SM231 | 5.17.2025
Gold for the 21st Century | Episode 8
Steve Lowe, Former Managing Director, Co-Head of Global Base and Precious Metals, Scotiabank

On this week's installment of *Gold for the 21st Century*, we welcome Steve Lowe into the SmarterMarkets™ studio. Steve is Former Managing Director, Co-Head of Global Base and Precious Metals at Scotiabank. David Greely sits down with Steve to talk about his experience and insights into the gold markets from his time leading the iconic Scotia metals business. They also discuss what market infrastructure and technology the gold market needs now – and what could be the opportunity for the next iconic gold business of the 21st century.

Steve Lowe (22s):
If we can make gold really accessible to people in a trusted fashion, which is the real difficulty, right? If you have something that's not a physical bar, if it's backed by a physical bar, or it's a promise that the physical bar is there, that's where a problem occurs. How do you build that trust? But it's possible. It's clearly possible.

Announcer (01m 06s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building smarter markets be the antidote?
This episode is brought to you in part by Abaxx Exchange, bringing better price discovery and risk management tools to navigate today's commodities markets through centrally cleared, physically deliverable futures contracts in energy, environmental, and battery metals markets. Smarter Markets are here.

David Greely (01m 12s):
Welcome back to Gold for the 21st Century on SmarterMarkets. I am Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Steve Lowe, Former Managing Director and Co-Head of Global Base and Precious Metals at Scotiabank. We will be discussing his experience and insights into the gold markets from his time leading the iconic Scotia Metals business. We will also be discussing what market infrastructure and technology the gold market needs now, and what could be the opportunity for the next iconic gold business of the 21st century. Hello, Steve. Welcome back to SmarterMarkets.

Steve Lowe (01m 50s):
Always a pleasure to be here, David.

David Greely (01m 47s):
Pleasure to have you here and it's a pleasure to have you here for a full episode after you were with us last time on our holiday special back in December and I wanted to talk with you because you spent 20 years of your career at Scotiabank, where you led its metals business. And at that time, the gold business at Scotia was iconic and I wanted to ask, you know, when you look back at it, what made that business so special and so successful?

Steve Lowe (02m 18s):
It's an interesting use of the word iconic, because at some point, Scotiabank put the business up for sale and the pitch book, the first word on it was iconic. So it was a bit and, you know, sort of back, I guess, through 2000 through 2018, when the business was ultimately sold, it was iconic. There were sort of three big players in the market. So there was us, Scotia and JP and really what made our franchise so successful, and it was very successful. I saw the stats. It was the most profitable precious metals business on the street by a long way from some others and it really was its scope. So, you know, which comes with some difficulties, but we had more people and a broader business than anybody by far. So, you know, we had, I think, 120 front office people, which if you took the next five, they still wouldn't add up to 120.

Steve Lowe (03m 16s):
And most of that was because we were deeply involved in the physical business. So we were the largest mover of gold in the world. We controlled wrong word, word, the dominant supplier in numerous markets, big markets, India, China, Turkey at the time and so that really provided the backbone of our franchise. I remember in 2002, we had a new gentleman come in to head the business and the first piece of advice he got from everyone in the business is whatever you do, don't stop us in the physical business. It's the backbone of everything. If you think about the overall business model at a simple, simple level, we had a big operation in North America to deal with the mining companies. That's great. They would take all that Dora, they would ship it to Europe where it would get refined, and then we would ship it to China where it got sold. Right and so what the issue was, firstly, we were a big financing bank, massive balance sheet.

Steve Lowe (04m 20s):
So we financed it right from the ground all the way through to in jewelry stores. So, you know, the bank had that privilege and the bank thought itself and it was very good at credit risk. So it took a lot of credit risk. But also it took gold to security all the way down the value chain. It came up with a thousand different structures to feel like it was a decent lender of metal. But we also, as the metal change form from Dora to bars to jewelry to whatever, we would take our pound of flesh along the way. But we just had such broad business. We in physical, we were ETF creators, we were traders. We did a lot of things. We were clearers and so what we particularly liked, if one part of the business was slow, generally another part of the business was active. So when prices came down, everyone was too bad. But now we would see huge physical demand. Prices would skyrocket and physical demand would completely dry up. But there would be lots of trading going on. There would be lots of people desperate for credit lines to do their business. Scrap would be coming in. And so it's just that broad scope of the business, which made us successful. And again, this is probably playing to my own ego. It was managed well in terms of there were three heads in each of the regions and we got along really well.

