



Organisation of Islamic Cooperation



COMCEC

GOLD MARKET INITIATIVE FOR THE OIC MEMBER STATES

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States' Stock Exchanges Forum
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TABLE OF CONTENTS

TABLE OF CONTENTS	I
LIST OF TABLES	II
LIST OF FIGURES	II
LIST OF ACRONYMS	III
1. INTRODUCTION	1
2. WORLD GOLD MARKETS	2
2.1. Mines	2-3
2.2. Refineries	4-5
2.3. Exchanges / Markets	5
2.4. Supply / Demand	6-14
2.5. Import / Export	15
3. GOLD MARKETS OF THE COMCEC COUNTRIES	16
3.1. Mines	16-18
3.2. Refineries	18
3.3. Exchanges / Markets	19
3.4. Supply / Demand	19-23
3.5. Import / Export	23
4. GENERAL EVALUATION FOR THE COMCEC GOLD MARKET PROJECT	24-25
5. PRINCIPLES OF THE COMCEC GOLD MARKET PROJECT	26
6. CONCLUSION	27-28

LIST OF TABLES

Table 1: Top 20 Gold Producer Countries in the World and Production Amounts	3
Table 2: Numbers of Refineries by Country Included in LBMA Good Delivery List	4
Table 3: Gold Dealings at World Exchanges from 2012 to 2014.....	5
Table 4: Supply & Demand Sources	7
Table 5: Gold Demand Amounts of Countries in 2013 and 2014	11
Table 6: Official Gold Reserves of Central Banks	12
Table 7: Top 20 Countries by Gold Consumption per Person in 2013 and 2014	14
Table 8: Countries' Cumulative Foreign Gold Trade from 2003 to 2014	15
Table 9: OIC Countries in Top 20 Countries with the Highest Gold Mine Production	16
Table 10: Mine Production of Gold in OIC Countries	17
Table 11: Refineries of OIC Countries Included in the LBMA Gold Delivery List	18
Table 12: Scrap Gold Supplies of OIC Countries	19
Table 13: Jewelry Fabrication of OIC Member States	21
Table 14: Official Gold Reserves of OIC Countries	22
Table 15: Cumulative Gold Foreign Trade Data of OIC Countries from 2005 to 2014	23

LIST OF FIGURES

Figure 1: Gold Amount Produced from Mines	2
Figure 2: Gold Production Share of Continents By Years	3
Figure 3: Gold Production Amounts at LBMA Refineries in 2006-2013 Period	4
Figure 4: Average Gold Prices	6
Figure 5: Supply-Demand Balance	6
Figure 6: Scrap Gold Supply of Developed and Developing Countries	7
Figure 7: Shares of Supply Items within Total Supply	8
Figure 8: Gold Demand by Sector	8
Figure 9: Net Public Sector Demand	9
Figure 10: Gold Demands of Continents for the Purpose of Fabrication	9
Figure 11: Shares of Continents in Jewelry Fabrication	10
Figure 12: Share of China and India within Industrial Gold Fabrication	10
Figure 13: Gold Bars Demand by Continents	11
Figure 14: Net Gold Positions of Exchange Traded Funds	12
Figure 15: Change in Total Gold Reserves of the World Central Banks	13
Figure 16: Country Shares in Industrial Demand and Change Thereof by Years	13
Figure 17: Gold Production from Mines in OIC Countries	16
Figure 18: Change in Gold Production by OIC Countries and Status According to World Total	18
Figure 19: Scrap Gold Supply from OIC Member States and the World	20
Figure 20: Share of OIC Countries within Jewelry Fabrication	22
Figure 21: Change by Years of Official Reserves of OIC Countries	23

LIST OF ACRONYMS

USA	: United States of America
ECB	: European Central Bank
UAE	: United Arab Emirates
BM&F	: BM&F BOVESPA
COMEX	: Commodity Exchange, Inc.
CSGE	: The Chinese Gold & Silver Exchange Society
DGCX	: Dubai Gold & Commodities Exchange
DMCC	: Dubai Multi Commodities Centre
ETF	: Exchange Traded Fund
GFMS	: Gold Fields Mineral Services
ICE	: Intercontinental Exchange
IMF	: The International Monetary Fund
OIC	: The Organization of Islamic Cooperation
COMCEC	: Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation
LBMA	: London Bullion Market Association
MCX	: Multi Commodity Exchange of India Ltd
NCDEX	: National Commodity & Derivatives Exchange Limited
NSPOT	: NCDEX Spot
OECD	: Organization for Economic Co-operation and Development
SGE	: Shanghai Gold Exchange
SHFE	: Shanghai Futures Exchange
CBRT	: Central Bank of Republic of Turkey
TOCOM	: Tokyo Commodity Exchange
USD	: The United States Dollar
VIOP	: Borsa Istanbul Futures and Option Market

Standing Committee for Economic and Commercial Cooperation (COMCEC) of the Organization of Islamic Cooperation (OIC) is the main platform of the Islamic world for multifaceted economic and commercial cooperation. The COMCEC serves as a central forum to determine common development problems of the Islamic Ummah and come up with solutions for the same. As one of four standing committees of the OIC, the COMCEC was established by the 3rd Islamic Summit Conference held in 1981 at Mecca /Taif. The COMCEC has 57 member states and 5 observer states from four continents¹. Member states of the organization are densely located in the Middle East region, the birth place of the Islam.

It is hard to say that the COMCEC, the main platform of Islamic countries for multifaceted economic and commercial cooperation, has achieved its targeted level of cooperation. The members in the Middle East region have historically faced problems which have caused a setback for the development targets of the whole COMCEC countries. Besides, if these countries assure an economic cooperation in line with the articles of association of the OIC, they will achieve economic development and growth targets sooner with the synergy they may form. For such purpose, economic and financial cooperation among countries as well as the materialization of structures in order to institutionalize such cooperation are of paramount importance. Especially because Islam gives prominence to the real economy, it is believed that cooperation among the COMCEC countries is essential for reaching a more robust and fairer income distribution.

Especially among the Islamic nations, it has been discussed that developing an Islamic Finance based on more robust foundations instead of traditional financial understanding that has been heavily criticized ever since 2007-2008 financial crisis, development of new instruments, increasing investors' interest and raising awareness about savings are indispensable for a more robust and balanced economic development.

One of crucial projects that can be implemented in order to enhance cooperation among Islamic countries is the establishment of a common platform/structure where Islamic countries can trade gold and of regional custody centers associated with them. Thus, the demand stemming from traditional interest of the COMCEC countries in the gold will be met through exchanges integrated with one another or trading platforms at competitive prices and the OIC will have taken an important step towards achieving its objectives owing to this project. Hence, apart from corporate and retail investors living in the Islamic countries, it will be possible for Muslims residing in any country of the world to have access to in a faster, easier and safer manner. Savings to be accumulated in such way will be appreciated in financial instruments that may be diversified, thereby, reducing saving deficits of such countries, furthermore, a facilitating project for economic development targets will have been implemented.

This study has been prepared in order to evaluate the project of the gold exchange that is planned to be established with the collaboration of Islamic countries. The project for the most part has been assessed within the framework of principles such as executing gold trades among OIC countries in an organized and transparent manner and conducting such trades over a common structure, getting access to more investors in that way and ensuring effective pricing. The data used in the study have been provided for a range of 10 years (between 2005 and 2014) when possible, aiming for the evaluation to be made on a sound basis. Within this framework, data regarding topics such as the current gold trading, gold supply, and gold demand in the world are presented first, and then it is aimed to give an idea about the steps that needs to be taken for the integration of exchanges or markets that still exist on a national level by presenting the Islamic countries' relative position in the global gold trading.



¹http://www.comcec.org/TR_YE/icerik.aspx?iid=111

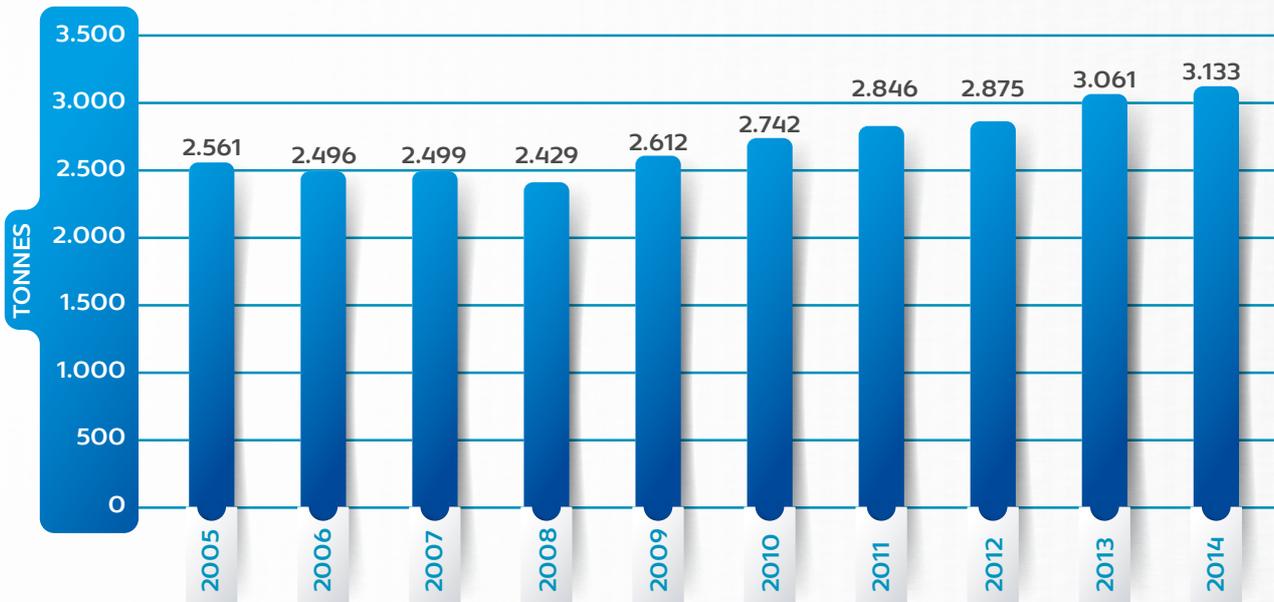
2.1. Mines

2/3 of the world's annual physical gold supply is extracted from 3,869 active gold mines around the world, and the remaining 1/3 is produced from the so called scrap gold that is obtained from recycling of electronic product, jewelry and gold coins.

Looking at the gold amounts extracted from mines by taking into account between 2005 and 2014, although no major changes are observed over the years, and the highest level of production exceeds the lowest production level by 29% after evaluating all years during such period. The gold production from mines during the same period of time was at the lowest level in 2007 and 2008 when the global crisis struck while the production showed a stable growth trend in the following 6 consecutive years from 2009. Change in production amounts over years are shown in Figure-1.



Figure 1: Gold Amount Produced from Mines

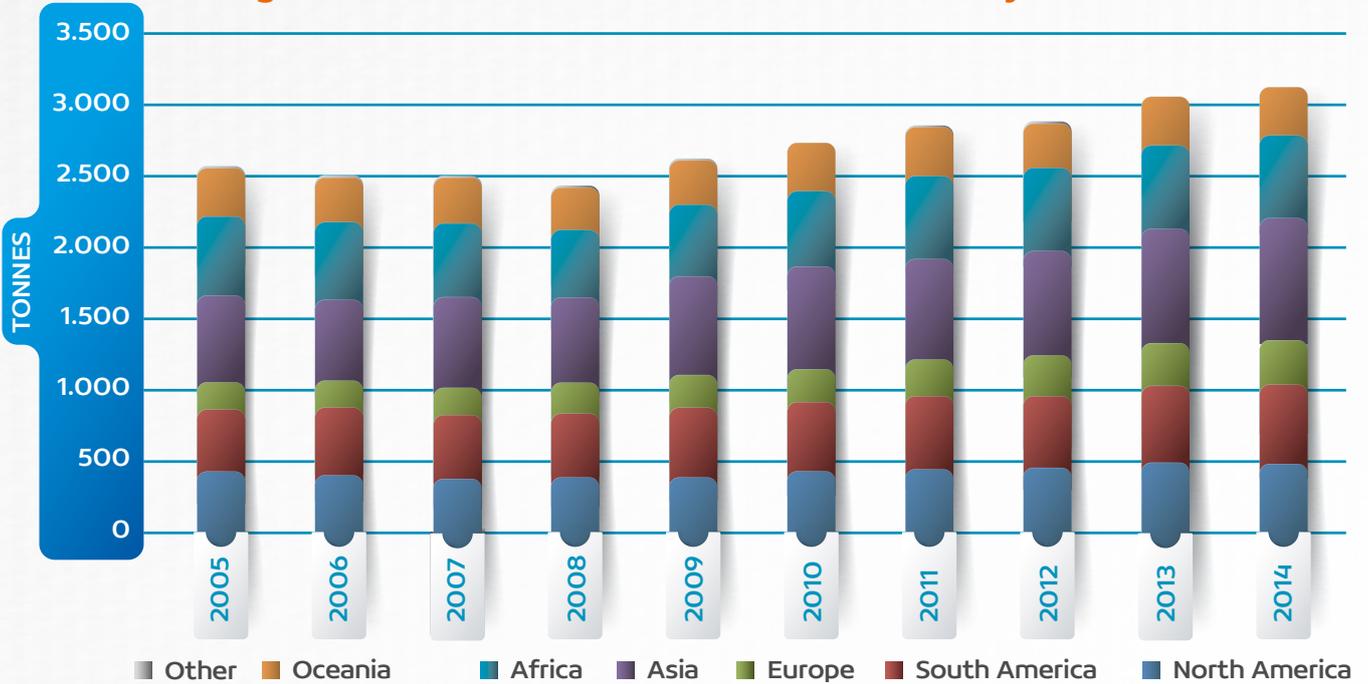


Source: GFMS, Thomson Reuters, 2015



When looking at the distribution of gold production from mines by continents, Asia seems to be the continent with the highest level of production, especially in recent years. Asia is followed by Africa and South America, respectively. Production shares of all regions over the years are shown in Figure -2.

Figure 2: Gold Production Share of Continents By Years



Source: GFMS, Thomson Reuters, 2015

Looking at data for 2013 and 2014 based on countries, top five countries in terms of gold production are China, Australia, Russia, the USA and Peru. Total share of these countries in the world's aggregate gold production is equal to 44%. It is seen that China is the number one by far, being the largest producer and also being among countries with the strongest demand, and its gold production is in excess of that of Australia, the second largest producer, by 69,2% . Amounts of gold production by countries are presented in the Table-1 for 2013 and 2014.

