# Crucible

By Singapore Bullion Market Association
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Gold granules at Metalor Technologies Singapore Pte Ltd

## IN THIS ISSUE

# The ASEAN Gold Market – An Overview

By SBMA

## Introduction: The ASEAN region

The launch of the ASEAN Economic Community (AEC) on 31 December 2015 was a major milestone in ASEAN's regional economic integration agenda and the next stage of the organisation's evolution, which began in 1967 with five member countries. It is now collectively the 7th largest economy in the world in terms of GDP (US$2.4 trillion) and has a population of 625.5 million.

Further infrastructure development commitments made under the ASEAN Free Trade Area (AFTA), such as the East-West Economic Corridor connecting the Greater Mekong sub-region, and the North-South corridor linking China with Southeast Asia, together with development of key sea ports will increase import and export opportunities for ASEAN countries, and will allow ASEAN to become a major production and distribution hub. Besides, ASEAN itself is a huge consumer market, with a middle class that is growing along with its economy, and as a consequence wealth accumulation among this demographic will also increase.

## ASEAN's gold market

Gold has played a very important role in the region and is closely connected with the life and culture of the people in the region. In some countries, gold is seen as more stable than the national currency, and people often use it as a medium of exchange and a unit of measurement. In general, people in this region like to buy gold jewellery, not only for use as accessories or gifts for cultural or religious ceremonies such as weddings, festivals and other special occasions, but also as a storage of wealth. In rural areas, people often convert their excess money into gold, and store it for a rainy day. People can re-sell the gold to jewellery shops for short-term borrowing. Besides the demand for jewellery, political and global macroeconomic uncertainty are prompting people to invest in gold, and is pushing the demand for physical gold, such as bars or coins. Additionally, dinar coins are well-received by a couple of countries as a form of savings, and are even used as a medium of exchange.

ASEAN does not only comprise gold importing nations, but also includes nations that export gold collected as scrap or from the by-product of mining, though gold mines are located only in a few countries (Table 1). According to Metals Focus, in 2016, ASEAN's total demand for gold was 295 tonnes, and its total supply was 333 tonnes. In addition, ASEAN central banks hold gold as a part of their reserves. The official gold holdings in ASEAN is 603 tonnes (Table 2).

*Table 1: ASEAN gold import/export data*

| ASEAN Gold Supply and Demand (Tonnes) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| **SUPPLY** | | | | | | | |
| Mine Production | 194 | 164 | 143 | 152 | 153 | 175 | 174 |
| Recycling | 128 | 134 | 114 | 94 | 88 | 69 | 159 |
| Total Supply | 322 | 297 | 257 | 245 | 241 | 245 | 333 |

| **DEMAND** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net Physical Investment | 195 | 263 | 232 | 305 | 204 | 166 | 150 |
| Jewellery Fabrication | 138 | 128 | 120 | 153 | 149 | 145 | 134 |
| Industrial | 10 | 10 | 10 | 11 | 13 | 10 | 10 |
| Market Balance | -21 | -105 | -104 | -224 | -125 | -76 | 38 |
| Nominal Gold Price (US$/oz, PM fix) | 1224.52 | 1571.52 | 1668.98 | 1411.23 | 1266.40 | 1160.06 | 1250.80 |

| ASEAN Gold Supply and Demand (Tonnes) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Gold - Mine Production** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Indonesia | 134.7 | 108.6 | 82.5 | 90.6 | 93.8 | 114.3 | 112.9 |
| Philippines | 40.8 | 38.0 | 38.8 | 39.8 | 40.3 | 41.5 | 41.6 |
| Lao People's Democratic Republic | 5.6 | 4.4 | 6.8 | 7.2 | 5.6 | 7.2 | 7.1 |
| Thailand | 4.3 | 3.4 | 5.4 | 5.5 | 5.4 | 4.1 | 4.7 |
| Malaysia | 5.2 | 5.7 | 5.9 | 4.8 | 5.0 | 5.6 | 2.9 |
| Vietnam | 3.2 | 3.6 | 3.8 | 3.9 | 2.6 | 2.4 | 2.4 |
| Myanmar | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Gold - Mine Production Total | 193.8 | 163.7 | 143.2 | 151.8 | 152.7 | 175.1 | 173.6 |

