

Dear Shareholders and Colleagues,

Is Apple really going to buy a third of world gold production? Anatomy of an evolving myth.

On 26 February Mining.com, providers of the highly regarded Infomine service, published a by-lined article entitled "**Apple buying a third of world's gold to meet demand for iWatch**" [on this link](#)

The article mentions a report that "concludes that Apple will need 746 tons of gold a year, or about 30% of the world's annual production" to meet demand for its Apple Watch.

Could this be true?

Let us analyse this conclusion. Mining.com understands gold production and demand, but it does not know Apple and it is not a source of authority on the jewellery business. So the conclusion depends on two assumptions adopted on other authority. The first is that Apple plans to start producing more than one million units per month of its high end version of the Apple Watch ("Apple Watch Edition") in the second quarter of the year and that every Edition contains 18 carat gold. The second is that each Edition will contain 2 oz or 62.2 g of gold.

A link is provided in the article to a by-lined wsj.com article. The article begins: "Apple has asked its suppliers in Asia to make a combined five to six million units of its three Apple Watch models during the first quarter ahead of the product's release in April, according to people familiar with the matter". The Wall St Journal is famous for researching its stories well, even at the cost of being late. The writer has had experience of this where he has been a source for WSJ articles. We may start with the presumption that the article is, as it declares, properly sourced.

According to the WSJ, half of first quarter production in preparation for launch in April is to be of the bottom level Apple Watch Sport, with Apple Watch one third, and the balance Apple Watch Edition, the premium level. In the second quarter, Apple plans to produce more than 1m units a month of Apple Watch Edition, which will have an 18 carat gold casing.

The first assumption seems credibly sourced and to reflect the thinking of those close to Apple. It may turn out not be correct however, and indeed the WSJ points out that "Apple quickly adjusts these plans if sales are different than what it estimated. Suppliers say that Apple adjusts its so-called "plan of record" more often and more quickly than any other consumer-electronics company." But "the orders are similar to early sales of Apple's last major all-new product".

The second assumption is more problematic. The Apple Edition is obviously a beautiful piece of design and if we are to believe the Sunday magazines even Karl Lagerfeld cannot wait to get his hands on one. See [this link](#)

But how much gold does it actually contain?

The article's immediate source is TidBits, a 24 year old specialist website with 10 named staff and with bylined articles providing "Apple News for the rest of us". It is probably fair to assume that there is nothing much about the Mac, the iPad, or the iPhone that these people do not know. Probably they are less expert on gold and jewellery. This article quotes Apple Spotlight, which sounds as if TidBits consider it a respected source. On checking, Apple Spotlight appears to be a blog founded and curated by one Rob Wensing. Mr Wensing in turn quotes another blog, and a tweet. And Mr Wensing it is that concludes the range for the gold content in an Apple Watch Edition is 150 to 50 grams of gold, with his preferred values being about 75 grams.

150 grams is a lot of gold. It is more than half a pot of honey. It is more than five ounces or more than half a 250 g pack of butter. And who walks around with half a pack of butter on their wrist?

Common sense suggests that Apple Spotlight has got this wrong. A blog, a post, a non-authoritative source hidden under the layers of ostensible authority is the ultimate source for the key assumption in the article.

We can make a comparison here with a Rolex President watch. Someone has carried out a detailed analysis of the gold content [on this link](#) which is helpful. This chunky 19 carat gold watch contains 2.4 oz of pure gold, or 74.91 grams. The value of which at the current price of \$1,208.50 per ounce is \$2,909, incidentally. Of this weight, 69% is in the bracelet.

Since we can see by observation that the Edition does not generally appear to be designed with a metal strap, it looks as if (even allowing for a large buckle and assuming that a weighty feel is likely to be the aesthetic choice of the designer) the likely limit for the gold content is 20 grams for the case ring (not the back) and the buckle.

We can regard an estimate of 20 grams, or 32% of the article's estimate, as potential gold demand on reasonable assumptions. Given that the estimate of world gold production used in the TidBits calculations appears by calculation slightly too low, we can therefore adjust the percentage of gold production quoted in the article as needed for the Edition from 30% to 9%.

9%, surprisingly, appears credible. I write surprisingly because 9% is still a stunningly high figure for incremental demand for gold (assuming a relatively small substitution effect of people buying Editions instead of other gold jewellery). Only Apple could do this, and have an impact potentially on the whole gold market.

In terms of price signals, this 'signal' is likely to be one of the strongest this year. It is not factored into the market. On 9 March Apple will announce specifications and prices for its Watches, and in April it will start selling. By June or July Apple intends, it appears, that Edition sales will be gathering momentum. If orders for Editions are good this information will percolate into the market and be discounted. Between now and then there is the possibility of an expectation change.

So, in analysing a news story so extraordinary that few would have taken it seriously and few would have felt motivated to try to disentangle rumour from reality, we have quite easily found the origins in the unaccountable world of blogs and posts in those hinterlands of the internet 'where ignorant armies clash by night', but at the same time we have established something just as extraordinary because now well grounded. It is this:

It is not impossible that Apple is about to add to its notable 'firsts' the accolade of being the first company to have created global demand for a product so great that the gold market is moved into a different trajectory.

This is of course of interest to us, as shareholders in a company looking for and producing gold.

Yours,

Andrew Bell

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