Table 1: Top 20 Gold Producer Countries in the World and Production Amounts (Tonnes)

Rank	Countries	2013	2014
1	China	438,2	461,8
2	Australia	268,1	272,9
3	Russia	248,8	262,2
4	USA	229,5	205
5	Peru	187,7	172,6
6	South Africa	177	163,8
7	Canada	133,3	153,8
8	Mexico	119,8	118,2
9	Indonesia	109,6	116,4
10	Ghana	107,4	108,2
11	Brazil	80,1	80,7
12	Uzbekistan	77,4	80,4
13	Argentina	50,1	59,8
14	Papua New Guinea	60,5	58,2
15	Kazakhstan	42,6	49,2
16	Mali	48,2	47,4
17	Tanzania	46,6	45,8
18	Chili	48,6	44,2
19	Columbia	41,2	43,1
20	The Philippines	40,5	42,6
21	Other	506,4	546,9
	Total	3.061,6	3.133,2

Source: GFMS, Thomson Reuters, 2015



2.2. Refineries

Element of trust plays a very important role when conducting physical gold trades. Therefore, important platforms/agencies executing gold transactions in the world only accept those products of those refineries which they require meeting certain criteria. Those accredited refineries are periodically audited, and products of those refineries that are found to be in violation become no longer subject of trading.

The most accepted refinery list in the world is the Gold Delivery List issued by the London Bullion Market Association - LBMA. Distribution of refineries included in the LBMA Good Delivery List by countries is shown in the Table -2. The list contains 73 gold refineries in total and it is Japan that has the highest number of refineries on a country basis with 11 refineries. Japan is followed by China and Russia with 8 refineries each.

When evaluated together with countries producing highest amount of gold from mines, it is seen that countries such as China, Russia, the USA, Canada are countries with both large amounts of production and a large number of refineries producing gold at the international quality standards. Interestingly, although countries such as Japan, Switzerland and Germany have either no gold production at all or have a production level that is not large enough to be included in the world's top 20 countries, they have lots of refineries which necessitate advanced technology.

Another striking point among countries included in the list is the fact that Switzerland is the fourth country with the largest number of refineries although it is a very small country in terms of population and surface area. Switzerland plays an important role in the world gold trade not only in terms of number of its refineries but also in terms of the quality of gold they produce. Switzerland has 5 of the 9 largest refineries of the world². Therefore, around half of the world's aggregate gold refining process is carried out by Swiss refineries which enjoy an annual capacity of over 3.000 tonnes per year. This has made Switzerland a processing and a logistics base of gold trading.

Total annual gold production amounts of refineries included in the list for years 2006 to 2013 are shown in Figure-3. As seen on the Figure, except for a small production drop that took place in the year 2012 from the previous year, there has been a steady rise in gold production since 2006. An important leap was especially recorded in 2013 and the production went up by 42,5% when compared to the previous year. Rising levels of gold prices starting from the second half of 2011 have played an important role in such increase.

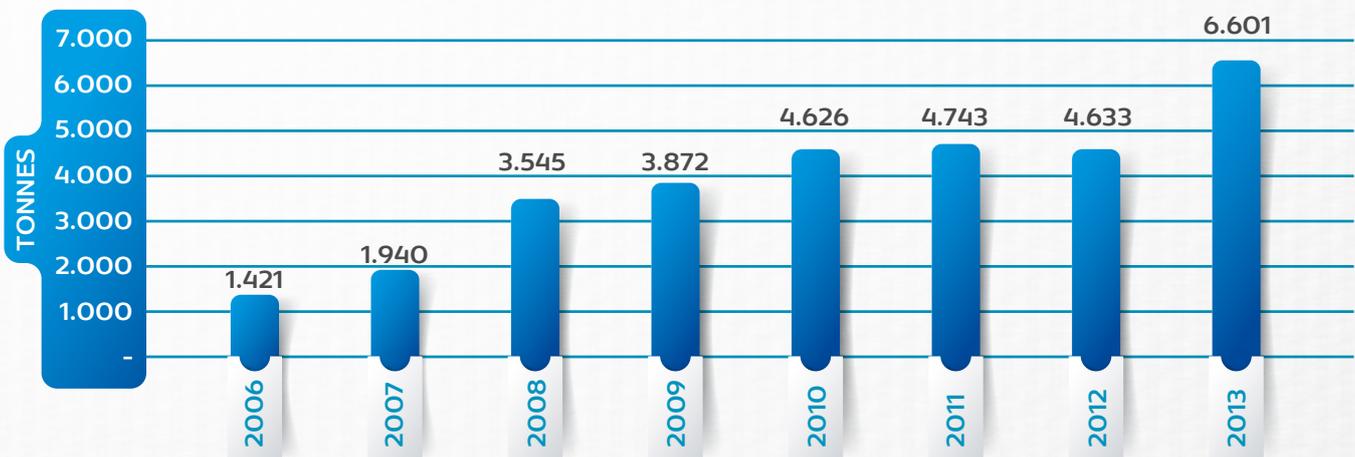
Another point seen on the Figure 3 is the fact that total gold production by refineries included in LBMA Good Delivery List during 2013 was approximately twice the total gold amount of 3.061 tonnes produced from mines.

Table 2: Numbers of Refineries by Country Included in LBMA Good Delivery List

Countries	Number of Refineries
Japan	11
China	8
Russia	8
Switzerland	6
USA	5
Germany	5
Canada	3
Turkey	3
Brazil	2
Hong Kong	2
Italy	2
Uzbekistan	2
Other	16
Total	73

Source: LBMA, www.lbma.org.uk, (as of 05/02/2015)

Figure 3: Gold Production Amounts at LBMA Refineries in 2006-2013 Period



Source: <http://www.lbma.org.uk/assets/market/gdl/LBMA%20Brochure%20Final%2020150501.pdf>

²<http://therealasset.co.uk/gold-market-unveiled/>

Institutes/exchanges offering trading services, based in other countries of the world where physical gold transactions are executed, also publish various lists of refineries. Other important internationally well-known institutes publishing lists of refineries showing refineries of which gold is accepted other than the LBMA include ;

- COMEX
- TOCOM
- DMCC.

2.3. Exchanges/Markets

If important gold markets of the world are classified as spot, forward and over-the-counter, a classification like the one shown below will appear (dates in parentheses refer to incorporation date of respective institute).

Over-The-Counter Markets;

- LBMA (actual 1919, official 1987)
- Swiss (Zurich) Gold Market (1968)
- DMCC (2002)

Spot Exchanges;

- CGSE (official 1918)
- SGE (2002)
- NSPOT (2006)
- Moscow Exchange Precious Metals Market (2013)
- Singapore Precious Metals Exchange (Incorporated in 2011- Trade Commenced in 2013)
- Borsa Istanbul (Precious Metals Market, 1995)

Derivatives Markets;

- COMEX (USA-1974)
- TOCOM (Japan-1982)
- MCX (India -2003)
- DGCX (Dubai-2005)
- Borsa Istanbul (VIOP - Borsa Istanbul futures and options market)

Table 3: Gold Dealings at World Exchanges from 2012 to 2014 (Tonnes)

Exchanges	2012	2013	2014
COMEX (futures)	136.522	147.093	126.024
SHFE (futures)	5.917	20.088	23.858
SGE (futures)	2.113	3.347	4.724
TOCOM (futures)	11.895	12.225	8.745
MCX (futures)	10.324	8.945	3.972
SGE (Spot)	950	2.003	2.560
ICE Futures US (futures)	1.177	1.116	508
DGCX (Futures)	497	426	426
BORSA İSTANBUL (Spot)	312	438	239

Source: GFMS, Thomson Reuters, 2015

Likewise;

- BM&F- Brazil
- Borsa Istanbul – Turkey
- MCX – India
- SGE - China
- CGSE – China

also publish their respective lists.

Countries with the most physical gold transactions in the world may be listed as the UK , considered the center of the international finance, China that has made significant economic breakthroughs in the last quarter century and Switzerland accepted as the center of international gold refining processes. The fact that the UK is the center of physical gold transactions can be explained with the historical role played by the said country in gold trade. Besides, existence of an effective and advanced banking sector for gold trade in London as well as the fact that, for many years, money being indexed to gold played an important role.

In the U.K., the physical gold trade essentially takes place at the LBMA, which is originally an over-the-counter but operates as a semi-organized market. Settlement of dealings is carried out by London Precious Metal Clearing Limited at custody vaults where products of refineries shown in the LBMA Good Delivery List are kept.

China that appears as an important gold center following the UK took part in the game as an important player of gold markets with SGE, which was officially incorporated in 2002. Trading volume data of the said exchange showed a dramatic growth in recent years and reached important figures.

Of the world's organized markets, those markets where gold and gold-backed financial instruments are most widely traded in the world are shown in the Table-3. It is seen that trading volume that takes place at COMEX, a derivative market, which ranks at the top and is owned by CME Group based in the USA, is pretty high in comparison to other markets. Apart from US financial markets' level of development and economic size of the country, subjecting of gold to futures with quite high amounts has given rise to such conclusion. As a result of economic transformation which China has undergone in recent years, trading that took place at Shanghai Futures Exchange, especially in the last two years, had important volumes.

While only DGCX and Borsa Istanbul are included in the list as organized exchanges from Islamic countries, the fact that their trading volumes are quite small in comparison to other exchanges stands out.

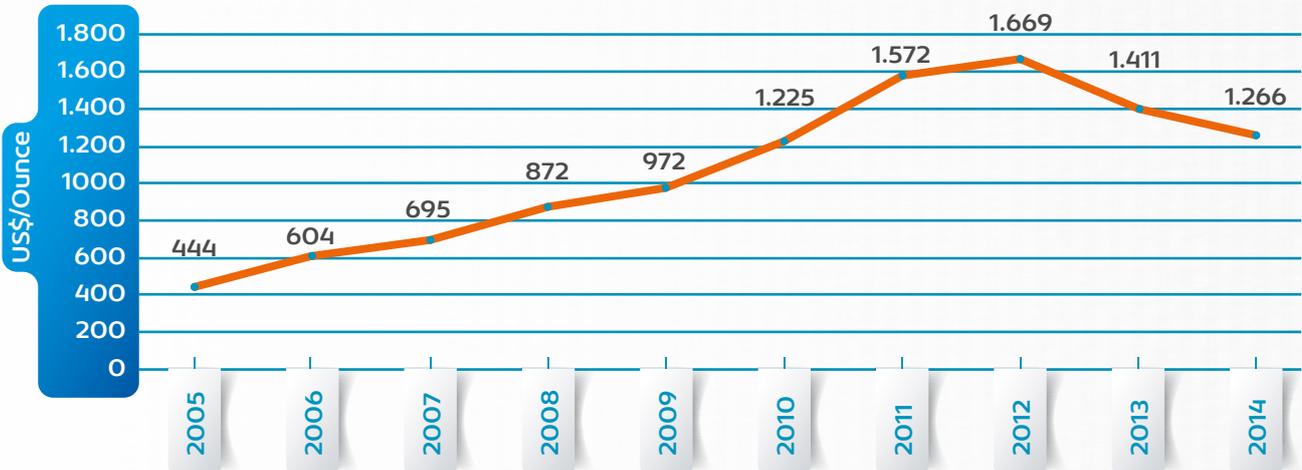
2.4. Supply / Demand

Gold is considered a “safe port” and is an investment instrument frequently chosen especially in times of uncertainty and high volatility. Gold is assessed as an alternative investment instrument especially in advanced countries where financial markets are strong, therefore, gold sees a higher demand in such markets during those times when speculative movements and volatility for other financial instruments become more intensified. Supply-demand balance for gold at the world markets may vary depending on conjuncture due to the foregoing quality of gold. Besides, price flexibility of the demand may be high in Islamic countries and countries such as India where traditionally increased levels of interest in gold are observed.

While, at times of high price, large amounts of gold inflows as supply into the market occur in such countries in the form of scrap gold there is a high demand for gold at times of low gold prices. As a matter of fact, when looking into total supply and demand data shown on the Table-4, it is seen that there is a significant physical supply at times when average prices are high.

Figure-4 indicates annual average gold prices on a US\$/Ounce basis for years from 2005 to 2014. As can be seen on such figure, average prices that showed a steady growth from 2005 to 2012 showed a downward trend as from such year.

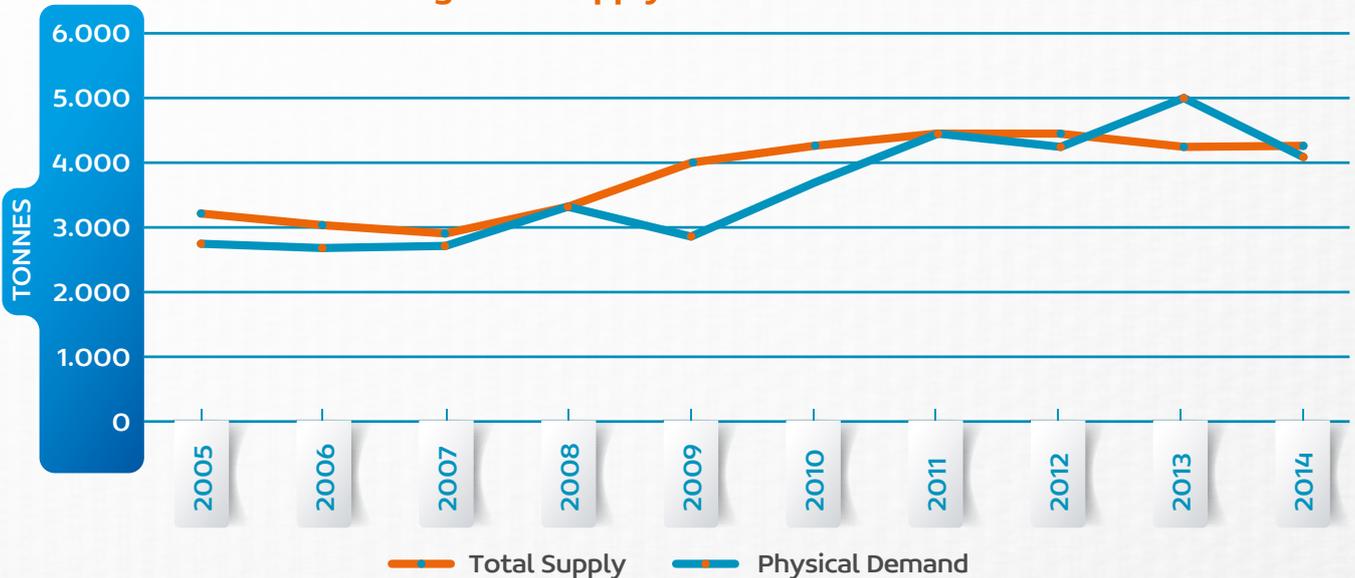
Figure 4: Average Gold Prices



Source: <http://www.gold.org/>

Supply-demand balance at the same period is shown on Figure-5. As can be seen on the figure, it is understood that there is a substantial supply deficit in 2013 with 732 tonnes, yet, in general tendency, amount of supply is in excess of demand amount or is equal to amount of demand. Since prices saw the highest levels of the history, production amounts remained at quite increased levels.