| Gold - Recycling | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Indonesia | 48.0 | 42.0 | 30.0 | 25.0 | 22.5 | 15.9 | 54.9 |
| Thailand | 33.0 | 38.0 | 28.0 | 27.0 | 27.5 | 21.0 | 49.0 |
| Vietnam | 26.7 | 25.8 | 26.0 | 21.0 | 20.4 | 15.7 | 25.9 |
| Malaysia | 12.7 | 17.0 | 21.0 | 12.5 | 11.5 | 11.2 | 19.4 |
| Singapore | 4.8 | 6.8 | 5.4 | 5.3 | 4.2 | 3.8 | 8.3 |
| Philippines | 2.9 | 4.0 | 3.6 | 2.7 | 2.2 | 1.9 | 2.0 |
| Gold - Recycling Total | 128.1 | 133.6 | 114.0 | 93.5 | 88.3 | 69.5 | 159.5 |
| Total Supply | 321.9 | 297.3 | 257.2 | 245.3 | 241.0 | 244.6 | 333.1 |

| Gold - Jewellery Fabrication | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Malaysia | 44.0 | 44.5 | 43.2 | 57.6 | 52.8 | 48.9 | 42.9 |
| Indonesia | 49.5 | 40.6 | 36.0 | 43.3 | 45.7 | 45.6 | 40.8 |
| Thailand | 23.5 | 22.5 | 20.9 | 26.3 | 24.5 | 21.9 | 21.6 |
| Vietnam | 12.2 | 12.0 | 9.9 | 11.0 | 12.0 | 14.9 | 15.9 |
| Singapore | 8.9 | 8.6 | 9.5 | 14.7 | 14.3 | 13.2 | 13.2 |
| Gold - Jewellery Fabrication Total | 138.1 | 128.2 | 119.5 | 152.9 | 149.3 | 144.5 | 134.3 |

| Gold - Physical Investment | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Thailand | 70.6 | 110.9 | 100.3 | 138.1 | 96.4 | 78.0 | 69.7 |
| Vietnam | 73.9 | 94.4 | 77.2 | 88.3 | 54.2 | 47.8 | 42.9 |
| Indonesia | 26.1 | 31.2 | 28.9 | 47.9 | 26.9 | 20.1 | 21.1 |
| Malaysia | 4.9 | 6.2 | 7.1 | 10.1 | 8.2 | 6.8 | 5.2 |
| Singapore | 4.6 | 5.5 | 5.8 | 6.5 | 6.5 | 5.9 | 5.0 |
| Philippines | 1.2 | 1.5 | 1.6 | 2.3 | 1.9 | 0.5 | 0.5 |
| Gold - Physical Investment Total | 181.1 | 249.5 | 220.8 | 293.1 | 194.1 | 159.1 | 144.4 |

| Gold - Official Coin Fabrication | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Indonesia | 4.2 | 3.3 | 1.9 | 2.0 | 2.5 | 2.0 | 2.1 |
| Thailand | 2.4 | 2.3 | 2.0 | 2.3 | 2.0 | 1.6 | 1.4 |
| Vietnam | 5.0 | 6.0 | 5.0 | 5.5 | 3.4 | 1.6 | 0.7 |
| Gold - Official Coin Fabrication Total | 11.6 | 11.6 | 8.8 | 9.8 | 7.9 | 5.1 | 4.3 |

| Gold - Medallions & Non-Official Coin Fabrication | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Vietnam | 1.9 | 2.4 | 2.1 | 2.3 | 1.8 | 1.6 | 1.8 |

