

# THE IMPLICATIONS OF CURRENCY FOR AUSTRALIAN GOLD INVESTORS



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Demand for gold has recently surged as investors have turned to the precious metal to protect against global uncertainty and as a way to hedge against inflationary concerns.

However, as many investors in unhedged gold exposures have discovered in recent times, gains obtained in the US dollar price of gold bullion have been largely eroded by the strength in the Australian dollar relative to the US dollar. For example, the exhibit below shows the difference between the returns of the US dollar gold price vs. the gold price denominated in Australian dollars since 2008. The performance of the gold spot price in A\$ hedged form has been 5.3% p.a, whereas the performance of the gold spot price in an unhedged form has been 4.4% p.a.

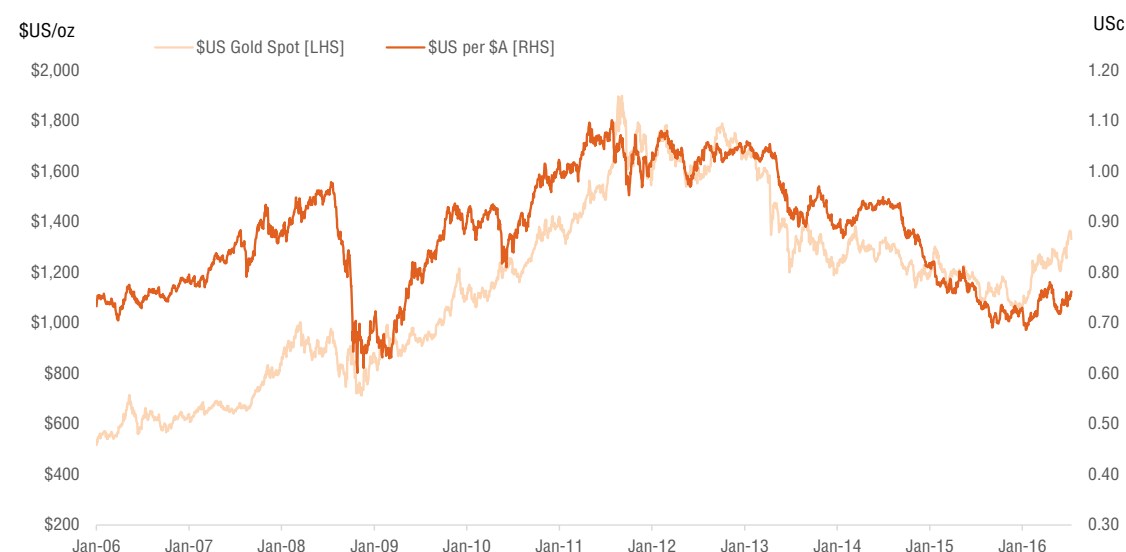
**GOLD BULLION SPOT PRICE PERFORMANCE: A\$ HEDGED V. UNHEDGED: DECEMBER 2008 - AUGUST 2016**



Source: Bloomberg. Past performance is not an indicator of future performance.

What many investors do not realise is that this phenomenon is not random, and in fact, exists as a historically demonstrable occurrence. Indeed, as we show below, generally speaking, when the price of gold bullion has risen (in US dollars), so too has the Australian dollar relative to the US dollar (and vice versa).

**GOLD BULLION SPOT PRICE (US\$) V \$US PER \$A: JANUARY 2006- JANUARY 2016**



Source: Bloomberg. Past performance is not an indicator of future performance.

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## Reasons for this relationship

So why does this relationship hold true? There are many drivers of this relationship, and, depending on the state of the global markets, some factors will be more relevant at any given time. However, we believe the following reasons are amongst the most important:

- **Gold is widely regarded as a currency in its own right** and thus during times of US dollar weakness gold tends to increase in value as many investors will choose to rather own gold than US dollars. Similarly, the Australian dollar is also likely to strengthen during times of US dollar weakness.
- **Australian dollar as a broader commodity currency** – being a major producer of not only gold but also other commodities (e.g. iron ore, natural gas, copper, coal) ultimately defines the Australian dollar as a commodity currency. A weakening in the US dollar is usually reflected in stronger commodity prices which in turn benefits countries such as Australia.

## Implications for Australian gold investors

The generally positive relationship between gold and the Australian dollar has important implications for Australian investors. Based on historical trends, investors in gold buying an unhedged exposure to gold will generally find that a positive performance in the gold price will be offset by a corresponding rise in the Australian dollar. Admittedly there will be times when global investors turn to both gold and the US dollar at the same time as sources of safe havens, but these events have been historically infrequent and short lived. Therefore, if your view on gold is bullish, exposure to gold bullion with a currency hedge allows you to more simply express and benefit from that view.

Similarly if existing gold investors are concerned about a weakening Australian currency they should be aware that any such weakening would historically be accompanied by a declining gold price.

Recognising this relationship, BetaShares listed Australia's first currency hedged ETF backed by physical gold bullion – the **BetaShares Gold Bullion ETF - Currency Hedged** – **ASX Code: QAU**. The reason for offering the currency hedged product was simple – we believe that Australian investors should be able to obtain the performance of gold bullion in US dollar terms. With this product, potential gold appreciation can be delivered without any potential offset from a strengthening Australian dollar. In other words, solid gold, pure and simple.

## BetaShares Gold Bullion ETF Trading Information

BetaShares Gold Bullion ETF can be bought or sold during the trading day on the ASX, and trade like ordinary shares.

EXCHANGE	ASX
ASX CODE	QAU
CURRENCY	AUD
TRADING HOURS	10:00-16:00 (AEST)
BLOOMBERG CODE	QAU AU
IRESS CODE	QAU.AXW

## BetaShares Gold Bullion ETF Fund Information

ISSUER	BetaShares Capital Ltd
UNDERLYING ASSETS	Physical Gold Bullion
GOLD CUSTODIAN	JPMorgan Chase
GOLD VENDOR	National Bank of Canada
CUSTODIAN	RBC Investor Services
ADMINISTRATOR	RBC Investor Services
AUDITOR	PricewaterhouseCoopers
MANAGEMENT COSTS	0.49% p.a
GOLD VENDOR/CUSTODY COSTS	0.10% p.a
FUND INCEPTION	3 May 2011

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***There are risks associated with an investment in the Fund, including market risk, gold price risk and currency hedging risk. For more information on risks and other features of the Fund please see the Product Disclosure Statement.***

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