Steve Lowe (05m 36s):
And we had one unified focus, which was clients. We focus on clients. Whatever they want is what they get. We don't fight territorial battles. So if a client says, I want to be serviced out of Hong Kong and it's a North American client, he gets serviced out of Hong Kong. We don't really care. And a client would say to us, he would talk about one of our competitors and we would say, oh, this guy is a real threat. He is a global bank. And he would say, not a chance. Like their North American operation hates their London operation. They don't talk. They dispute all the time and he referred to us as the Bork from Star Trek. Because he said, Steve, if I tell you a piece of information here, I know that my guy in Asia doesn't need to tell your Asian head. Information gets disseminated right away. You guys understand my business. It's not really an issue. And then I will stop talking about it because I have been talking about it for years. We went deep with clients, right? It's like we understood their business. If anyone's out there listening for the first time, you want to know how to run a business. Focus on your clients and what they want and really understand their business, right. So we did that and we had clients for 30, 40, 50 years. They would never leave us and we built the internal infrastructure to understand their business. So you work for a large institution. I may understand their business.

Steve Lowe (06m 54s):
But unless the credit people understand, the risk people understand, unless as a bank or as a provider, you don't have a natural understanding of the business. And we saw it over and over again. When institutions, they wouldn't necessarily leave us, but they diversify their operating and they say, we got another bank on board. And they would be like, oh, would you mind teaching that other bank about our biz, how it's run and how to understand credit and why they are looking at it incorrectly. And I'm like, no, I'm not going to, but I understand your problem. So in Scotia, that was kind of our people used to say and all the time. So if we went to sell the business, they were like, what is Scotia's secret sauce? No one really understood what the secret sauce is. How does it all work? And it just was that we were everywhere in the value chain in gold. We were not only financing it, but we were taking some spread along the way and we deeply, deeply understood what our clients were trying to do.

David Greely (07m 48s):
And that deep understanding, how much of that was driven by the fact that the business was so not spread, but so broad across the value chain, because a lot of folks will be in the physical market or they will be in the financial market. Being able to do both well seems like a rare thing.

Steve Lowe (08m 08s):
And to be fair, it was a rare thing. And you are quite right in terms of we, it was a unique advantage we had in the marketplace because we were so broad and spread out as an institution prepared to do pretty well, everything and that was rare and got us great insights

into clients, but saying that clients are driven by, you know, saying they needed financing, they needed risk management. You know, it wasn't so overly complicated, but to be able to service them as a one shop provider, which again, clients would say, oh, I love coming to you because I can get everything done. Like I don't have to and in the world of trying to open up new accounts and having four or five different counterparts. And now the demands that financial institutions make on clients, it's good to have a one-stop shop until that one stop shuts down.

David Greely (08m 52s):
Is part of what makes it rarer now post financial crisis Dodd-Frank in the US. Like was the regulatory environment just making that harder over time or was there something else?

Steve Lowe (09m 05s):
No, it was making it harder over time and let's be clear you ultimately Scotia's exit from the business was really driven by a fear of regulation. Scotia ultimately decided to sell the business in about 2016, 2017 and even at that time, it was a great business. There was no issues. It made hundreds and hundreds and hundreds of millions of dollars, had literally no risk. So it had, you know, in terms of trading risk, it had less than $5 million to trade risk. It had significant credit risk, but as I said, Scotia considered itself exceedingly good at credit risk. It didn't mind that. What it didn't like or what the environment at the time was the regulators were coming down hard and putting extraordinarily large fines on businesses that weren't tightly controlled. Right, so the infamous one, the one that maybe through Scotia over, you know, the $10 billion fine of BNP in 2000 and I can't remember the exact time, 16 for, you know, not having the right procedures and controls in place and, you know, aiding and abetting money laundering in certain jurisdictions and so, you know, the CEO of the bank said okay Scotia, and we were Scotia Mercado at the time. You work in what were considered high risk jurisdictions. We had big businesses in the Middle East with big businesses in Turkey. At one point we had a big business in Russia.

Steve Lowe (10m 31s):
And so the bank would look at that and say, you work in high risk jurisdictions on a high risk product. Gold's always considered high risk and you deal in physical, which is kind of the higher risk of the high risk. And so they lived in fear of, wait a minute. You know, we get this wrong. The risk reward is so heavily skewed now to if I get it wrong and you guys haven't done the necessary due diligence or, you know, my fine isn't 100 million, it's a billion. And so they took the view that that risk reward scenario didn't work anymore. We tried to make as the business the argument, well, listen, we run a pretty tight ship here. We do all the things we need to do. We are well ahead of the curve in terms of what needs to be done but more importantly, which kind of fell on deaf ears. You know, we have an exceedingly experienced staff who now knows, you know, what that sounds really good, but it's a bit fishy. Like I have been around for 20 years. That's not going to work and equally as important, we made a lot of money, which only means we didn't have to pick and choose what business we did.