| Gold - Decorative & Industrial Applications | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | NA | NA | NA | NA | NA | NA | NA |

| Gold - Dental Fabrication | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | NA | NA | NA | NA | NA | NA | NA |

| Gold - Electronics Fabrication | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Singapore | 8.2 | 8.4 | 8.2 | 9.3 | 11.3 | 8.6 | 8.7 |
| Indonesia | 1.9 | 1.8 | 1.6 | 1.8 | 2.2 | 1.4 | 1.6 |
| Gold - Electronics Fabrication Total | 10.0 | 10.2 | 9.8 | 11.1 | 13.5 | 10.0 | 10.2 |

| Gold - Total Industrial Fabrication | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Gold - Total Industrial Fabrication Total | 10.0 | 10.2 | 9.8 | 11.1 | 13.5 | 10.0 | 10.2 |

| **Total Demand** | **342.6** | **401.9** | **360.9** | **469.1** | **366.4** | **320.3** | **294.9** |
|---|---|---|---|---|---|---|---|

Source: Metals Focus, 2017

*Table 2: Gold holdings of ASEAN central banks*

| ASEAN | Tonnes | % of reserves |
|---|---|---|
| Philippines | 196.3 | 8.80% |
| Thailand | 152.4 | 3.30% |
| Singapore | 127.4 | 1.90% |
| Indonesia | 78.1 | 2.70% |
| Malaysia | 37.9 | 1.50% |
| Myanmar | 7.3 | 3.70% |
| Brunei | 3.8 | 4% |
| Total | 603.2 | |

Source: International Financial Statistics, 2017

*Table 3: China's gold demand*

| China Gold Demand (Tonnes) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Net Physical Investment | 184.0 | 257.1 | 274.8 | 432.4 | 211.3 | 256.4 | 315.7 |
| Jewellery Fabrication | 487.3 | 609.1 | 670.0 | 1080.0 | 868.6 | 820.7 | 660.6 |
| Industrial | 58.0 | 65.0 | 70.0 | 65.0 | 66.6 | 63.2 | 63.8 |
| Total Demand | 729.3 | 931.2 | 1014.8 | 1577.4 | 1146.5 | 1140.3 | 1040.2 |

Source: Metals Focus

*Table 4: India's gold demand*

| India Gold Demand (Tonnes) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Net Physical Investment | 296.4 | 334.4 | 322.3 | 337.5 | 206.0 | 194.9 | 161.6 |
| Jewellery Fabrication | 699.5 | 702.1 | 651.1 | 634.3 | 676.0 | 724.1 | 511.0 |
| Industrial | 17.6 | 13.9 | 13.1 | 12.8 | 12.2 | 12.7 | 12.7 |
| Total Demand | 1013.5 | 1050.4 | 986.5 | 984.6 | 894.2 | 931.7 | 685.3 |

Source: Metals Focus


## New demands and participants

Gold travelling from West to East

- China began liberalising gold transactions, including jewellery, in 2001, ending the state's monopoly of the gold sector. The Shanghai Gold Exchange was established in 2002 by the People's Bank of China (PBoC), and it is now the largest physical gold exchange in the world. PBoC also has the fastest growing official gold reserves in the world. In 2005, it developed trading infrastructure for individual investors. China's gold demand was 1,040 tonnes in 2016 (Table 3), or about 31% of total global demand.
- India's demand in 2016 was 685 tonnes (Table 4), or about 21% of total global demand.
- The introduction of Shari'ah Standard on Gold, which sets out clear guidelines for Islamic investment in gold, is expected to spur the development of new investment asset classes, and Islamic banks and other financial institutions should be able to expand their customer base with new products created under the guidance of the standard. This has the potential to make Malaysia a gateway to ASEAN for Islamic investments from the Middle East and the rest of the Islamic world. Bank Negara Malaysia, the country's central bank, has been studying gold circulation in the Middle East as the region has a history of accepting gold as money.