Figure 5: Supply-Demand Balance



Source: GFMS, Thomson Reuters, 2015

Supply and demand sources of the world from 2005 to 2014 are presented at Table -4. Apart from headings of supply stemming from mines and scrap gold, net sales for the purpose of hedging also appear under the supply.

Table 4: Supply & Demand Sources

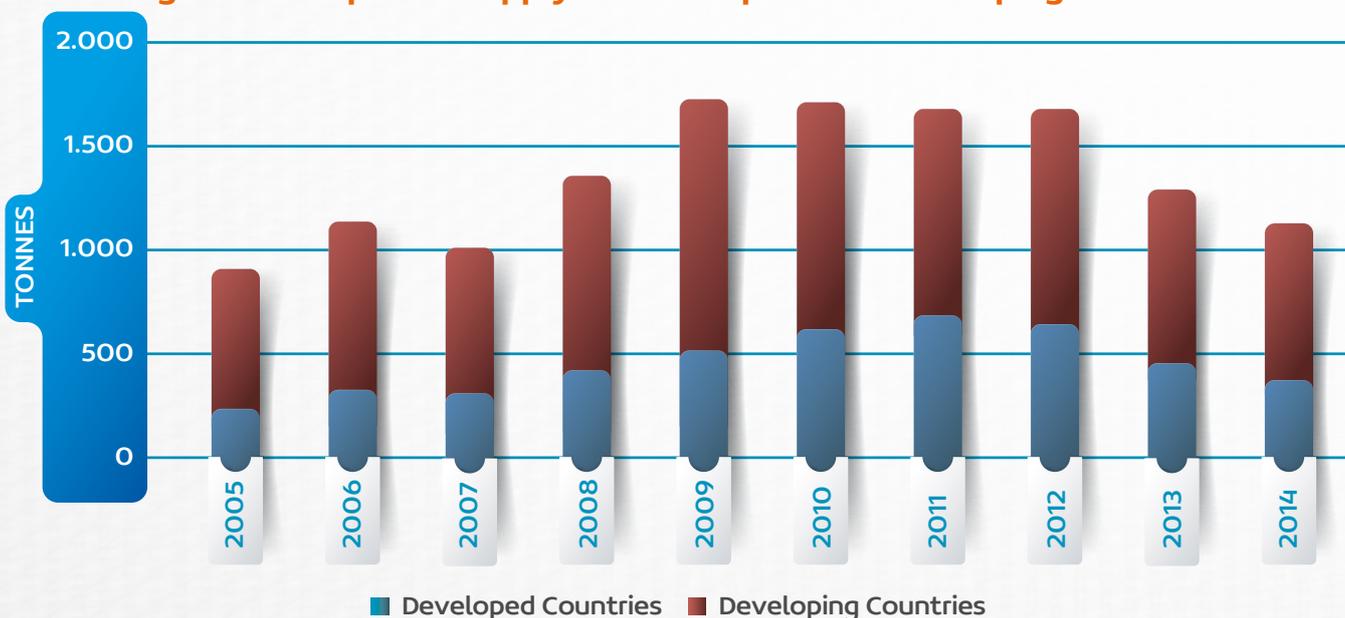
(tonnes)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Supply										
Mine production	2.561	2.496	2.499	2.429	2.612	2.742	2.846	2.875	3.061	3.133
Scrap	903	1.133	1.006	1.352	1.728	1.713	1.675	1.677	1.287	1.125
Net Hedging Supply	-92	-434	-432	-357	-234	-106	18	-40	-39	103
Total Supply	3.372	3.195	3.072	3.424	4.106	4.349	4.539	4.513	4.310	4.362
Demand										
Jewelry	2.722	2.302	2.426	2.308	1.819	2.033	2.034	2.008	2.439	2.213
Industrial Fabrication	449	480	487	471	422	476	468	426	419	400
...of which Electronics	294	325	331	318	283	333	330	295	289	279
...of which Dental & Medical	62	61	58	56	53	48	43	39	36	34
... of which other Industrial	92	94	98	97	86	95	95	92	93	87
Net Official Sector	-663	-365	-484	-235	-34	77	457	544	409	466
Retail Investment	416	428	436	916	830	1.221	1.556	1.343	1.775	1.079
... of which Bars	261	236	236	659	548	934	1.230	1.039	1.394	829
... of which Coins	155	192	200	257	283	287	326	304	380	251
Physical Demand	2.923	2.845	2.864	3.460	3.038	3.807	4.515	4.321	5.041	4.158
Physical Surplus / Deficit	448	350	208	-36	1.068	542	25	192	-732	204
ETF Inventory Build	208	260	253	321	623	382	185	279	-880	-160
Exchange Inventory Build	29	32	-10	34	39	54	-6	-10	-98	1
Net Balance	212	58	-35	-391	406	106	-154	-78	246	363
Price (London PM, US\$/Oz)	444,45	603,77	695,39	871,96	972,35	1.224,52	1.571,52	1.668,98	1.411,23	1.266,40

Source: GFMS, Thomson Reuters, 2015

When it comes to demand headings, it is seen that the greatest demand comes from jewelry sector, and there has been a substantial demand from retail investors since 2010. During such period, 2008 and 2013 are the only times when the demand surpassed the supply.

When looking into ratios by developed and developing countries of scrap gold which follows mines in terms of supply, it is seen that developing countries supply more scrap gold. Reason behind such situation is the fact that retail investors residing in developing countries take their positions according to gold prices and they get involved in the market from supply direction. Distribution of scrap gold supply pertaining to 2005-2014 period by the level of development of the countries is shown on the Figure-6.

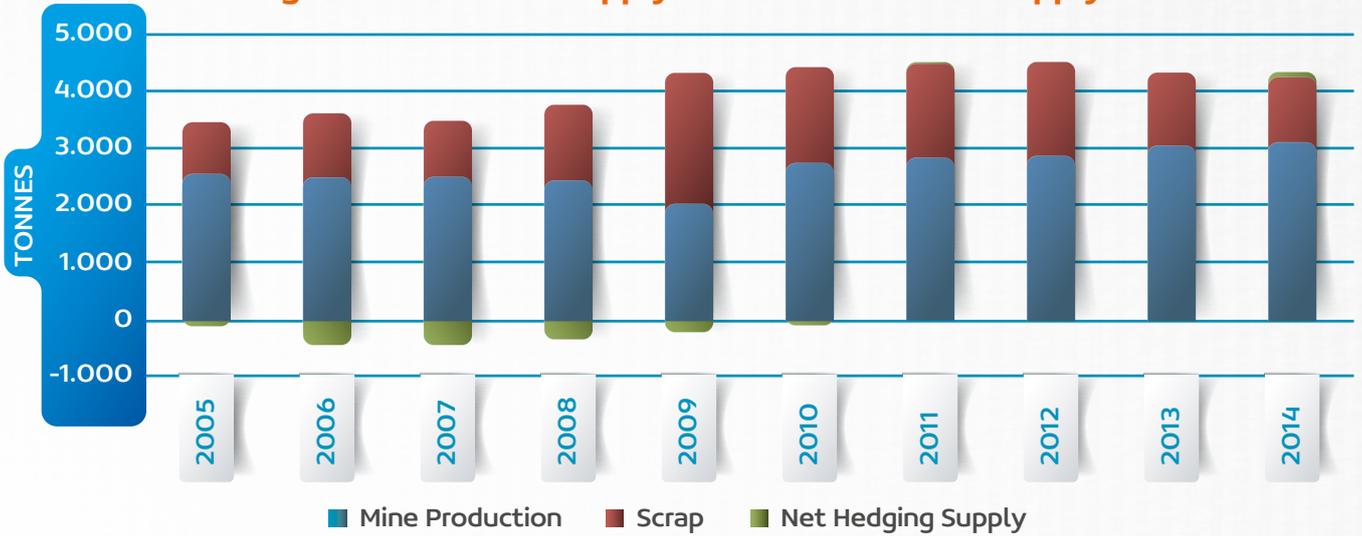
Figure 6: Scrap Gold Supply of Developed and Developing Countries



Source: GFMS, Thomson Reuters, 2015

Development of gold supply leg on an item basis for the period from 2005 to 2014 is presented on Figure-7. Net sales for the purpose of hedging data played a negative effect on supply amount. The figure shows a negative effect for this heading in all years except 2011 and 2014.

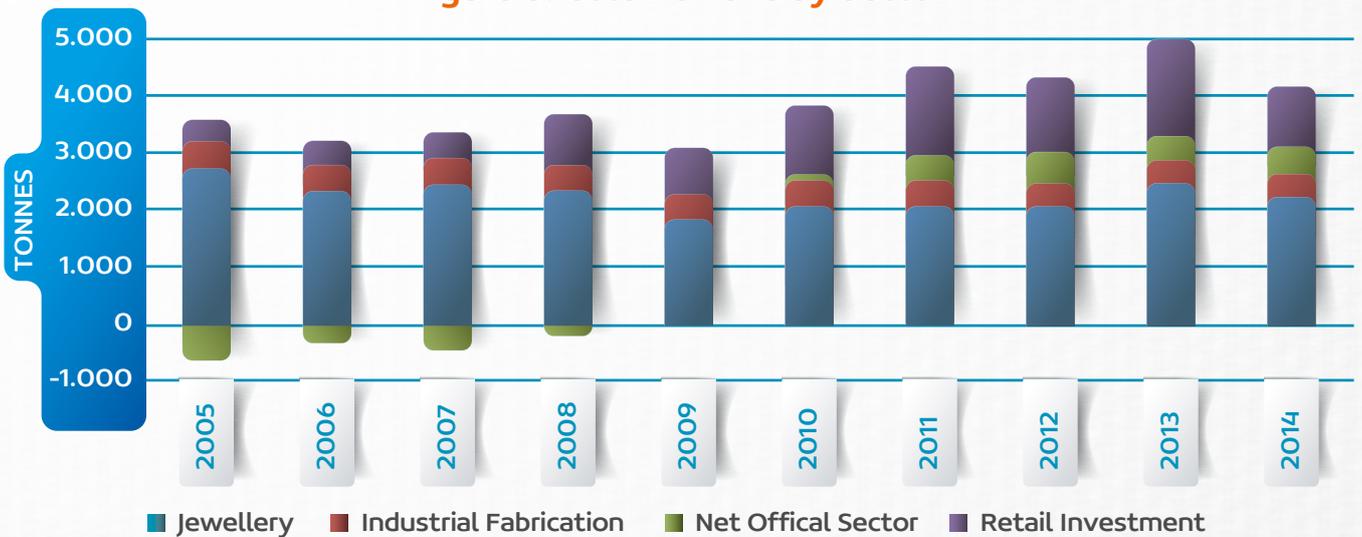
Figure 7: Shares of Supply Items within Total Supply



Source: GFMS, Thomson Reuters, 2015

When taking into consideration the demand leg of the decade between 2005 and 2014 as shown in the Table-4, a need for a wider classification in comparison to the supply leg has emerged. There are four main headings and six sub-headings in demand direction. Shares of demand headings within the total demand are shown on Figure-8. It is seen that the highest demand came from the jewelry sector in all years during such period. Besides, boosted levels of demand from individual investors as from 2010 when average gold price exceeded US\$1,000/Ounce are striking. As explained above, prices saw the highest levels of the history, thus, retail investors were not indifferent in the face of such situation and kept the demand alive.

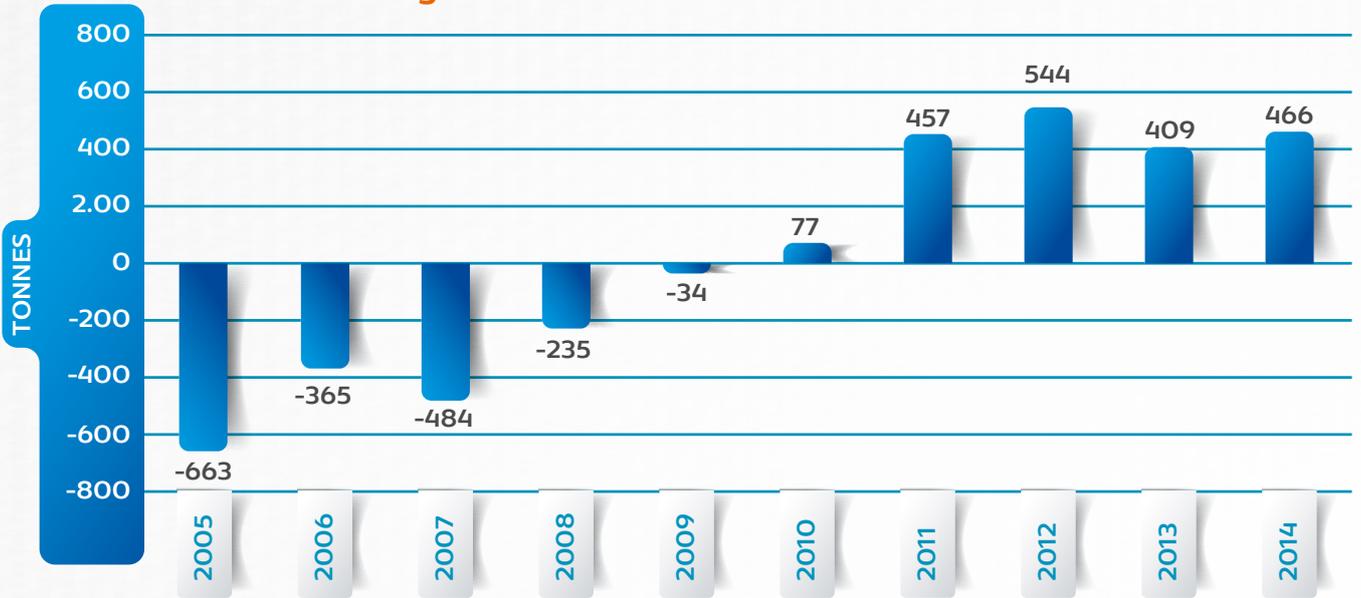
Figure 8: Gold Demand by Sector



Source: GFMS, Thomson Reuters, 2015

Looking into data under net official sector, the table shown on Figure-9 emerges. This heading indicates that the demand was always negative up to 2009, and it became differentiated as positive as from the year 2010 when gold prices exceeded 1.000 US\$/Ounce.