Steve Lowe (11m 39s):
Right we weren't desperate for, oh, we have got this P&L. It's like, no, we are the established franchise. The people come to us. So some guy comes and it looks a little fishy. Just turn them away. There is no reason to do that business and there, I can give you numerous examples where we turned away business that other institutions did and got themselves into trouble. It's just like, well, because they didn't understand. And we did understand. That was our argument to management. We really understand this business and it's great business. And it's totally countercyclical to the bank. As we see now with the price action, when the world is having trouble, when other businesses may be kind of having difficulties, we will make money. So it was great for the bank in terms of totally countercyclical earnings. Not so great if you worked in the business and you're trying to get paid because you just got a flat salary all the time. Because when you had a great year, the bank generally had a pretty bad year. Right, but when the bank had a great year, you probably didn't have a great year because gold is pretty benign right and so it's fine. It didn't, in the big scheme of life, wasn't really too much to worry about. But yeah, so to answer your question, though, that's regulation was a big factor and the costs associated with regulation. When you have a franchise that deep, somebody says, oh, just implement Dodd-Frank. As anybody in a big institution knows, that's, we had liquidity capital ratios and NSFR. We had a whole bunch of things coming at us at the same time but that was across all business lines.

David Greely (13m 05s):
And so regulatory risk ended up being the big risk, even though you felt you had it well managed in terms of the underlying exposure to bad things. because you didn't have to take business credit risk. The bank knew how to manage. I think some people might find it surprising that the actual price risk was fairly small, given the diversification. Like for people who don't understand what a business like yours would do, what were customers coming to you for and who were those customers? And how did that let you have so little kind of overall market price exposure?

Steve Lowe (13m 42s):
I will tell you a few little anecdotal stories as we go along. But most of the customers were sectors we didn't deal with. We didn't deal with hedge funds. We weren't traders. Right, so there is a whole sector of that investment side, which is of no interest to us. No interest to us because ultimately they demanded our liquidity and weren't willing to pay for it. So we said, I am not going to be a whipping boy for a hedge fund. If you need to dump 200,000 ounces, I am going to be the guy taking it. I don't need that business and the people that take that business are generally trading around. Joe's just dumped 200,000 ounces. I have just executed that. I should probably dump 10,000 because you probably know something. Right, that business was just totally what we were not geared for and so we were geared for dealing with real users in the marketplace. So our big clienteles are either miners or refiners or jewelers, right? Follow physical flows. That's where we are and I would say that 50% of our income was lending spread. Then we can go into the ins and outs, which I find fascinating because I am a bit of a gold nerd in terms of how the lending market really works. This is all you can lend gold, but you got to borrow it from somewhere. Where do you borrow it from and how does that process work? Right and so we had a whole business that dealt with central banks because they sit on gold. So I need to borrow it. That's fine. How do you liaise with a central bank at a sufficiently robust level to let him lend you potentially a billion dollars' worth of gold and so there is that whole sector of the marketplace, which we had a whole team. All they did was manage borrowing and liquidity for us.

Steve Lowe (15m 14s):
And we can tell you frightening stories, which almost comes to mind recently when liquidity dries up. It's really not a pleasant experience if you are in the marketplace. And I would say there is probably two instances in my career where I thought the gold market literally might blow up. There was no liquidity and as a big lender, probably the biggest lender in the gold market and we had tens of billions of dollars of loans, but we had to finance it. And so you can't finance it through dollars. You actually need gold and so when that liquidity dries up. Biggest example being in literally 1999, I think it was when there was something called the central bank accord that came out where central banks who had been aggressive lenders of the market. And figured actually lending it to miners that are hedging and pre-selling it was actually bad for the price and suppressing it. So they decided collectively we should just not lend gold anymore. Well, that was a bit earth shattering to franchises like ours. It's like, well, ooh, I got to borrow $20 billion worth of gold and suddenly it's not available and so, you know, you immediately see gold lease rates spike out and we shouldn't have a conversation on gold lease rates because they are sort of this opaque, incredibly important number in the marketplace but suddenly lease rates are at call it 10%. We have got no liquidity. And I am not particularly at risk. I am not one of those banks where you see these instances where I borrow short, lend long, get a spread. That's not the way we operate. We borrow short, lend short. That's the way it works. But I have got $20 billion worth of clients looking for lending.

