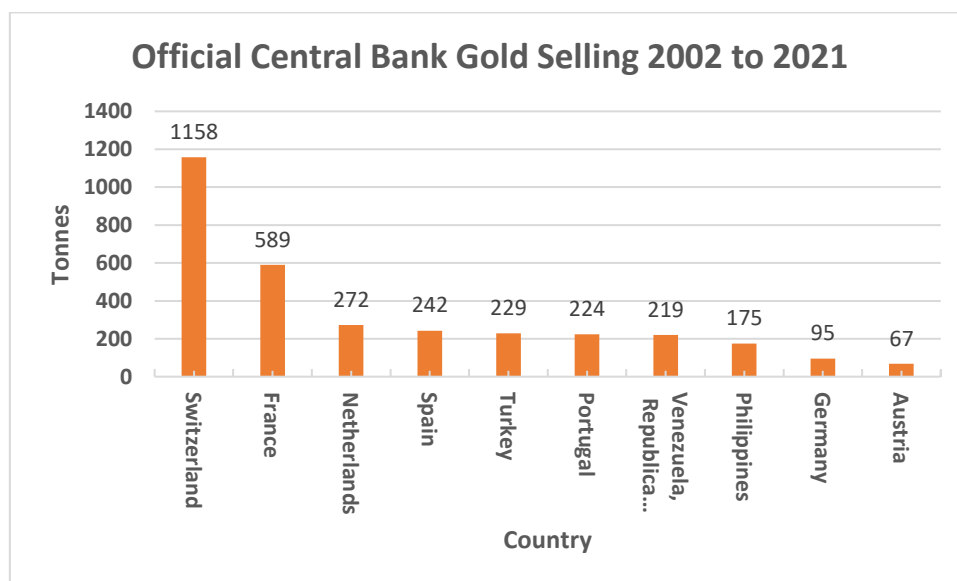


Figure 6 Gold Subtracted from Reserves by Country

Third world countries appear to be selling gold reserves.