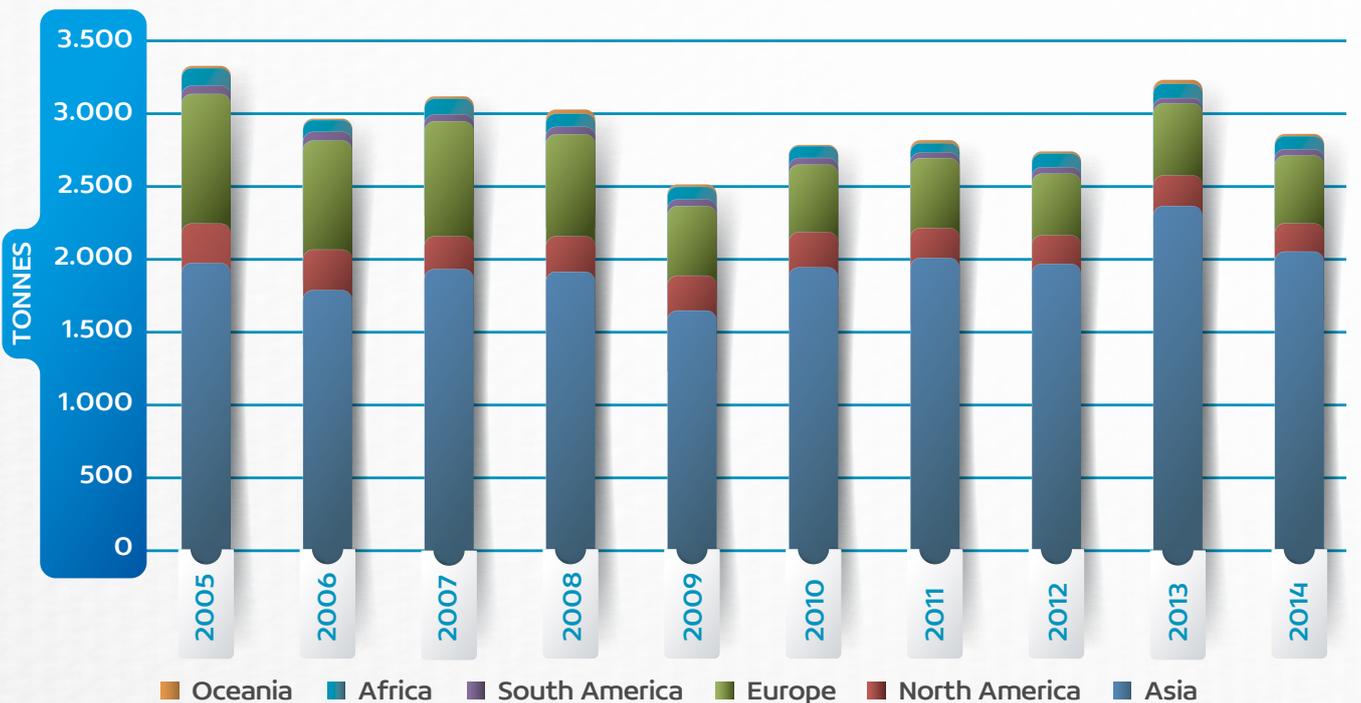
Figure 9: Net Public Sector Demand



Source: GFMS, Thomson Reuters, 2015

The highest demand came from Asia when taking into account gold demand for fabrication including jewelry sector between 2005 and 2014. Jewelry, electronics, dentistry, other, coins and medallions are listed under the fabrication heading. During the same period, Asia became by far the number one in terms of total demand for the purpose of fabrication. The continent of Asia is followed by the continent of Europe. Shares of all continents are shown on Figure-10.

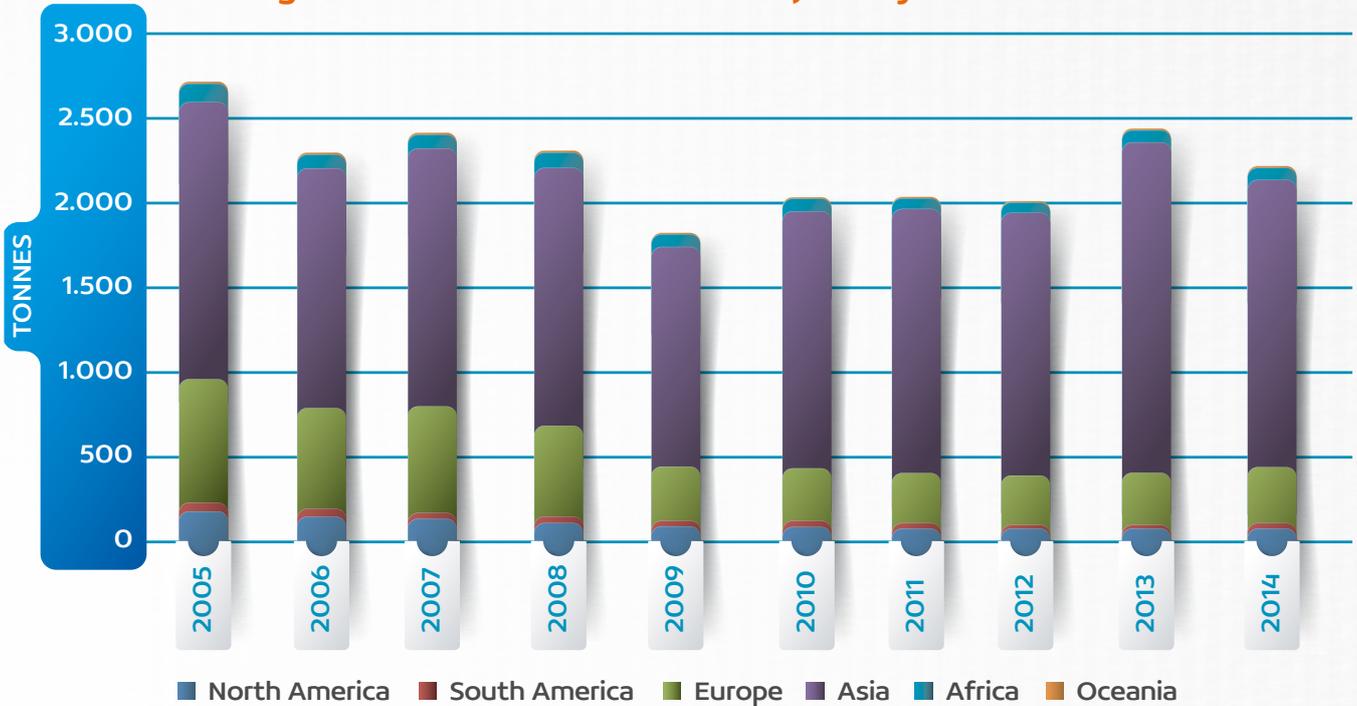
Figure 10: Gold Demands of Continents for the Purpose of Fabrication



Source: GFMS, Thomson Reuters, 2015

Continental share of jewelry fabrication so made by jewelry sector alone from 2005 to 2014 is shown on Figure-11. As can be seen, Asia has a predominant position in terms of jewelry fabrication. This continent is followed by Europe, and fabrication in these two continents accounts for almost all of the world's jewelry fabrication.

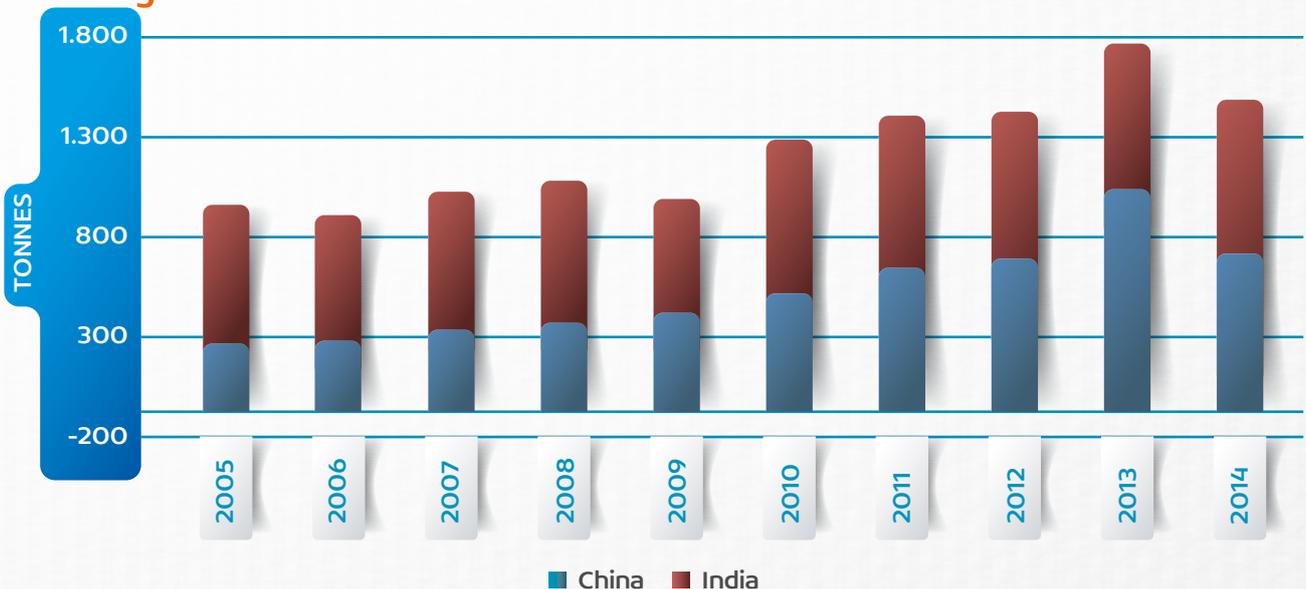
Figure 11: Shares of Continents in Jewelry Fabrication



Source: GFMS, Thomson Reuters, 2015

The Figure-12 indicates shares of China and India within industrial gold fabrication from 2005 to 2014. As can be seen, while India's amount of fabrication was higher than that of China up to 2010, the same amount became approximately equal as from such year, except the year 2013, and China's fabrication amount surmounted that of India in 2013.

Figure 12: Share of China and India within Industrial Gold Fabrication



Source: GFMS, Thomson Reuters, 2015

When demand for gold is evaluated according to countries, as can be inferred from the Table -5 formed based on data of 2013 and 2014 in a manner covering top 20 countries, the greatest demand came from China and India. It is observed that combined gold demand of China and India constitutes around half of the world's gold demand. These two countries ranked at top two in terms of demand for golden jewelry and overall demand for gold in the year 2014. Explanation for such a high demand is cultural and traditional importance attached to gold in both countries as well as these two countries' having the highest population of the world. Even if some changes are observed in the said amounts by years as a result of economy policies of such countries, gold demand of both countries is expected to remain at top ranks in future years due to their size as well as their potential for economic development and growth.



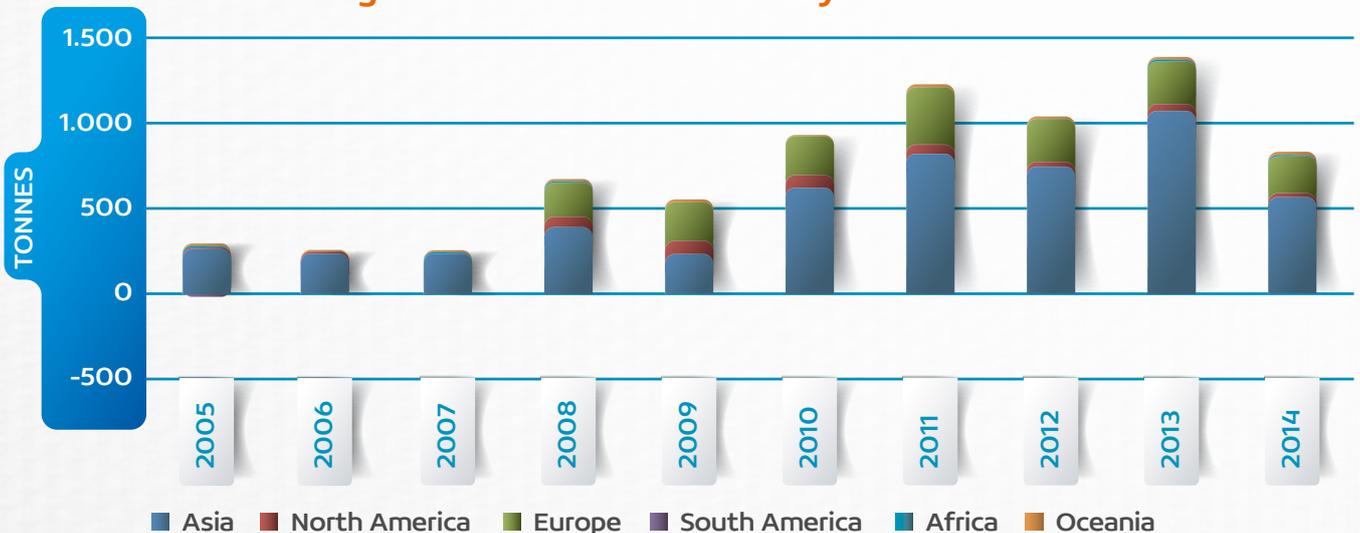
Table 5: Gold Demand Amounts of Countries in 2013 and 2014(Excluding Banking Transactions) (Tonnes)

Countries	2013	2014
China	1,283	895
India	987	852
USA	210	242
Germany	151	129
Turkey	176	119
Japan	131	119
Thailand	168	93
Russia	96	93
Iran	102	79
UAE	52	71
Vietnam	97	69
Saudi Arabia	74	67
Indonesia	73	58
Egypt	62	58
Canada	58	58
South Korea	53	55
Hong Kong	60	44
United Kingdom	42	41
Brazil	46	35
Pakistan	49	33
Total	3,970	3,210

Source: GFMS, Thomson Reuters, 2014; 2015

When looking into gold bars demand on the basis of continents during the 2005-2014 period, the Figure-13 indicates that the highest demand came from Asia due to effect of China and India. As from 2007 when the global economic crisis began, demand by European continent for gold bars started showing a strong increase, and Europe ranked at the second place, following Asia.

Figure 13: Gold Bars Demand by Continents



Source: GFMS, Thomson Reuters, 2015

Interest in gold of exchange traded funds which are considered as corporate investors is shown on Figure-14. There were significant fluctuations in exchange traded funds' interest in gold from 2005 to 2014. Excluding the year 2009, the situation was relatively stable up to 2012 whereas gold sold from funds in 2013 reached 880 tonnes. Sales continued in 2014, as well.

Figure 14: Net Gold Positions of Exchange Traded Funds



Source: GFMS, Thomson Reuters, 2015

The Table-6 presents official gold reserves of some central banks across the world from end of 2005 to end of 2014. As can be seen on Figure-15, starting from 2007, total gold stocks of central banks also increased, as is the case with several demand sources, and stocks increased by around 2.000 tonnes in total. It is seen that the Federal Reserve had the highest gold reserve during that period and such number has remained unchanged ever since 2006. One striking point in the table below is serious rises in reserves of developing countries despite the fact that reserves of developed countries did not see much change.