Steve Lowe (16m 53s):
And I may have to shut that down because I can't get liquidity. So did I, my, at the time, me and my boss march on into both the governor of the Bank of England and the governor of Bank of Canada. So our domestic marketplaces and say, listen, we got a problem you are not really aware of but if I can't lend and I call all my loans, there is going to be chaos in the gold market. Temporarily, people will, but everyone is going to have to buy that gold back. It's going to be basically pandemonium. We had a decent audience from both governors. So that's a problem. The Bank of England more so because the market was basically that everyone views the domestic, you know, the gold markets house in London and we are saying, well, this is basically not quite a doomsday scenario, but a pretty important one. We need liquidity. At that point, the UK still had a bunch of gold and said, so you may have to provide us emergency funding for this and the situation ended up resolving itself. Not through that, although I was secretly suspicious that a little while later, a bunch of big lenders, other Central Banks of the world came in to lend who had traditionally not been big lenders. So the market corrected itself but those kind of incidents, and we saw that instance recently, when this dislocation in New York and all the gold moving out of London and gold lease rates spike and they seem to probably the most people, it's like, yeah, whatever, who cares but if you are the banker who has a franchise like ours, those are panic times and I keep telling people, like, if you're going to trade the gold market at some level, you really need to start to understand these things, right? In that environment, who is making money, who is not making money, who is bleeding money you think banks are making money? You think refiners are making money because they're making bars and shipping them to New York? That must be a good business.

Steve Lowe (18m 43s):
They're panicked because lease rates are at 10% and they don't know what to do about it.

David Greely (18m 58s):
Yeah and I would love to go into the lease rate piece because in this series, we are talking about gold for the 21st century and gold's role and potential role in the financial system and people will look at LIBOR, SOFR, overnight lending rates. They will look at the

three-month T-bill rate. People are very attuned to like, okay, I need to look at certain short-term lending rates and that's signs of financial stress. And they understand why that's important. The lease rate, people think it's esoteric and no need to think about it. Can you explain to them why you need to understand what the gold lease rate is and what it's telling you?

Steve Lowe (19m 41s):
See, just for what you just said, the gold lease rate is a harbinger of trouble, right? If the gold lease rate is, and it's traditionally, let's just say for argument, it's traditionally been 50 basis points, although that is not quite legitimate. It doesn't really matter. Let's say it's 50 and suddenly you see it at 1%, right? You should be raising an eyebrow and saying, hmm, something's going on, right and if it's a 2%, you should be raising both eyebrows and going, wow, something really is going on and if you are in the marketplace, not so much potentially instead of a retail smaller player, but if you are marginally a wholesale or a big institutional player, you should start to really ask some questions. Like what is going on? That is so unusual. There is something amiss, right and then you say, oh, okay. It's people warming up for a potential Trump tariff on gold. I get it now. I sort of see it, right and therefore, then you factor that into your risk analysis but if you haven't, you should be.

Steve Lowe (20m 27s):
And again, I am sure we will get to this later. You want to try and find a gold lease rate as a normal layman like I can't get one. I just, I am kind of curious. I am just going to Google it or use my AI to figure it out. Nothing like absolutely nothing in terms of relevant lease rates today. If you have a Bloomberg screen, you can probably get something pretty close, right but that's a very small circle of people and so, yeah, it's just one of those things and overall, the gold market is a fairly complex beast. I was used to tell sort of junior people that come into the bank, like you are really not going to be useful for six months. You think you are going to be useful, but you are not because to really understand the interests of the gold market and just the jargon of talking about the gold market, it's going to take you a while. It's fidgety, very fidgety and the gold lease rate is one of those components that people just don't pay attention to and they should, again, depending on where you are in, sit in the market.

Steve Lowe (21m 28s):
But if you are a trader or if you're just in the business, you should always have an eye on lease rates and most of the time, they're nice and benign. And you think, okay, that's good. It's the way I like it to be and so for a long period of time, gold lease rates were negative, right? Which again, people go, how can that be? So I can, as a big financial institution, I can borrow gold for a negative interest rate. For a guy who has big inventories around the world and likes to deal in physical, that's a pretty sweet deal that I can actually borrow at a negative interest rate. And it was boring at a negative interest rate because at that point, hedge funds and various people were going long gold and had to pay storage for it. So I don't want to pay some bank 20 basis points for storage. Why don't I lend it to Scotia at minus five? I have reduced, you know, I have saved 75% of my cost. And it's a nice big AA rated bank. So, but when gold lease rates went from negative to positive, you realize something's happening. You should know.

David Greely (22m 25s):
And for people who aren't familiar, the gold lease rate is basically the interest rate that you pay for gold in gold, right? So like effectively it would be if I borrow an ounce of gold at 2%, I need to return 1.02 ounces of gold.