## India's free trade agreements (FTA)

Gold jewellery imports from ASEAN to India have surged as a result of the India-ASEAN FTA, which came into effect in 2010. Gold jewellery imports under the India-ASEAN FTA face 1% import duty, as opposed to 10% under the normal trade channel.

## Uncertainty of the international monetary system

According to the International Monetary Fund (IMF), the ratio of US dollars to foreign currency reserves in each country/region at the end of March 2014 was 60.9% ($3.76 trillion of $6.18 trillion). The ratio has experienced a long-term downward trend since its peak of about 73% in June 2001. The total reserves of ASEAN currently stands at US$727.5 billion.

Uncertainty in the international monetary system is creating more demand for gold from central banks. Net official sector purchases have been positive since 2010 and the total holding has increased by 3,393 tonnes in seven years. Additionally, the self-centred behaviour of certain developed countries is creating more uncertainty in global currency markets.

## A new generation of gold investors

Gold has become more popular among the younger generation of folk who are always connected to the internet, and this is no different in Southeast Asia, where mobile phone penetration is almost 100%. Online gold trading is gaining traction among this group of investors, who see gold as an instrument to generate income and wealth.

## Sovereign wealth funds and pension

The increasing income of the middle class is prompting the development of social security systems such as pension funds and social insurance. As a result, the diversification of such portfolios into different asset classes, including precious metals, is becoming more common.

Gold is currently not a popular asset class among institutional investors in ASEAN, except for central banks, which buy gold as a part of their reserves. However, the pension fund system in some countries, such as the Central Provident Fund in Singapore, has approved exchange traded funds (ETF) as an asset class to diversify their portfolio into gold, with a limit of 10% of the total assets.

Currently, many pension fund assets are managed and invested in their respective local markets. The total asset size of major sovereign wealth funds and pension funds in ASEAN was US$1,111 billion.

## Summary

Growing demand from Southeast Asia is moving physical gold from West to East. Increasing wealth and disposable income among the growing middle-class population in ASEAN is also creating a huge consumer market for lifestyle products and consumer goods, which extends to jewellery, gold and financial products like insurance policies or investment funds. Gold is rooted in the life and culture of people in the region, and these factors, along with the introduction of Shari'ah Standard on Gold, weak local currencies, and uncertainty over international currency markets should increase the total demand for gold going forward. Additionally, the growth of pension funds and sovereign wealth funds, and the need to diversify assets will lead to the growth of gold as an important asset class in these funds.

## Notes

1. http://www.gic.com.sg/report/report-2015-2016/investment-report.html
2. https://www.cpf.gov.sg/Assets/common/Documents/ViewAnnualReport2015inPDF.pdf
3. http://www.temasekreview.com.sg/overview/portfolio-highlights.html#sector
4. http://www.kwsp.gov.my/portal/ms/web/kwsp/home
5. http://www.thestar.com.my/business/business-news/2016/11/26/a-giant-awakens/
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12. http://www.taspen.co.id/?page_id=422
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14. http://www.asabri.co.id/asset/images/media/large/annual_report_2015.pdf

*Statistics used in this report are from publicly available sources only, and numbers from a few countries are not available. As ASEAN develops, and import and export numbers become more transparent, statistical numbers will be available for analysis, and ASEAN's total numbers will be attractive to investors who are looking for an opportunity to expand into the region.*

# How Geopolitics Could Make Singapore the World's Most Important Gold Market

An aerial view of Singapore's Central Business District and Marina Bay; Notice the container ships docked at sea (Chensiyuan/Creative Commmons).

By Gregor Gregersen
*Founder, Silver Bullion*

Last year I had the privilege to attend a dinner with Chan Chun Sing, a Singapore minister from the Prime Minister's Office. I brought along a copy of Jim Rickards's book "Currency Wars" to the dinner. In the book, Rickards described his participation in the US military's first financial war games, which were held to simulate various scenarios that could upset the dominance of the US dollar in the global financial system.