Table 6: Official Gold Reserves of Central Banks (Tonnes)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
USA	8.135,08	8.133,46	8.133,46	8.133,46	8.133,46	8.133,46	8.133,46	8.133,46	8.133,46	8.133,46
Germany	3.427,79	3.422,51	3.417,37	3.412,58	3.406,77	3.400,95	3.396,29	3.391,34	3.387,14	3.384,19
IMF	3.217,32	3.217,32	3.217,32	3.217,32	3.005,32	2.814,04	2.814,04	2.814,04	2.814,04	2.814,04
Italy	2.451,84	2.451,84	2.451,84	2.451,84	2.451,84	2.451,84	2.451,84	2.451,84	2.451,84	2.451,84
France	2.825,79	2.719,76	2.603,06	2.492,15	2.435,41	2.435,41	2.435,41	2.435,38	2.435,38	2.435,38
Russia	386,86	401,48	450,34	519,58	649,03	788,62	882,96	957,76	1.035,21	1.208,17
China	599,98	599,98	599,98	599,98	1.054,09	1.054,09	1.054,09	1.054,09	1.054,09	1.054,09
Switzerland	1.290,10	1.290,10	1.145,19	1.040,09	1.040,09	1.040,06	1.040,06	1.040,06	1.040,06	1.040,00
Japan	765,20	765,20	765,20	765,20	765,20	765,20	765,20	765,20	765,20	765,20
Netherlands	694,94	640,94	621,44	612,45	612,45	612,45	612,45	612,45	612,45	612,45
India	357,75	357,75	357,75	357,75	557,74	557,74	557,74	557,74	557,74	557,74
Turkey	116,11	116,11	116,11	116,11	116,11	116,11	195,33	359,65	519,74	529,10
ECB	719,87	639,86	562,71	533,62	501,45	501,45	502,10	502,07	502,07	503,19
Total	30.832,76	30.467,70	29.963,20	29.981,12	30.505,65	30.840,00	31.206,03	31.681,19	31.853,97	32.028,74

Source: World Gold Council

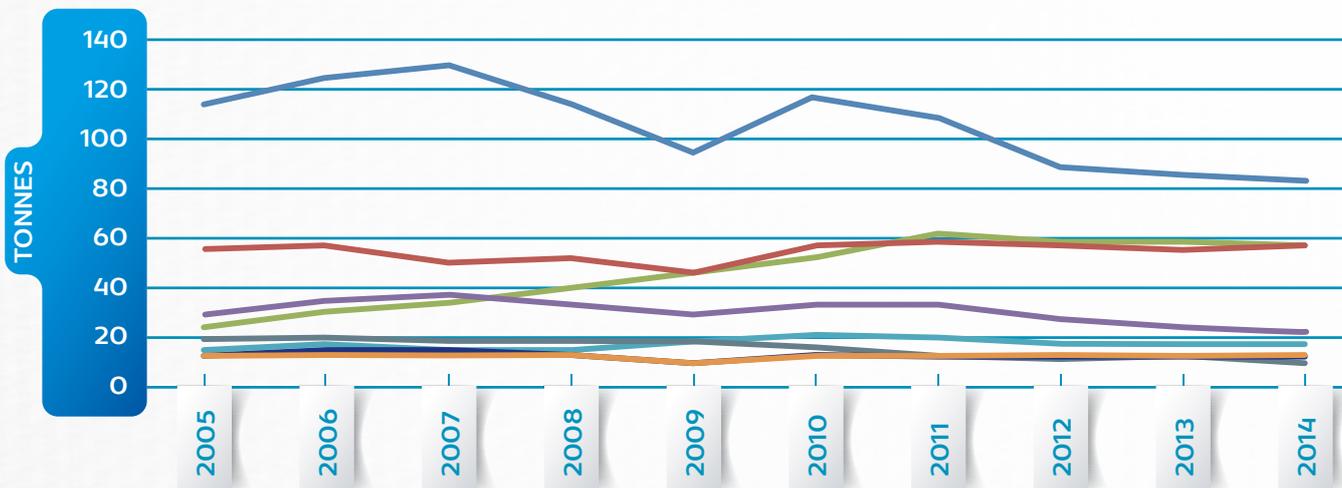
Figure 15: Change in Total Gold Reserves of the World Central Banks (Tonnes)



Source: World Gold Council

The highest slice of the industrial demand, one of demand headings specified in Table-4, comes from the electronics sector. As can be seen on Figure-16, the greatest demand in this field comes from the world's manufacturer countries. These countries, most of which have developed country status, are accompanied by developing countries such as China, Taiwan.

Figure 16: Country Shares in Industrial Demand and Change Thereof by Years



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Japan	112,4	123,6	128,4	116	94,5	115	108	88	85,7	82,5
USA	55,2	57,4	50,2	52,1	46,2	55,8	58,3	55,7	55,4	56,1
China	22,9	28,7	32,6	37,5	47,1	82,5	60,7	58,4	59	56,2
South Korea	28	32,9	35,6	33,2	28,8	33,3	31,6	27	23,5	21,4
Taiwan	14,6	17,1	18,1	17,1	16,1	19,4	18,1	16,7	16,1	45,6
Russian	12	12,1	12,6	13,1	12,3	12,3	12,5	12,6	12,7	12
Singapore	18,5	18,5	18,3	17,1	15,1	16,3	13,8	11,2	10,2	9,8
Germany	12,2	14,3	15,2	14,4	9,8	12,5	12	11,2	12,5	12,1

Source: GFMS, Thomson Reuters, 2015

Just like the demand from different sectors, retail investors are among the most important pillars of the gold demand. While demand from retail investors may be quite dependent on the price in some countries, price/demand relation may remain restricted in countries where the tradition of giving gold as gift on special days is widespread.

According to data pertaining to 2013 and 2014, when looking into gold consumption per person of countries, classification of top 20 countries appears as is seen on the Table-7. In 2014, the highest gold consumption per person in gram was recorded in UAE and Kuwait. If gold consumption per person is accepted as data related to a country's interest for gold, it is seen that the Middle East countries rank at top positions based on the existing data. When taking into account data pertaining to two years, 7 countries from OIC countries are included in the list. The said countries' potential for development and interest for gold may be construed as a sign that demand in these countries for gold will be high, as well. When looking from such perspective, it may be concluded that integration of gold trade among OIC countries may give rise to a good deal of trading volume and this may draw attention of investors.



Table 7: Top 20 Countries by Gold Consumption per Person in 2013 and 2014 (Gram/Person)

Countries	2013	2014
UAE	6,25	8,54
Kuwait	-	8,09
Hong Kong	8,31	6,14
Singapore	5,48	4,94
Qatar	-	2,43
Saudi Arabia	2,47	2,25
Belgium	1,95	1,97
Canada	1,65	1,64
Germany	1,88	1,6
Turkey	2,29	1,55
Thailand	2,52	1,4
Taiwan	1,44	1,22
Australia	1,56	1,21
South Korea	1,05	1,1
Iran	1,32	1,02
Japan	1,03	0,94
Vietnam	1,07	0,77
USA	-	0,76
India	0,8	0,69
Egypt	0,72	0,68
United Kingdom	0,68	-
China	0,94	-
Russia	0,67	-

Source: GFMS, Thomson Reuters, 2014; 2015

2.5. Import/Export

Total foreign trade data of countries in connection with world gold trade within a decade between 2005 and 2014 are presented in the Table-8. ³According to the classification made in line with total import and export data, it is seen that China becomes number one when data pertaining to Hong Kong is included, and China is followed by the USA and India. During such period India had the greatest share in import while China was the biggest exporter country.

When taking into account net import-export difference, it is observed that countries like China, the USA, Australia, Canada are net gold exporters with gold mines they have and amount of gold produced from such mines. Besides, the United Kingdom ranks at the fourth place of the list with its net gold foreign trade surplus although the United Kingdom's share in world's mine production of gold is not noteworthy. While India, also included in the list, is the country with by far the largest deficit in terms of gold foreign trade, countries such as United Arab Emirates, Turkey, and Thailand had substantial foreign trade deficits. However, given the fact that data on the table do not include jewelry trade, it is another question of debate whether or not Turkey which is an important jewelry exporter has foreign trade deficit including gold and jewelry made of gold.

Table 8: Countries' Cumulative Foreign Gold Trade from 2003 to 2014 (US\$ million)

Countries	Import	Export	Total	Net Difference
China (incl. Hong Kong)	243.393,05	374.667,16	618.060,21	131.274,10
USA	98.085,99	182.253,07	280.339,06	84.167,08
India	246.221,81	5.643,18	251.864,99	-240.578,64
United Kingdom	77.015,93	164.306,15	241.322,08	87.290,22
Australia	53.824,41	114.217,78	168.042,20	60.393,37
Canada	59.368,97	105.346,64	164.715,61	45.977,67
UAE	93.473,78	69.617,24	163.091,02	-23.856,54
Thailand	72.019,93	36.405,35	108.425,28	-35.614,58
Italy	48.121,48	44.056,93	92.178,42	-4.064,55
Turkey	58.501,69	33.460,19	91.961,88	-25.041,50
Germany	39.413,73	48.653,53	88.067,26	9.239,80
Peru	16,69	58.922,83	58.939,52	58.906,15
Japan	8.275,92	47.113,82	55.389,74	38.837,90
Mexico	2.057,85	41.531,62	43.589,47	39.473,77
Singapore	17.218,49	16.113,85	33.332,35	-1.104,64
South Africa	26,96	30.633,89	30.660,85	30.606,92
South Korea	11.311,79	16.080,54	27.392,34	4.768,75
Asia (other)	14.150,24	9.562,71	23.712,95	-4.587,54
Austria	16.601,92	6.325,32	22.927,24	-10.276,60
Ghana	0,10	21.681,19	21.681,30	21.681,09
Malaysia	16.891,59	2.261,30	19.152,89	-14.630,29
Netherlands	10.215,48	8.913,58	19.129,06	-1.301,90
Belgium	7.789,41	10.856,03	18.645,44	3.066,62
Switzerland	2.708,74	13.467,39	16.176,13	10.758,66
Brazil	20,73	16.121,76	16.142,48	16.101,03
Saudi Arabia	13.117,74	2.860,49	15.978,22	-10.257,25
Columbia	8,26	14.039,88	14.048,14	14.031,61
Argentina	0,58	13.253,76	13.254,33	13.253,18
France	4.478,87	8.388,95	12.867,82	3.910,08
Spain	2.746,82	9.647,35	12.394,17	6.900,54
Lebanon	6.233,04	5.994,97	12.228,01	-238,08
Vietnam	10.379,52	1.475,54	11.855,06	-8.903,98
Russia	7,65	10.702,78	10.710,42	10.695,13
Chili	0,94	9.594,50	9.595,44	9.593,55
Mali	1,04	7.615,56	7.616,60	7.614,53
Tanzania	0,02	7.527,67	7.527,68	7.527,65
Indonesia	199,23	7.224,73	7.423,96	7.025,50
Egypt	1.911,04	4.329,51	6.240,54	2.418,47
Sweden	412,02	5.317,70	5.729,72	4.905,68
Kazakhstan	18,46	5.603,28	5.621,74	5.584,81

Source: <http://comtrade.un.org/data/>

³Data shown in the table include those data quoted with the title of "Gold (including gold plated with platinum) (unprocessed or semi-processed or in the form of powder)" which corresponds to the code of 7108 HS4 within the System of Harmonized Product Description and Coding, one of classification systems used in the international trade.

When looking into the chapter entitled World Gold Markets, it is observed that OIC countries are generally at medium and lower ranks in terms of gold trade except for a few specific headings. This chapter will present data of OIC countries regarding gold and discuss position of such countries in the world gold markets.

3.1. Mines

When data pertaining to 2013 and 2014 are taken into account, it is seen that there are only 4 OIC countries included in the top 20 countries producing the highest amount of gold across the world in terms of gold production from mines. The said countries and their production amounts are shown on the Table-9. As can be seen on the table, share of total gold production amounts in the last two years of OIC countries among the top 20 countries with the highest gold production amount in the world within the world's total gold production from metal is 9,07% and 9,36%, respectively. Of OIC countries, Indonesia had the largest amount of gold production with 109,6 and 116,4 tonnes, respectively.



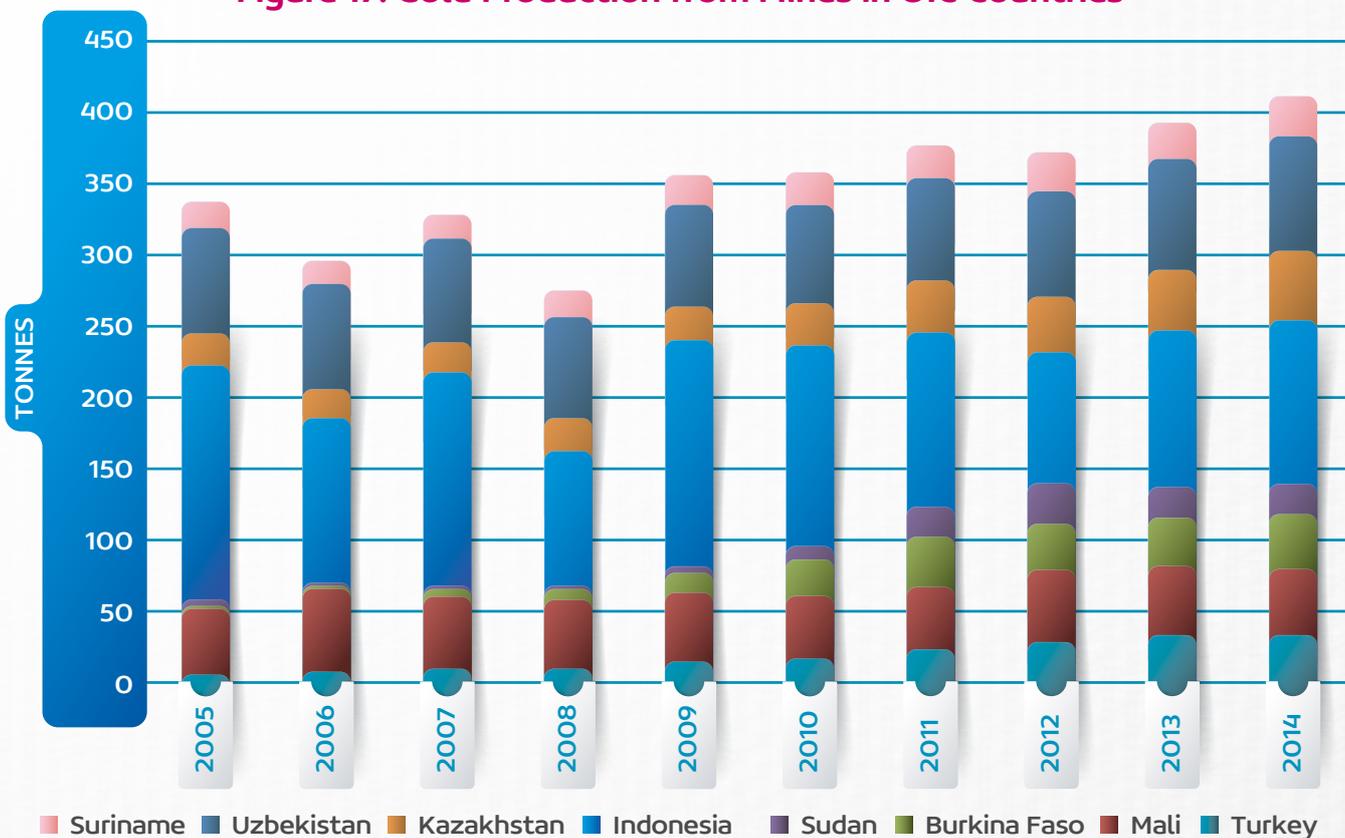
Table 9: OIC Countries in Top 20 Countries with the Highest Gold Mine Production (Tonnes)

Countries	2013	2014
Indonesia	109,6	116,4
Uzbekistan	77,4	80,4
Mali	48,2	47,4
Kazakhstan	42,6	49,2
Total	277,8	293,4
Total (World)	3.061	3.133
Share of 4 Islamic Countries (%)	9,07	9,36

Source: GFMS, Thomson Reuters, 2015

The Figure-17 with a larger data range displays gold production shares in the last decade of 8 OIC member states with the highest mine production of gold. As can be seen, Indonesia, Uzbekistan and Mali have the highest share.