Steve Lowe (22m 45s):
Absolutely but it's denominated in gold, usually paid in gold. Not always. If you really want, you can get paid in dollars, but it is effectively the interest rate for you who are a holder of gold for me to borrow that gold. And I want that gold. So if you are an institutional investor and you have got 100,000 ounces of gold, where is it? You want to go long gold. Are you holding it in an allocated account in a vault? That's going to cost you a lot of money. So you're probably holding it at what we will refer to as an unallocated account at a clearing bank. They are going to still charge you, but charge you less but if you really want to make money, lend it to me as a bank and that gold actually moves from clearing account to my account and then I can do what I want with it.

David Greely (23m 38s):
And so who are the active participants in that gold lending market? You mentioned central banks are kind of a source of lending or could be a source of lending at points in time. Who are the people that are, I guess, on the borrowing side of that market?

Steve Lowe (23m 52s):
Pretty well, everybody in the gold value chain. So you start with a miner. So a gold miner, right? So his ultimate goal in life to a certain extent at a very base level is revenue recognition. I need to have as much revenue as I can in a quarter. So as a quarter end approaches,

he is like, oh, wouldn't it be good if I could sell this gold that isn't quite gold yet. It's kind of either gold on the way or it's gold that's left my mind, but on its way to a refiner. So I would like to be able to classify that as gold and sell it. So big institutions like ourselves for you say okay I will come and buy pretty well that dirt in the ground. It's not in the ground at this point. It's usually on its way somewhere. Right, But it's not properly turned out turn gold but for a big financial institution to do that right. So I will sell you today. I will monetize that price risk. But then I have to borrow gold somewhere in the marketplace to sell it, to monetize that value. So most miners of the world are borrowing gold just at the fringes of when the gold is at the refinery. They don't really want to wait for outturn till it's nice, pretty gold bars to then sell it in the marketplace that they can pinch a day or two a week. They do. And they all do. Fair enough. It's fair game and then our big client base was refineries, gold refineries. So there are, I say, 15 huge big gold refineries in the world. They're all well known. I mean, there are 100 gold refineries, but probably 15 big major gold refineries, the big four in Switzerland and ultimately, they don't have the working capital to process the amount of gold they do. So they need to borrow that. So ultimately, the mine will send it to the refiner, and the refiner will say, okay, this is now in theory, my gold. At this point, we use Scotia as the name Scotia. By the way, can I borrow that from you too? So we would have the miner as a lender, then we would have the refiner as the lender. So basically, all through the value chain, someone needs to borrow the gold to lend it to them because very few people have the working capital because gold is so expensive. So every jeweler in the world is probably borrowing gold and by borrowing gold, as opposed to borrowing currency, which you can also do, you eliminate the price risk associated with borrowing dollars. So if you are a jeweler, and you're making a gold ring, you have the choice. I either buy the gold today, right? And I make a ring and I sell it in a month. But gold is really sold in most places of the world by weight.

Steve Lowe (26m 04s):
And so he's very, very reliant on what the price is in a month. Could be up, could make a lot more money, could be down and I have actually lost money making a ring. That sucks. So he needs to borrow the gold from a financial institution who will then say, I will lend you the gold today. You make the ring and the day you sell the ring, you get your money. You buy the gold from me and you repay your loan. So the jeweler is just worried about making rings and his 10% spread and he has to borrow it as opposed to any type of price risk and so refiners and jewelers basically borrow all of their gold.

David Greely (26m 53s):
And while the ring and the refined bar may be very expensive, the spread or the margin that the refiner or the jeweler makes is not relative to the volatility in the price, right?

Steve Lowe (27m 10s):
I ultimately, especially for my refiner friends, I have got many of them. I always felt like, yeah, they, they are dealing with such a high value commodity and someone's making a lot of money between taking gold out of the ground and selling it as a ring and Tiffany's or whatever. It ain't the refiner in the middle. I will tell you that generally the minor or the jeweler who are taking most of the spread out of the value chain.

David Greely (27m 29s):
And I wanted to ask you, you had mentioned the market in 99, obviously the gold market recently, volatile, big increase in price. What are you making of the current price action in the gold market?

