By **William Gray**

Ukraine's Gold Pressure

The war has forced the Ukrainian government to sell some of its gold reserves to support its currency and acquire basic goods. Since the Russian invasion in February, Ukraine has sold $12.4 billion of its reserves (equivalent to around 5% of total world production), these sales taking place over a very short period, placing downward pressure on the price of gold.

What about Russian gold?

In late June 2022, the U.S., United Kingdom, Canada, and Japan voted in favor of, and implemented, a ban on Russian gold exports. As the world's second largest gold producer, Russia's presence in the gold markets cannot be overstated. With an estimated exported value to the London market of £12.6 billion ($15.5 billion) in 2021, Russia has played a central role in the precious metal market within the world's biggest bullion trading centre. The sanctions imposed by the U.S, its allies and most of the European Union, however, have had little impact on Russia as its government simply turned to ardent Asian buyers, such as China and India, both of whom refrained from implementing similar restrictions.

The sanctions imposed by the west, however, only applies to Russian gold produced and exported after the June 24 ban, leaving all Russian physical gold, located outside of Russia prior to this date, unaffected. This in turn means that the significant amount of Russian gold held within the world's financial system, Central Banks, ETF's, Mutual Funds, and within multiple gold storage facilities, are unaffected by the gold sanction; a complete ban of Russian gold would of course endanger the stability of the entire financial system.

Sanctioning Russia's gold has not affected gold's value, but instead, led to something far more significant; at the end of July the Russian media announced that Moscow and several its Eurasian allies were reviewing a proposal to create an entirely new trading and pricing infrastructure for international precious metals to both disrupt London and New York's monopoly over global precious metals pricing, and stabilize the Russian gold market. The proposed new platform would bear the name Moscow World Standard (MWS) and trading will take place on the Moscow International Precious Metals Exchange (MIPME).

Membership in MIPME will likely expand well beyond its original members and I expect the BRICS, the Shanghai Cooperation Organization (SCO), and the Eurasian Economic Commission to be included; China and India, two of the largest gold buyers, are part of these groups.

During September, gold fell to $1,673/oz following the invasion of the Ukraine and the rapid sale of gold from their reserves. Prior to this sale, gold had been the best Q1 performing asset class of this year and this recent price drop has created a temporary buying opportunity. This even more so since interest rate hikes have helped push both the Dow and the Nasdaq down significantly year to date, and any further hikes will cause a run to safety assets, such as gold, pushing values higher again. Add to that a geo-political climate heading towards darker days and the yellow metal price will likely reverse course and rally back to its previous price range.

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The gold price vs the USD has dropped 11% since January 2022, but it has fared well against the GBP, the Euro and the Japanese yen, showing 8.3%, 3.4% and 13.6% gains respectively. F

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