During the war games, Russia led a bloc of countries to create a new currency based on a fixed gold ratio that was stored outside of Russian control in neutral and trusted Switzerland. Other countries could obtain this currency by depositing gold in Switzerland. Once this currency was established, Russia would stop accepting US dollars in payment for its commodity exports, requiring payment in the new currency instead. This would force third party countries to buy gold and sell dollars to get the Russian energy they depended on.

If the Organization of the Petroleum Exporting Countries (OPEC) and China joined this system, this would effectively undermine the dominance of the US dollar and inevitably bring about the creation of a new modern gold standard, and cause gold to appreciate immensely in importance and price.

However, such an "anchor currency" would need to be stored in a trusted, neutral jurisdiction and be easily audited by all parties to minimise the possibility of "cheating"; be it illicit gold removal, fake gold, or issuing of new currency without the required amount of gold to back it up.

While the war games created interesting scenarios, the establishment of such an anchor currency does not necessarily have to result from financial wars. As the world accumulates more debt and becomes more leveraged, another major financial crisis will likely lead to more calls for a new type of reserve currency that is less prone to being inflated unilaterally.

Regardless of what this new currency might be, there will be a need for trusted, neutral jurisdictions to act as escrows and keep it all honest. With economic power shifting increasingly to Asia, I am quite certain that it would not be Europe's Switzerland, with its French, German, Italian cultures but Asia's globally oriented Singapore, with its Western, Chinese, Indian and Malay cultures that will play more important roles in such a scenario.

Singapore is widely recognised as the Switzerland of Asia for its rule of law, independence and strong asset protection. While Singapore's culture is heavily westernised, Chinese people can relate much better to Singapore than Switzerland because of shared language and culture. Mandarin Chinese, for example, is one of Singapore's four official languages, with English being the common language.

As the world accumulates more debt and becomes more leveraged, another major financial crisis will likely lead to more calls for a new type of reserve currency that is less prone to being inflated unilaterally.

Singapore has also been the model for China's economically liberal and business-friendly Special Economic Zones, such as Guangzhou, established since the 1980s by Deng Xiaoping, the then Chinese leader who presided over the reforms.

In light of all of this, I thought that "Currency Wars" would be a good read for the Singapore minister, and I was pleasantly surprised when Chan told me that he had already read it. It made me wonder how many of such books might have influenced Singapore's 2012 strategic push to become a major bullion trading hub.

## Why Singapore is the ideal place to store gold

What sets Singapore apart is the government's ability to make pragmatic long-term policies that result in efficient institutions and allow the people enjoy the fruits of their labour to a much higher degree than other countries.

I am experiencing the difference first-hand, having lived in the United States (11 years), Italy (11 years), Germany (8 years), before moving to Singapore (10 years and counting).