Steve Lowe (27m 36):
To my mind, gold is totally behaving as it should. Right so, I mean, I am sure we all, it's a crazy market. We will look at it. So it's a crazy world in terms of geopolitically, what's going on and you wake up today and it's different than what happened just today and it's going to be different. What's going on tomorrow and so to try to assess all of that, you see massive market volatility. We see it in gold, but what collectively you see is collectively in terms of globally gold is acting as the appropriate safe haven, but not just to probably less so to Americans, but to every other nation. Like there are no nations that aren't moving into gold. So collectively, if everyone is seeing gold as a safe haven, you know, people used to see US Dollars as a safe haven. Well, that trade is a little bit more dubious now. So your Eastern nations who would may buy us treasuries are not putting money into gold. So you see huge demand from China and retail, both retail and the central bank is buying, but you see it across all different countries and so it's not surprising that gold is where it is no surprise whatsoever. And the volatility, which would, I find staggering really, but it's the same inequities. You look at, look at Tesla. I would find it very hard to be a trader these days. I would just sit on my hands and guides can't deal with it. There is no real trends. Total, total headline news.

Steve Lowe (28m 00s):
What is the man in the White House going to say today and I am going to see 10% up or 10% down, but wholeheartedly gold is to me, you know, it does represent a safe haven. It's where money is going. I get it. It will stay that way for a period of time. I am not a price, but if the world becomes a better place tomorrow, then you will see what's happening. Gold, the last couple of days, it'll be down to $300. Is everyone think so? It's fine now. Not sure it is.

David Greely (29m 24s)
And when you look at all the money that's going into, and then sometimes out of and into the gold market more into than out of recently, and people, as you said, globally looking for an alternative safe haven to the US dollar. When you look at the infrastructure that's available in the gold market to handle those types of flows and that increasing use, how do you assess it and what do you think is needed?

Steve Lowe (29m 50s):
I don't give it a very good mark. And it, to me, it's a real shame that I will call it gold is having its day. So to speak in terms of, as an asset class, and maybe it's the beginning of a day that lasts for centuries. I don't know but overall, the infrastructure and the way gold trades is still incredibly fragmented incredibly opaque, and just incredibly difficult to do and I think maybe we will talk later about various technology, various people that are trying to do certain things, the world Gold Council, we will call it as sort of the main driver of trying to build demand and ecosystem in the gold market, they acknowledged completely that if infrastructure and transparency and all these things were in the market, and if the infrastructure for people was there to allow them to trade, I mean, demand would be twice as much, right? I mean, people always find a way, so maybe not twice as much, but the gold markets really missed a trick in terms of evolving, your gold trades exactly the same way it trades when I started to the market, which is a long time ago. Nothing really has progressed and there has been lots of we have got a gold token here. We have got this there, but overarchingly, nothing is really changed. I can tell you, cause I looked at it recently, I want to invest in gold. It's so tricky in terms of how to do it. And it just shouldn't be right. It should be a no brainer.

Steve Lowe (31m 00s):
I should be able to go to anywhere trusted. And even here for me to buy like DTF, it's just complicated and it just shouldn't be, and it should be so straightforward, but it's not.

David Greely (31m 12s):
And why do you think it's not what's standing in the way?

Steve Lowe (31m 17s):
That's the old, if it ain't broke, don't fix it and it's a really good question in terms of why the drive, because you think, okay, there's enough demand, why aren't people clamoring for an easier way to do it and I just think they look and they just put their money elsewhere. Like, okay, I won't buy gold. I will buy, you know, buy gold mining stock. It's so much easier to do that. There are a lot of, from an institutional, big players who are just very sedentary and very happy in their business lines, don't feel a compelling need to change anything because they're making money in the sort of the concept of changing everything to build a bigger pot. It almost goes against their human nature. I don't want to build a bigger pot. I got a pretty good share of this pot. So I can guess that I might build a bigger pot, but I might put some of my pot at risk and I am not sure I am going to do that and quite frankly, my pot is big enough. So I am just going to do that. But that's at a very institutional level and as I said, it's a fidgety business, right? It's an asset class that has different forms, different purities. There is an issue with traceability in terms of, okay, where did it come from? So it's not so straightforward in terms of dollars. Currency trades are easy. Asset trades are easy. Gold is a bit messy.

David Greely (32m 30s):
Well, and I imagine for a guy like you, who is used to kind of working from the financial side through to the physical side, that's the part that seems very challenging now, like people can go and buy an ETF or they can buy gold futures and say, well, I am invested in gold but it's when you are trying to look through and say, okay, how do I get from that into the physical side or from the physical side back into the financial side, that seems to be where the challenge is. Is that right or am I off base?