Figure 17: Gold Production from Mines in OIC Countries



Source: GFMS, Thomson Reuters, 2015

Although these countries exhibit a stable increase in gold production since 2008, they have contributed to overall production of the world by 10-12%. According to data of the year 2014, of OIC countries which are not listed in the top 20 countries yet produce gold from mines at an amount in excess of 20 tonnes, Burkina Faso produced 38,5 tonnes of gold, Turkey 32,3 tonnes, Surinam 26,6 tonnes, Guinea 21 tonnes, and Sudan produced 20,5 tonnes of gold. The Table-10 indicates OIC countries with the highest gold production. The Figure-18 shows the status of total of such countries according to the world's total production.

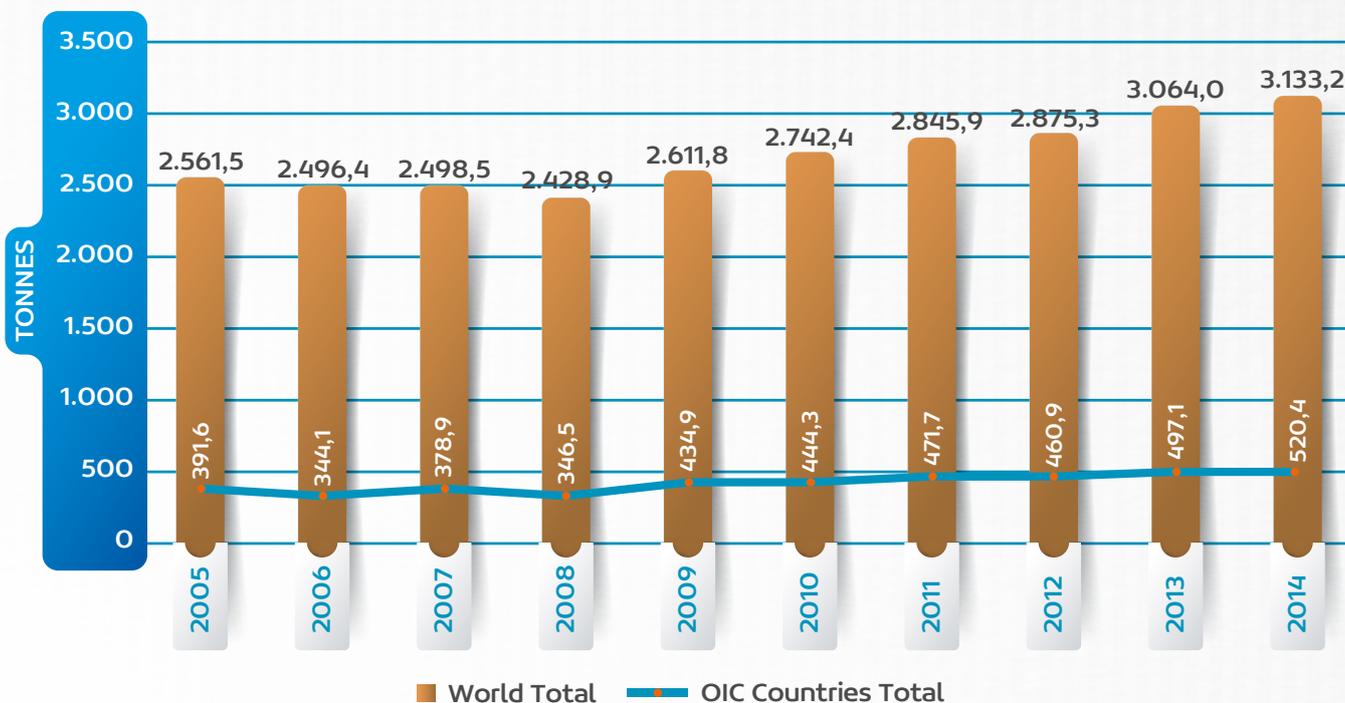
Table 10: Mine Production of Gold in OIC Countries (Tonnes)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Indonesia	167	114,1	149,5	95,9	160,5	140,1	121,1	93	110,7	116,4
Uzbekistan	75,5	74,1	72,9	72,2	70,5	71	71,4	73,3	77,4	80,4
Kazakhstan	19,2	21,8	22,6	22	22,5	29,9	36,7	40	42,6	49,2
Mali	46,7	56,9	51,9	47	49,1	43,9	43,5	50,3	48,2	47,4
Burkina Faso	1,7	2,1	2,9	6,9	13,8	25,3	34,1	31,3	35	38,5
Turkey	5,1	8,1	10,1	11,4	14,5	16,6	24,1	29,6	33,5	32,3
Suriname	18,2	16,9	16,1	17,9	20,8	22,9	24,6	26,5	27	26,6
Guinea	14,3	16,6	18	23,9	22,5	20,4	19,7	18,4	19	21
Sudan	5,6	3,6	3,1	2,7	4	10,1	22,5	27,9	20,1	20,5
Kyrgyzstan	16,6	10,6	10,5	18,4	17	18,5	19,7	11,3	20,2	19,2
Ivory Coast	3	3	3	5,3	8,6	7,3	13,4	14	13,6	18
Guyana	10,1	8,4	9,7	10,5	11,9	12,8	14,4	14,4	14,4	14,4
Egypt	0	0	0	0	0	4,7	6,3	8,2	11,1	11,8
Mauritania	0,5	0,6	1,9	6,8	8,4	9,1	8,7	8,2	10	10,1
Senegal	0,1	0,1	0,1	0,1	5,2	4,5	4,3	6,8	6,5	6,7
Malaysia	5,6	4,9	4,3	3,8	4,2	5,2	5	5,3	5,1	4,5
Tajikistan	2,4	2,3	2,3	1,7	1,4	2	2,2	2,4	2,7	3,4
Total	391,6	344,1	378,9	346,5	434,9	444,3	471,7	460,9	497,1	520,4
World Total	2.561,5	2.496,4	2.498,5	2.428,9	2.611,8	2.742,4	2.845,9	2.875,3	3.064	3.133,2
Share of OIC countries (%)	15,3	13,8	15,2	14,3	16,7	16,2	16,6	16,0	16,2	16,6

Source: GFMS, Thomson Reuters, 2015



Figure 18: Change in Gold Production by OIC Countries and Status According to World Total



Source: GFMS, Thomson Reuters, 2015

As can be seen on Table-10 and Figure-18, share of those OIC countries with the highest gold production from mines within the world's total production materialized as 15,7% on average in a period of 10 years. This is a quite low rate even if it has increased to some extent in the recent years.

3.2. Refineries

When looking into lists of 73 refineries of which products are traded at LBMA, it is seen that only 9 refineries of OIC countries are included in such list. The said refineries and countries they are located in are shown in the Table-11. Available capacity information is also presented in the table. According to data pertaining to the period between from 2005 to 2014, given the gold production of 430 tonnes/year on average derived from mines at the OIC countries, the capacity of only those refineries of OIC countries included in the LBMA list seems to be sufficient. However, when 508 tonnes/year on average is added as data related to scrap gold for the same period, it will be understood that capacity of such refineries do not suffice under the light of available capacity data. Besides, it is believed that there will be no capacity problem with some refineries not included in the LBMA list and following completion of those refineries under construction.

Table 11: Refineries of OIC Countries Included in the LBMA Gold Delivery List

the Refinery's Name	the Refinery's Country	Capacity (tonnes/year)
Almalyk Mining and Metallurgical Complex (AMMC)	Uzbekistan	-
Atasay Kuyumculuk Sanayi Ve Ticaret A.S.	Turkey	1*
Istanbul Gold Refinery	Turkey	120
Kazzinc Ltd	Kazakhstan	-
Kyrgyzaltyn JSC	Kyrgyzstan	40
L'azurde Company for Jewelry	Saudi Arabia	-
Nadir Metal Rafineri San. ve Tic. A.Ş.	Turkey	140
Navoi Mining and Metallurgical Combinat (NMMC)	Uzbekistan	-
PT Aneka Tambang (Persero) Tbk (Logam Mulia)	Indonesia	60

Source: LBMA, www.lbma.org.uk, (as of 05/02/2015); websites of Refineries; *Ton/day

3.3. Exchanges/Markets

UAE-Dubai and Turkey are countries with which gold trade is most widely and most frequently carried out in OIC countries through organized markets, as can be seen on the Table-3. In such framework, these two countries appear to have the most advantageous position from among OIC countries. In Turkey, gold-backed futures and physical gold dealings are conducted under the roof of Borsa Istanbul. UAE-Dubai has also become one of the important centers for gold trade due to recent progress made by it. Apart from these two countries, gold futures are carried out at Indonesia - Jakarta Futures Exchange and Bursa Malaysia of Malaysia.

3.4. Supply and Demand

Supply amounts of gold used in OIC countries for the purpose of fabrication from 2005 to 2014 are shown in the Table-12. When average data for such period are taken into account, the greatest scrap gold supply seems to be coming from Turkey with 100 tonnes/year. Turkey has provided a great deal of gold supply in comparison to other countries. High supply of scrap gold causes a boost in activities of refineries.

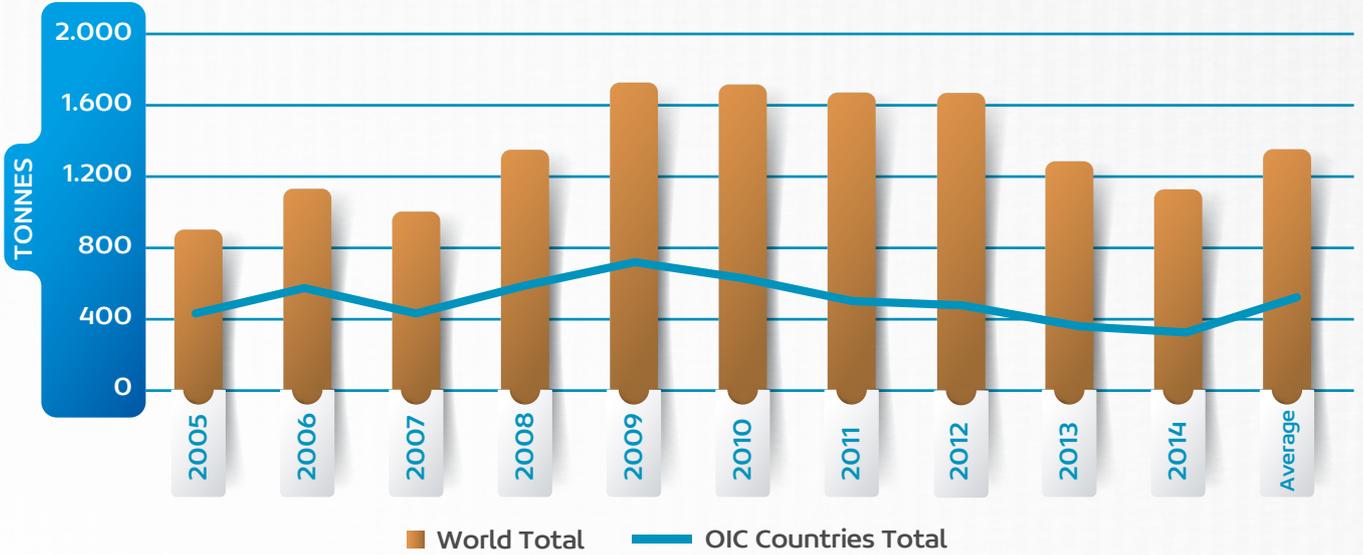
When looking into average scrap gold supply of all countries shown on the table below during the last decade, there seems to be a supply of 508 tonnes/year. Comparison of supply by such countries against the world's total supply is presented on Figure-19.