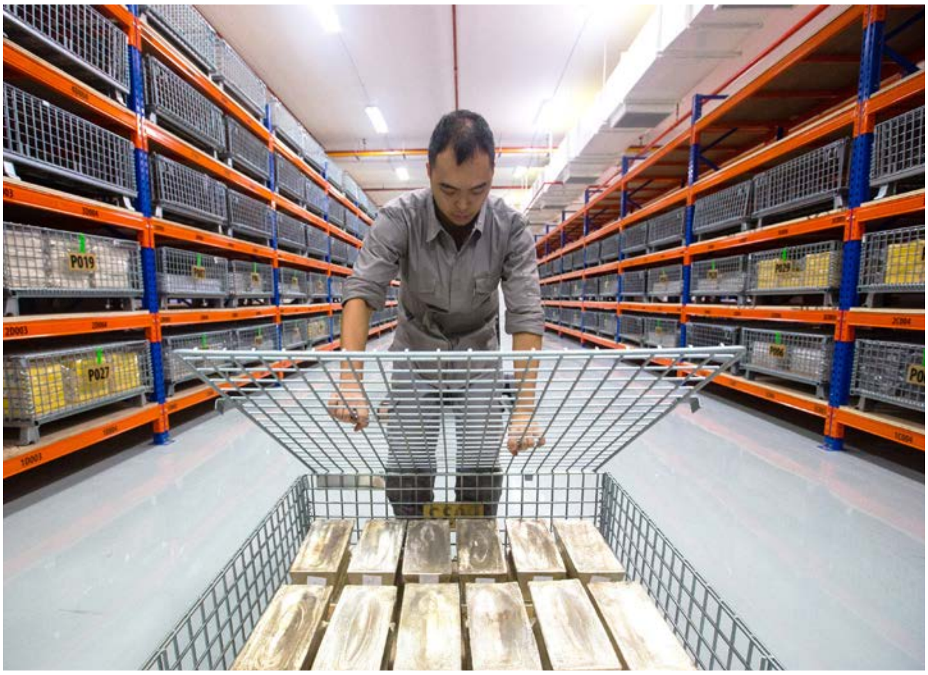
Singapore's success and consistent policies have created in residents an implicit trust towards the government. Lee Kuan Yew, Singapore's longest serving Prime Minister, summed it up by saying: "If I have to choose one word to explain why Singapore succeeded, it is 'confidence'". When China needs international investors, they often seek Singapore as a partner, knowing that investors are more likely to invest in a project that Singapore is involved in. Confidence is both the product and enabler of Singapore's success. Singaporean politicians are always conveying to the nation the need to improve itself to maintain its stamp of quality. It is a big reason why thousands of global corporations have their Asia headquarters and R&D operations in Singapore. It is also why a train breakdown in Singapore must be fixed in record time (because it tarnishes the Singapore brand).

> What sets Singapore apart is the government's ability to make pragmatic long-term policies that result in efficient institutions and allow the people enjoy the fruits of their labour to a much higher degree than other countries.

Singaporean politicians are pragmatic, capable planners that have to compete foremost on merit to advance. Chan, for example, worked himself up from an Army recruit to becoming a three-star general. He went on to study in Singapore's top schools before graduating with First Class honours from Cambridge University and later completed the Sloan Fellows Program at the Massachusetts Institute of Technology (MIT).

The Singapore spirit is to take adversity and make it an advantage and source of strength. In 1965, Singapore lacked a strong military and enough clean water for its population. Today, Singapore's armed forces can muster over 1 million soldiers, including active reserves, while its arms industry is manufacturing and selling amphibious combat vehicles to the US Army and artillery to India. It has also become a worldwide leader in water processing, and even exports water to Malaysia.

The government is extremely well endowed, with US$152,935 in net reserve per capita, which is the highest in the world. Singapore continues to be the only Asian country with a AAA credit rating by all major ratings agencies. Singapore sovereign wealth funds are some of the largest in the world and Singapore is one of the biggest foreign investors in China.



The Safe House has the capacity to store 600 tonnes of silver and gold, and is currently vaulting S$300 million worth of precious metals.

In 2016, The Wall Street Journal ranked Singapore as the 2nd freest economy in the world. The island state continues to be ranked highly by the World Bank as one of the easiest places to do business. Singapore is also ranked the 6th least corrupt country by Transparency International. Despite its size, Singapore is the 3rd largest financial centre in the world and is the 3rd largest petroleum refiner. A major tourist destination, three tourists visit Singapore yearly for every local resident.

Gigabit internet connections are becoming the standard for households and its medical and education systems are world class (Singapore ranks #1 in Math and Science scores ranked by OECD and boasts the 2nd most efficient healthcare system as ranked by Bloomberg). People also live four years longer on average than in the United States, according to the World Health Organization.