Steve Lowe (31m 17s):
It's a 100% percent right. A 100% right. If you just want price exposure to gold, that's not that difficult to get. If you want to actually own physical gold, that's a little trickier in terms of how do you do that and then to tie the two together is very difficult. Lots of

organizations, and we will get back to the world Gold Council again, who has this concept of a standardized gold unit, right, which we can read about, which is basically trying to find, it's trying to basically move those two things away. Right gold is gold. It can be any form anywhere in the world. It's just gold great and then if you want the physical attributes of the gold, that's a completely separate vehicle that we need to worry about because trying to, and that's, I get annoyed with people when they say gold is fungible, well, gold isn't really fungible because a kilo bar in Singapore trades at a vastly different price than a bar in New York, it's very location specific. So well, gold, yes, it's 99, whatever percent pure but in terms of its physicalness, not fungible in the slightest and how do you then take that leap from sort of the financial world to the physical world? Quite candidly, it's something that no one's really cracked and you know, the ETFs claim, which is certainly kind of true. If you buy the big GLD ETF, you can redeem it for physical. Well, you can redeem it for physical. If you have a clearing account with one of the big clearing firms, which obviously most people don't. So it's not really redeemable for physical and the gold market as a general rule, despite their financial players, you want it is full of people who mistrust the system. That's why they buy gold right. And so they don't want an ETF. I know because that, not only that it's being custodied here. I've got to go through this financial institution.

Steve Lowe (34m 56s):
There's also another guy. I don't like that. I want the bar, right? Or I want to feel comfortable that there's a bar somewhere that has my name on it, that it's in a trusted place that I can get because I think the end of the world may come. So I want that. That's extraordinarily difficult to do. We are working on it.

David Greely (35m 17s):
And I wanted to ask you about a piece of that because there is, as you said, on the one hand, the push of gold is gold and like any other commodity, what we've seen is commodities becoming a little bit decommoditized, right? Location matters. The kilo bar in Singapore is not the same as the hundred ounce in New York. And at the same time, people may or may not care more and more about where the gold originally comes from and so there is the trust of is the gold bar I have really a gold bar or is it something else and there's also, where did this come from maybe, maybe not I will pay more if it was produced in a way that's in accordance with my own values and ethical standards. What are you seeing on the technology side for making gold more trustworthy?

Steve Lowe (36m 06s):
Yeah, I mean, I could wax lyrically about that particular gem of a problem, right? And not only the technology that's trying to solve it, but much more importantly, do people care really? And even more importantly, they may care are they willing to pay for it? Right. And so there's a tremendous amount of great work going on in terms of traceability solutions. And again, part of the supply of gold. So there is traceability and that traceability is mostly focused on large-scale mines, right mine, and then there's a whole artisanal mining sector, which again, you can do another whole podcast on in terms of trying to legitimize and bring artisanal mining into the system but the purpose of this conversation, we will leave that out because that's another chest, not too far. But there are some good solutions and some actually really cool technology in terms of the way to look at traceability in terms of different refiners have different ones, I am involved with a company which creates a digital twin and you follow that helps efficiently move information down the value chain because that's important in terms of ultimately, if I get a bar, I would love to be able to scan the bar and have all the information about where that came from.

Steve Lowe (37m 18):
So that's, we are really close to that, right and so that is going to happen, right. The next step of, okay, now I have got a gold ring. I would really like to be able to scan that and find out where that comes from. We are not that far from that and again there is technologies of inserting atoms, which are markers into jewelry but the traceability one, I find sort of interesting and I guess part of my problem is there is, as always, it's too fragmented.There are too many people doing two different things and the market gets a little diluted and therefore there's not one winner. There is five guys that fail and the market needs to be more aware and acknowledging that, you know, we need to back a solution because we can't but there is also, you know, there is these, we call them geoforensic passports or geoblocks. We have the technology now that if I give you a piece of dirt that comes from goldmine, you can scan it and they can tell you. They make the rule that within 500 meters of where that Dorier came from in the world, right? We are not quite there, but we are pretty close and so people get comfort that, okay, this Dorier that has made its way to refining, it's been scanned. And it has the 212 different elements down to the one, one billionth of something that says that came from this mine shaft in this country and very importantly, it hasn't been blended with any other material. Hasn't come from the other side of the river, which is illegal mining. And so that technology exists. It's a matter of we are kind of at the stage where it all needs to come together in one beautiful platform that the industry adopts and it becomes the norm and we are not there yet. And people are still sort of fighting is the wrong word. It's quite rightly, people get proprietary about their technology. They don't want to share it.

Steve Lowe (39m 05s):
And this is better than mine. We should use mine. And it becomes a marketplace, but we will get there. My big focus now is, okay, so we have this technology. It's great. How much information needs to be associated with a gold bar, right and there's an element of confidentiality around that. Where did it come from? How has it shipped? Who was it shipped by great. You are not going to have that level of information, but it's available right. So you have all that, but then what, what is kind of the lowest standard of consumable information that people fundamentally care about right. It came from Canada and it was mined ethically. That's good enough. Or no, I want it to be mined better in this country, in this way, transported in this way, all of that information is available, but the market hasn't decided what it wants to consume and more importantly, whether it will pay for it, right. So there are lots of funds, ESG, ETFs that market themselves as responsible. But at the end of the day, if you go in and cold-bloodedly ask them, you need to pay X. They are still so return focused. Ooh, that's going to charge me like 10 basis points off my return.