Table 12: Scrap Gold Supplies of OIC Countries (Tonnes)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
Turkey	67,7	82,5	71,5	199	217,2	122	78	72,3	56,3	41,4	100,79
Indonesia	67	71,9	67,9	72,5	79,9	64,9	58,3	49	36,2	36,3	60,39
UAE	28,2	34	43,8	59,4	70,6	110	71,4	73,4	57	51,4	59,92
Saudi Arabia & Yemen	92,5	133,7	56,4	69,4	57,3	44,1	37,1	33,5	23,6	20,8	56,84
Egypt	72,7	77,5	56,5	35,8	65	48	47,6	53,6	43,2	39,9	53,98
Pakistan & Afghanistan	30,9	33,4	31,7	35,5	53,8	50,4	42,7	47,2	37,2	28,8	39,16
Iran	16,1	21,9	23	25,9	32,1	32,7	32,4	32,9	24,3	22,1	26,34
Iraq & Syria	14,4	23,9	19	21,9	35,6	36,7	36	33,1	25,3	15,5	26,14
Malaysia	11	19,1	16,4	18,4	19,2	22,2	19,2	16,6	13,2	12,3	16,76
Libya	4,6	9,7	9,4	10,4	13,4	15,7	16,6	14,4	8,8	8,2	11,12
Lebanon	6,6	9,9	4,8	6,2	15,1	19,7	14,9	12,6	9,6	8,5	10,79
Kuwait	12,4	21,8	9,7	10,2	10,4	8,5	7,7	6,2	5	4,5	9,64
Morocco	5,9	6,3	6,2	6,3	9,7	9,3	12	11,3	9,3	8,9	8,52
Jordan	4,6	8,7	7	5,6	9,2	12,7	10,8	9,7	7,2	7,4	8,29
Algeria	2,7	2,8	3,3	3,6	5,8	6,1	7,9	7,5	6,8	6,6	5,31
Oman & Qatar	3,1	6,1	5,7	6,4	7,3	6,7	5,4	4,9	3,9	3,6	5,31
Bahrain	1,8	3,8	3,8	3,8	4,7	4,5	4	3,5	2,6	2,5	3,5
Uzbekistan	2,2	2,2	2,2	2,4	3,1	2,9	3	3,2	2,9	2,7	2,68
Kazakhstan	2,2	2,2	2,2	2,4	3,1	2,9	3	3,2	2,9	2,7	2,68
Total	446,6	571,4	440,5	595,1	712,5	620	508	488,1	375,3	324,1	508,16
World Total	903	1.133	1.006	1.352	1.728	1.713	1.675	1.677	1.287	1.125	1.360
Share of OIC member states (%)	49,5	50,4	43,8	44,0	41,2	36,2	30,3	29,1	29,2	28,8	37,4

Source: GFMS, Thomson Reuters, 2015

Figure 19: Scrap Gold Supply from OIC Member States and the World



Source: GFMS, Thomson Reuters, 2015



While share within gold supply from mines across the world is around 16%, it is seen that OIC countries have a higher share in terms of scrap gold supply. When average data of the last decade are taken into account, share of such countries has materialized as 37,4%.

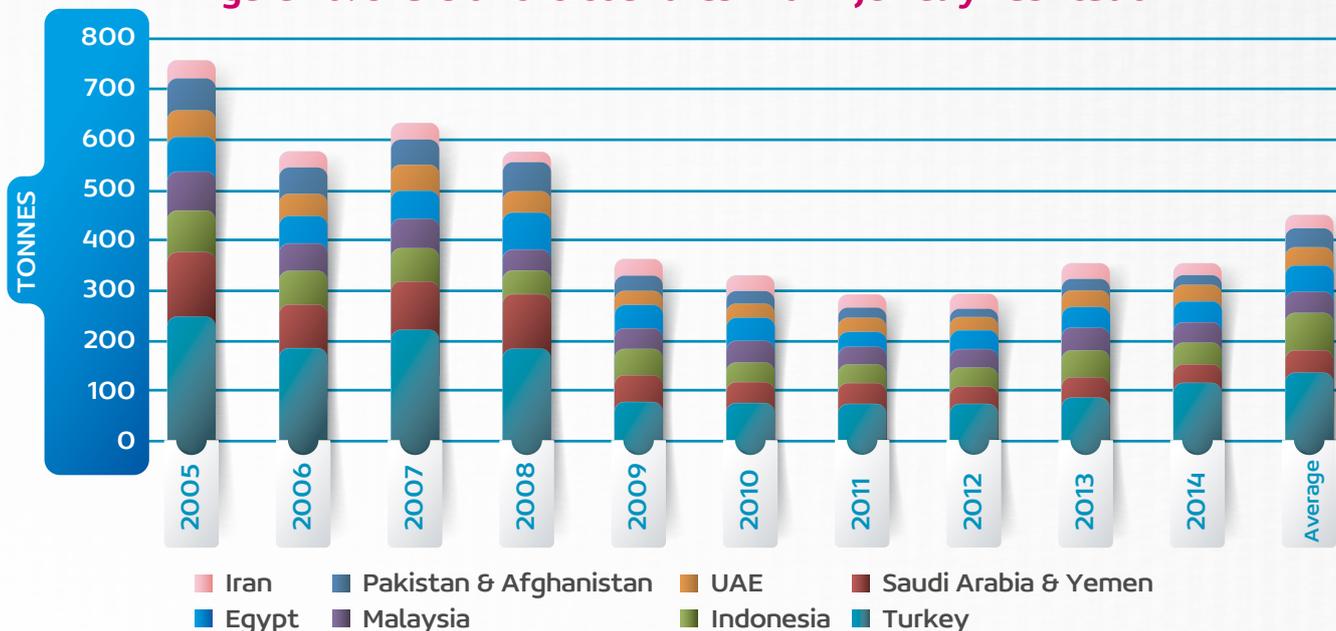
Given the fact that jewelry sector constitutes the largest share within the world gold demand, the Table-13 indicates that OIC countries account for around one-fourth of the world's jewelry fabrication. The Figure-20 shows shares of OIC member states that produce gold at an amount over 30 tonnes/year on average. The largest fabrication has taken place in Turkey with regards to this field and Turkey's jewelry fabrication is more than twice the fabrication of its nearest competitor country. Advanced jewelry sector of Turkey makes it stand out among OIC countries in terms of gold trade.

Table 13: Jewelry Fabrication of OIC Member States (Tonnes)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
Turkey	251,1	184,9	219,7	183,2	80	73	77	73,8	87,1	114,8	134,46
Saudi Arabia & Yemen	124,6	89,6	99,5	85	53,5	46,5	36,8	32,5	41,4	37,3	64,67
Indonesia	86	64,2	62,7	60,8	45,5	38,4	38,7	43,5	51	43,9	53,47
Malaysia	74,1	58	60,9	56,2	44,9	43,6	37,1	34,7	44,6	40,7	49,48
Egypt	70,8	50,3	56,5	62,4	44	42,1	28,7	37,4	40,6	40,6	47,34
UAE	53,2	45,4	48,1	44,6	34	31	26,3	24,7	34,4	33,1	37,48
Pakistan & Afghanistan	64,2	53,9	50,3	43,8	29,6	26,1	22,1	20,6	24,6	20,9	35,61
Iran	36,5	32,2	36,2	35,6	30	29,9	27,8	27,7	31,3	24	31,12
Iraq & Syria	21,2	20	22,4	19,6	15,1	14,7	11,4	8,7	8,7	7,3	14,91
Uzbekistan	9,1	10	10,6	9,6	7,5	9,1	10,2	9,6	9,9	10	9,56
Kazakhstan	9,1	10	10,6	9,6	7,5	9,1	10,2	9,6	9,9	10	9,56
Bangladesh (incl. Nepal*)	13,6	11,8	11,7	10,3	8,1	7,7	7,1	7,2	8,1	5,7	9,13
Morocco	13,8	10,6	10,3	9,4	7,6	7	6,8	6,5	6,4	6,7	8,51
Kuwait	12,3	9,7	8,9	9,5	7,4	6,6	6,2	5,6	6,3	7	7,95
Oman & Qatar	11,3	9,9	10,3	8,7	6,6	5,9	5,2	4,8	5,8	5,5	7,4
Bahrain	11,4	9,6	9,9	8,6	6,4	5,7	5,1	4,5	5,8	5,6	7,26
Jordan	6,9	4,5	4,7	4,7	5,6	5,8	5,1	4,5	5,4	7,4	5,46
Lebanon	7,6	5,4	5,5	4,8	3,3	2,6	2,9	3,7	4,6	4,2	4,46
Libya	4,9	4,9	5,2	4,8	3,9	3,5	2,4	2,2	2,5	2,6	3,69
Algeria	3,9	3	3,4	3	2,5	2,4	2,1	2	2,2	2,3	2,68
Total of OIC Countries	885,6	687,9	747,4	674,2	443	410,7	369,2	363,8	430,6	429,6	544,2
World Total	2.721,8	2.302,2	2.425,7	2.308,1	1.819	2.032,7	2.033,9	2.008,4	2.439	2.213	2.230,38
Share of OIC Countries (%)	32,5	29,9	30,8	29,2	24,4	20,2	18,2	18,1	17,7	19,4	24,4

Source: GFMS, Thomson Reuters, 2015; *since Nepal is classified under Bangladesh, data shown on the table above show combined data of two countries.

Figure 20: Share of OIC Countries within Jewelry Fabrication



Source: GFMS, Thomson Reuters, 2015

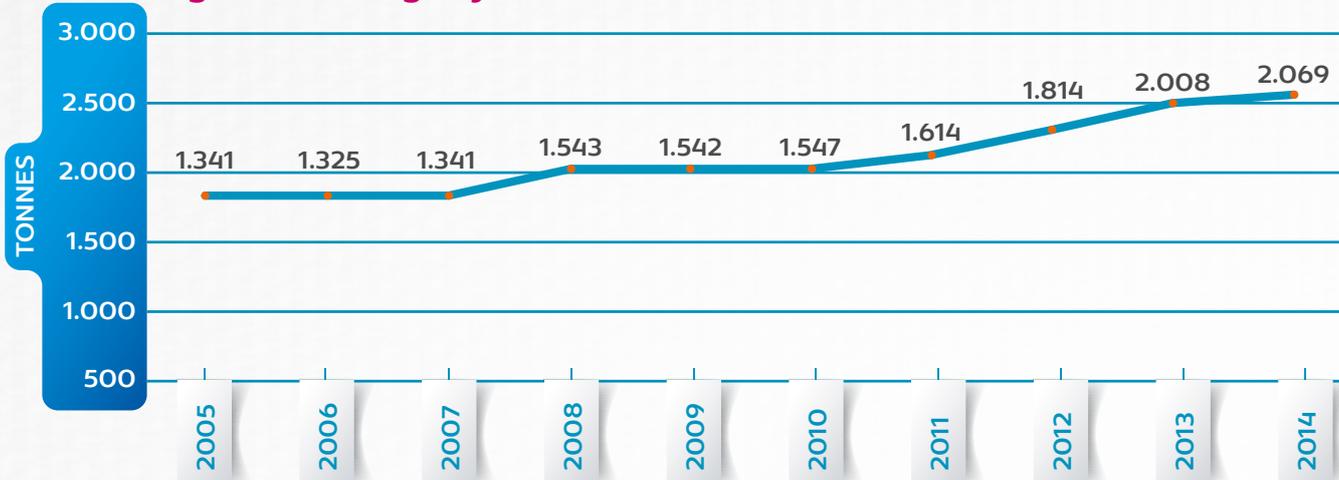
Data pertaining to those OIC countries of which central banks hold gold reserves of 10 tonnes and more are shown in the Table-14. The Figure-21 shows change by years in total reserves of these countries. As can be seen, total central bank reserves of these countries have shown a growth trend in recent years and exceeded 2,000 tonnes as from 2013. However, when evaluated according to the world's total gold reserves, shares of OIC countries had a very low value with 5,2% on average in the last decade.

Table 14: Official Gold Reserves of OIC Countries (Tonnes)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turkey	116,11	116,11	116,11	116,11	116,11	116,11	195,33	359,65	519,74	529,10
Saudi Arabia	142,95	142,95	142,95	322,91	322,91	322,91	322,91	322,91	322,91	322,91
Lebanon	286,83	286,83	286,83	286,83	286,83	286,83	286,83	286,83	286,83	286,83
Kazakhstan	59,75	67,34	69,55	71,94	70,45	67,31	81,99	115,30	143,70	191,78
Algeria	173,65	173,65	173,65	173,65	173,65	173,65	173,65	173,65	173,65	173,65
Libya	143,82	143,82	143,82	143,82	143,82	143,82	116,64	116,64	116,64	116,64
Kuwait	78,97	78,97	78,97	78,97	78,97	78,97	78,97	78,97	78,97	78,97
Indonesia	96,42	73,09	73,09	73,09	73,09	73,09	73,09	74,03	78,07	78,07
Egypt	75,64	75,61	75,61	75,61	75,61	75,61	75,61	75,61	75,61	75,61
Pakistan	65,29	65,32	65,44	65,44	65,44	64,38	64,41	64,45	64,45	64,48
Malaysia	36,39	36,39	36,39	36,39	36,39	36,39	36,39	36,39	36,39	35,77
Syria	25,91	25,91	25,91	25,82	25,82	25,82	25,82	25,82	25,82	25,82
Morocco	22,02	22,02	22,02	22,02	22,05	22,05	22,05	22,05	22,05	22,05
Afghanistan	-	-	-	21,87	21,87	21,87	21,87	21,87	21,87	21,87
Jordan	12,78	12,72	14,28	12,75	12,75	12,75	12,75	13,84	15,55	19,28
Bangladesh	3,51	3,51	3,51	3,51	3,51	13,50	13,53	13,53	13,50	13,78
Qatar	0,59	0,59	12,41	12,41	12,41	12,41	12,41	12,41	12,41	12,41
Total	1.340,64	1.324,84	1.340,55	1.543,16	1.541,69	1.547,48	1.614,26	1.813,94	2.008,15	2.069,02
World Total	30.832,76	30.467,70	29.963,20	29.981,12	30.505,65	30.840,00	31.206,03	31.681,19	31.853,97	32.028,74
Share of OIC Countries (%)	4,3	4,3	4,5	5,1	5,1	5,0	5,2	5,7	6,3	6,5

Source: World Gold Council

Figure 21: Change by Years of Official Reserves of OIC Countries



Source: World Gold Council

3.5. Import/Export

Total foreign trade data of those countries from 2005 to 2014 of those OIC member states with the highest amounts of foreign gold trade are presented in the Table-15. As can be seen in the table, such countries have large amounts of foreign trade deficit with regards to gold trade. Countries with the greatest deficit in this field include Turkey, UAE, Malaysia, and Saudi Arabia. However, it should be noted that these amounts do not include numbers derived from foreign trade of jewelry.

Table 15: Cumulative Gold Foreign Trade Data of OIC Countries from 2005 to 2014 (US\$ million)

Country	Import	Export	Total	Net Difference
Turkey	58.501,69	33.460,19	91.961,88	-25.041,50
UAE	93.473,78	69.617,24	163.091,02	-23.856,54
Malaysia	16.891,59	2.261,30	19.152,89	-14.630,29
Saudi Arabia	13.117,74	2.860,49	15.978,22	-10.257,25
Lebanon	6.233,04	5.994,97	12.228,01	-238,08
Egypt	1.911,04	4.329,51	6.240,54	2.418,47
Kazakhstan	18,46	5.603,28	5.621,74	5.584,81
Indonesia	199,23	7.224,73	7.423,96	7.025,50
Mali	1,04	7.615,56	7.616,60	7.614,53

Source: <http://comtrade.un.org/data/>



There are many factors that may affect establishment and enhancement of an international gold market. However, it is believed that the most fundamental starting point of this project is ensuring that existing gold exchanges get integrated, and enhancing relationship among Islamic countries and financial institutions thereof in order to strengthen inter-market relations among OIC countries, and contact among communities. Therefore, the simplest strategy is seeking for an environment of consensus over basic interests to a possible extent and receiving support of gold exchanges and markets which are still operational within OIC member states.