Steve Lowe (40m 11s):
I am not prepared to do that. Please come back when it's one basis point and then I will talk to you and their customers aren't demanding it. It will come. I have no doubt, maybe with a slight hiccup now with a sort of where is the pendulum on ESG and DEI and it seems to be maybe swinging back a little, but I have no doubt it will come back and people will care, you know, they are going to care candidly because they're getting regulated to care, which is kind of what is slowly happening, especially in the European marketplace where if you are an ETF creator and you are holding gold bar as custody for a fund, you now have a whole new set of regulations around, you need to know where that bar came from and needs to be what I will call a documented bar. You need to have all the information about how that bar came to existence and that's a relatively new regulation, which will drive the adoption of a lot of these technologies because ultimately that is the driver. I am going to get a regulatory fine. I better pay 10 basis points. I really wanted it at one basis point, but you know what I better pay 10 and that's, that is slowly happening right and specifically in the European marketplace, hasn't really been adopted in the US or other parts of the world, but it will, I have no doubt it will.

David Greely (41m 30s):
Well, I want to ask you one more question first. I could talk with you for hours. So I am like trying to cut that off. But thinking about the future, this is our series on gold for the 21st century. So before you go, I do want to ask you when you think about the role that gold could play in our future, what do you think that role could be and given our conversation about your career at Scotia, what do you think the next iconic gold business could be?

Steve Lowe (42m 00s):
I think literally gold plays the role it should play. Again, so people, my wife included always says, why does gold have any value whatsoever? Like, it's just a thing, right? It's just a scarce commodity. Like I have no, you know, why do we kind of, it's my wife would say is fairly left, you know, rape and pillage the earth to mine this thing that nobody uses. It's just a store of wealth and I hate to say it just because it is right. It's been a store of wealth and something that people have wanted and has really retained that wealth for thousands of years. So if you need a safe haven, if you really need somewhere to park your money, I can't believe there's any long-term better asset than gold I mean, there is obviously over periods of time, yes, real estate's good. Gold is a great place to just do that. So in terms of, I don't think that role will change. Will it be a foundation for currency? We will go back to that. In my opinion, not a chance, right? It's just not going to, there's not enough. It's not intricate enough, but will it remain this slightly esoteric asset class that people invest in this store absolutely. The next great trade and what people are doing is to just build the system and the rails and the ability for people to do that properly and, you know, working with various companies to try to do that, because it's such a no brainer if we can make gold really accessible to people in a trusted fashion, which is the real difficulty, right? If you have something that's not a physical bar, if it's backed by a physical bar, or it's a promise that the physical bar is there, that's where a problem occurs. How do you build that trust? But it's possible. It's clearly possible. If you can design that and build that one, and I don't know, and gold price will skyrocket for the first part, because people have ready access to it in a super liquid market, and that's a global market. That's its role and it's a great role. Not going to change.

David Greely (43m 58s):
Thanks again to Steve Lowe, Former Managing Director and Co-Head of Global Base and Precious Metals at Scotiabank. We hope you enjoyed the episode. We will be back next week with another episode of Gold for the 21st Century. We hope you will join us.

Announcer (44m 12s):
This episode is brought to you in part by Abaxx Exchange, bringing better price discovery and risk management tools to navigate today's commodities markets through centrally cleared physically deliverable futures contracts in energy, environmental, and battery metals markets. Smarter Markets are here. Contact us at sales@abaxx.exchange to get started.
That concludes this week's episode of SmarterMarkets by Abaxx. For episode transcripts and additional episode information, including research, editorial and video content, please visit smartermarkets.media. Please help more people discover the podcast by leaving a review on Apple Podcast, Spotify, YouTube, or your favorite podcast platform. SmarterMarkets is presented for informational and entertainment purposes only. The information presented on SmarterMarkets should not be construed as investment advice. Always consult a licensed investment professional before making investment decisions. The views and opinions expressed on SmarterMarkets are those of the participants and do not necessarily reflect those of the show's hosts or producer. SmarterMarkets, its hosts, guests, employees, and producer, Abaxx Technologies, shall not be held liable for losses resulting from investment decisions based on informational viewpoints presented on SmarterMarkets. Thank you for listening and please join us again next week.