Following factors are of paramount importance for implementation of the project for establishing a joint gold market with OIC countries in terms of both OIC countries and the exchange that is subject of this project:

- Gold mine reserves, production amounts and production costs within OIC countries
- Adequate number and capacity of refineries which could produce gold in accordance with international standards within OIC countries,
- Compliance by institutions/vaults storing gold and conducting secure delivery in OIC countries of international criteria and capability of rapid delivery with the support of modern technology,
- Use of high technology by the exchange gold trading platform, simplicity and usefulness, and feature of multiple languages,
- Offering a multilingual service at the exchange,
- Advanced financial markets, and diversity of gold- and other precious metals-backed financial instruments
- Wide corporate investor base enjoyed by the advanced banking sector,

Following evaluations may be made by taking into account factors specified in respect of OIC countries.

Top 20 countries of the world with the highest gold production include only 4 OIC member states (Indonesia, Uzbekistan, Mali, Kazakhstan), and share of such countries in the world's production is approximately 9%. Share of total production amount of those Islamic countries producing from mines within the world's total gold production is about 16%. However, when London and Swiss markets, which set successful examples in terms of gold trade, are taken into account, low share of production from mines within the world production is believed to be no obstacle for an integrated gold market covering OIC countries.

Only 9 out of 73 refineries accredited to LBMA Good Delivery List which is the most recognized gold refinery list of the world are from OIC countries. Production capacities of these refineries are lower than their competitors.

However, it is believed that there will be no capacity problem with some refineries not included in the LBMA list and following completion of those refineries under construction. Under the light of existing data, of these 9 refineries included in the LBMA list, ones with the highest capacity are based in Turkey.

When looking into world exchanges/markets where physical gold and gold-backed derivative-financial instruments are traded, it is seen that only UAE-Dubai and Turkey have a noteworthy position from among OIC countries. Dubai, one of these two countries, is advantageous for it has especially made legislative arrangements in an easy and comprehensible manner and uses English as a prevailing language. On the other hand, Turkey comes to forefront with Istanbul, a natural trade and finance center, when looking from a historical perspective in particular, and its advanced jewelry sector. Therefore, inclusion of Borsa Istanbul and Dubai in the gold market project of Islamic countries is extremely important. Malaysia which has made a considerable progress in terms of Islamic financial instruments may also be included in this cooperation.

Modern precious metal safekeeping services have crucial importance in enhancement of gold trade and canalizing under-the-mattress gold into the organized markets. When evaluated from this aspect, within OIC countries UAE-Dubai and Turkey which are relatively active in gold trade stand out. In order to render safekeeping services, which are currently rendered by Borsa Istanbul, in more modern conditions and big sizes, infrastructure investments are underway in Turkey. Besides, in order to encourage international gold trade, it is aimed at allocating a part of precious metals vault as regional bonded warehouse. In order to safekeeping of precious metals, particularly gold, of institutions operating within Turkey or abroad, and supplying those precious metals to neighboring countries, it is planned that a brand-new custody center, in which about 1,500-2,000 tonnes of precious metals, can be withheld, going to be built in 2016.

For the project of gold exchange or gold market where OIC countries will trade in an integrated manner, especially the legislation must be a market-friendly one that is easy to understand. Legislations of member states must be simple, concise and in a form that gives initiative to technical institutions in the respective field. In this context, it will be beneficial for these markets which is aimed to be established in international quality, if membership is not limited to OIC countries' institutions alone and membership of institutions from other countries is made easier and English is used as the language.

One of the most important components of an effective gold market in terms of the demand is a wealth of corporate investors referring to a cluster of financial institutions such as banks, insurance companies, pension funds, hedge funds/free funds, mutual funds, exchange traded funds, investment partnerships and foundations. Status in Islamic countries of such cluster of investors seems to be quite modest when compared against the western world. In other words, these investors that are expected to become a considerable demanding group with regards to gold have to be developed in OIC countries.

Because, excluding banks and except for a few countries such as Malaysia, Turkey and Iran where some of other components are at a relatively important level, existence of corporate investors is not very promising in many OIC countries. However, Islamic banking that has undergone a rapid growth process in recent years is expected to continue its development trend in upcoming years, as well. If expectations come into being, it is believed that these banks will have a great demand for gold and gold-backed instruments. In such framework, stimulations that will increase interest of the banking industry of all OIC countries for the gold market and will make participation banks act more actively will be beneficial.

In many of OIC countries, gold is a precious metal that is traditionally important and given as gift on special days. When looking at the demand side, the fact that these countries have their greatest shares in the jewelry fabrication, when compared to rest of the world, confirms the foregoing situation. As a matter of fact, when demand data of OIC countries are evaluated, according to average of data pertaining to the 10-year period from 2005 to 2014, share of OIC countries' demand for gold bars within the world's total gold bars demand is 11,2% on average while demand for the purpose of jewelry fabrication is 24,4%. During the same period, reserves of OIC countries' central banks were equal to 5,2% of the world's official gold reserves in total. Looking from such perspective, those countries with a developed jewelry sector and where portion of the Central Bank reserves kept in gold is high in comparison to rest of OIC member states stand out.

When OIC countries' data regarding supply are assessed, during the last decade, share of these countries was 15,7% on average in terms of production from mines while supply of scrap gold was more than twice the supply from mines with a share of 37,4%. Since Turkey enjoys a leadership position in terms of scrap gold and has three refineries approved by LBMA with relatively high capacities, it will be beneficial for the project if it has an active role.

One of the most important parameters for success of the integrated gold market is that central banks of OIC countries will execute their gold transactions via such integrated market. Establishing mechanisms which enable gold kept in official reserves to be traded easily and where exchange can take place by means of bars of 1 kilogram or through refineries, when necessary, is believed to be an important issue. Therefore, increasing by Islamic countries of gold kept in their official reserves, acceptance by such countries' central banks of standard, unprocessed gold as compulsory provision and storage of the same in safe vaults within the country will be part of an important policy for success of the gold market. More than one-fourth of around 2.000 tonnes of gold in total kept by central banks of the OIC countries is kept by CBRT.



For an effective price formation at the gold market that will integrate OIC countries, unprocessed standard gold bars, which are in the form of 1 kg bar or with an approximate weight of 12-13 kg large bars and have above the 995/1.000 fineness, should be traded. Besides, trading of silver, platinum and palladium, precious metals deemed important in the Islamic finance may be considered over the time in order to diversify products.

Apart from spot market, it should be ensured that gold futures contracts with physical delivery are traded. Spot transactions are transactions where net liabilities (physically at asset) are generally fulfilled at the day end. Futures, however, are those transactions based on a contract containing taking delivery and delivery of a certain amount of gold at a certain future date, place and under certain conditions. It is important for gold futures markets with physical delivery other than spot gold trading transactions to be easily accessible among OIC countries' exchanges, terms for accepting to membership to be comprehensible and flexible, and to ensure that standard of gold to be delivered is uniform.

It is possible to consider platinum- and palladium-backed murabaha and similar Islamic financial products, which Islamic countries are interested in and especially trade in London for the time being, within scope of this project. There is a need for an electronic platform that will be operational among OIC countries in order to execute murabaha transactions in this scope. Geographical location does not matter at all with this and other similar trading platforms. The point that matters is the platform's having a structure that is technically easy to access within framework of principles with which leading financial institutions of the world are familiar and ease of making connections on a global scale and operation of the platform in accordance with simple and comprehensible business rules and international norms. Establishing a fatwa board within the COMCEC will be helpful for popularization and success of the market in order to determine and update, when necessary, trading method, principles, products to be traded and other rules.

The basic issue that has to be taken into account with this project is thought to be electronic integration of exchanges operating at OIC countries rather than a single gold exchange and enabling banks and brokerage houses running their operations on a country basis to directly execute transactions. With this purpose, studies should be conducted about facilitating membership in exchanges of other countries of those brokerage houses, banks and similar financial institutions authorized to execute transactions in exchanges of any one of member states, assuring uniformity of regulations, and enhancement of cooperation among countries. Following connection of gold refineries, vault and custodian institutions to one another through electronic integration, it is believed that OIC countries will have a strong gold market on a global scale, thereby, reducing dependence on markets outside their countries such as London and Switzerland.

Project's head office is advised to be located in the country that will have the best position as a result of an assessment to be conducted according to various criteria such as gold trade and level of financial and technological development. Besides, there will be a need for custody and delivery centers evenly distributed in a manner that will minimize carriage and other related costs of countries for success of the project implementation. Custodian centers should be built in proportion to size of countries' share in gold and in a manner that enables them to be supported with the state-of-the-art technology.

Project for integration of gold exchanges in OIC countries should also be assessed within framework of European Union acquis and the current level achieved by markets of member states of the European Union within framework of such acquis. Although there is not a single exchange in the field of currency, capital or precious metals, regulations on a country basis have been harmonized with one another and any exchange or a brokerage house authorized to operate in any country has been enabled to run its operations in all European Union member states without an obstacle. It is possible to easily buy and sell any financial instrument issued or traded in a country in other European Union countries. With regards to OIC gold exchange or gold market project, harmonizing of legislations of OIC countries within framework of minimum denominators and international norms and collaboration by public authorities in particular with this purpose are considered quite useful.



There are many factors playing a role in gold trade. Capital accumulation/surplus existing especially in developed countries, diversity of financial instruments, portfolio of conscious investors, technological development, quality of human resource, education infrastructure, flexible structure offered by regulations and superiority in many other matters have caused these countries to be predominant in the gold trade as is the case with many other fields. Although these countries still retain their superiority in competition, recent moves by OIC countries in the field of exchange operation, improvements in qualified human resource with exchange operation experience will facilitate integration of gold exchanges on the basis of OIC countries.

Share of OIC member states in the world gold trade and related sectors is too low when compared to their potential. Establishing by Islamic countries of an integrated gold market among one another is an important project in order to increase their shares in the said fields. However, one should not ignore the fact that the share in production from mines is small and size of those companies engaged in fabrication of metals is not large enough. Therefore, care should be taken for inclusion of international companies in the market and market rules should be designed in line with international norms.

On the other hand, even though ownership/existence of gold mines is an important advantage for countries to derive revenue, there are examples such as UK, Switzerland and Japan that indicate ownership of mines is not directly related to development in gold trade of countries. Looking into these countries, it is seen that a corporate and widespread banking structure, easy and comprehensible market friendly regulations, economic stability, and internationally accepted large refineries with high technology and common technical infrastructure have made very important contributions to development of markets.

A developed infrastructure plays an important role in strong gold sectors of countries. Refineries that convert gold and other precious metals from unprocessed form into standard form, or convert them from standard bars into smaller bars are crucial sector components. Ability to buy and sell gold in a safe fashion, high capacity and number of refineries that are subject to certain conditions and compliance of their products with international standards for such purpose is a principally important factor in order to establish an effective gold market. However, only 9 out of 73 refineries accredited to LBMA Good Delivery List which is the most recognized gold refinery list of the world are from OIC countries. Production capacities of these refineries are lower than their competitors. Generation of a common refinery list among Islamic countries, ensuring that refineries included in such list are audited in accordance with international standards, and competing with the LBMA refinery list are regarded as useful for development of an integrated gold market.

One of the most important components of an effective gold market is banks and other financial institutions. The Islamic banking is expected to continue its growth trend in upcoming years. It is believed that customers of these banks will have a great demand for gold and gold-backed instruments. In the event that Islamic financial products and banking are developed, banks and other financial institutions will have a



positive contribution to the success of the gold market. Promotion and training activities intended for retail investors and jewelers in Islamic countries are quite important for the market to become successful and developed rapidly. Safekeeping of gold within the financial system in a modern manner, should be encouraged. Factors such as building adequate vaults within customs or free zone areas, ensuring that vaults are integrated, with secure and easily accessible electronic data are crucial in effective settlement of gold transactions. Within this scope, it is planned that a modern custody center, with the capacity of 1,500-2,000 tonnes of precious metals, particularly gold, going to be built in 2016 in Turkey.

On the other hand, another important issue is to have an internationally recognized trading of gold among OIC member states and a special attention should be paid to gold supply that may come from territories of conflict. Certain standards should be established due to importance of the issue and certain standards should be set for the sector by taking into account guidelines published by the Organization for Economic Co-operation and Development (OECD) in order to prevent illegal trade. Dubai and Turkey have recently started taking actions. However, it is believed that it is very important for OIC countries to act in compliance with these policies, too, in order to reach success with the said project.

It is thought that many factors such as effective promotion and informatory practices aimed at retail and corporate investors, offering of gold-backed alternative income-generating product diversifications conforming to the Islamic principles, keeping transaction costs at competitive levels, trading platform's being technologically integrated, advanced and capable of meeting the market's needs, integrated operation with the vault or custody and ability to combine markets, content of web-based and mobile applications, if possible, within such scope, increasing of mints' capacities, enhancement of cooperation mints in OIC member countries, introduction of security code for gold produced by those mints and prevention of circulation of fake mint products in the market, and improvement of human resource will play vitally important roles in establishment and development of an integrated gold market that will operate among Islamic countries.

Beside other factors, it will be of utility to encourage murabaha transactions on platinum and palladium due to high price correlation with gold. Transactions based on murabaha and similar Islamic financial products will directly influence success of the project in respect of Islamic countries that are relatively underprivileged with regards to gold production, trade and refining.

Doubtlessly, an effective cooperation and a well-defined work process must be in place for the establishment of the COMCEC Gold Market. Within this framework, forming a task force comprised of representatives from volunteering Forum Member Exchanges whose gold markets are developed or have the potential to develop will be beneficial. Task force is expected to work on determining the steps that need to be taken, the connection models between the States with regards



to trading and post-trade services, the technical and regulatory infrastructure needs and developing the standards for the most effective gold trading model among the OIC Member States.

As a result, under the light of above evaluations, roles played by OIC countries in terms of supply and demand are quite below their potentials and connections between OIC markets are not at the desired level. OIC countries are predicted to have a greater share in gold trade in the future due to their population, potential of development and traditional interest in gold. Establishment of an appropriate and integrated infrastructure and building of corporate mechanisms in order to develop gold trade in line with such expectations are considered to be important. Establishment of an integrated gold platform will foster economic and commercial cooperation among OIC Member States. In the event that studies aimed at harmonization of existing regulations in accordance with international norms, such studies might be started concurrently at all OIC countries or bilateral agreements may be concluded between exchanges of the most developed countries and exchanges of other countries may be included thereafter. Within this framework, Borsa Istanbul has already started to support the objective of establishing an integrated gold market among OIC countries. Signing a Memorandum of Understanding with DMCC is an important step forward towards this target. Similar agreements with other OIC countries may follow. It is believed that, with such series of bilateral agreements, the process will naturally enter into the path of integration of gold exchanges, thus, it will be possible to more rapidly and effectively realize a gold market that will operate among OIC countries.