## Storing gold in Singapore

Prudent students of history know that gold nationalisation is real and has happened before. For example:

- The Unites States nationalised all gold under its jurisdiction in 1933 (Executive Order 6102 for gold and Executive Order 6814 for silver in 1934).
- UK banned gold between 1966 and 1979 to stem the decline of the pound's value.
- Australia still has a gold seizure law allowing for "seizure of gold if expedient to do so, for the protection of the currency or of the public credit of the Commonwealth" (Reserve Banking Act of 1959).

When the next major currency crisis occurs, there might be political pressure from highly indebted countries to repatriate gold. If these countries were to nationalise gold, what should happen to gold held by citizens of these countries in Singapore?

Singapore will likely state that private property is protected and that foreign jurisdictional authority to seize gold does not extend into Singapore. This response would be in line with protecting Singapore's most treasured assets: the rule of law and the confidence of investors.

Betraying this confidence could mean an economic disaster for Singapore. This is why the country is an excellent location to store physical gold and silver as an insurance against future crises and black swan events.

From Singapore,
Gregor Gregersen *(a newly minted citizen of Singapore)*

**Gregor Gregersen** is the founder and CEO of Silver Bullion and The Safe House, which provide liquidity, storage and testing services for gold and silver in Singapore. Silver Bullion further allows customers to pledge their bullion as collateral to borrow funds, or offer low interest loans via the storage integrated peer-to-peer (P2P) lending platform, itself nominated for the MAS Fintech awards in 2016.

# Why You Should Consider Investing in Platinum


**Platinum is an enduring precious metal that is supported by both short and long-term demand drivers, fundamental deficits and investment characteristics that are likely to benefit many asset portfolios. Trevor Raymond, Director of Research for World Platinum Investment Council, explains why you should consider investing in the metal.**

By Trevor Raymond
*Director of Research, World Platinum Investment Council*

While many investors today are familiar with the investment merits of owning gold, far fewer are aware of the strong investment case for platinum, a precious metal 30 times rarer than gold.

Historically, it has been argued that investors should hold a percentage of precious metals in their portfolio to serve as both a "safe-haven" asset and a hedge against inflation. Clearly, gold is an excellent investment metal in this respect. However, many now refer to platinum as being similar to gold, but with stronger supply and demand fundamentals. Platinum has been shown to improve the effectiveness of precious metals allocations by acting as a long-term portfolio diversifier. It is significant to note that if investors in gold had included even 5% of platinum in their portfolios, their risk-adjusted returns would have been higher over the past 30 years.

Key recent platinum insights highlight why investing in platinum may suit the risk, portfolio or value requirements of both professional and retail investors.

Platinum's unique credentials — precious, industrial and green — combined with the active promotion of jewellery and investment continue to drive growth in global demand in the face of constrained global supply. The platinum price is currently well below recent averages and remains at a steep discount to gold. Moreover, it is now easier for private investors to obtain platinum exposure through readily and easily accessible exchange traded funds (ETFs), fully backed by vaulted physical good delivery bars.

## What is platinum?

Platinum is one of the rarest precious metals in the world. All the platinum ever produced would only cover your ankles in an Olympic-sized swimming pool. In contrast, all the gold ever produced would fill three such pools!

It has distinctive qualities that make it highly valued across a number of diverse demand segments. While platinum is best known for being the premier choice for fine jewellery, it is also a unique investment asset, and its remarkable physical and catalytic properties sees it used in myriad industrial applications.

Platinum is dense, malleable and ductile. It can be hammered or pressed into a shape without cracking or breaking, and stretched without losing its toughness. One gram of platinum can be stretched into a wire over a mile long! Moreover, it is heavy – a six-inch cube of platinum weighs as much as the average human being.

## Why own platinum?

Platinum offers a unique investment opportunity, with strong merits to consider:

- Platinum has traditionally traded at a healthy premium to gold. There have only been four occasions during the last 40 years where platinum has been priced at a discount to gold for a sustained period. In all these cases, the price markedly recovered in the following years.
- Platinum's precious underpin offers a low-risk entry for investors looking to buy into this investment asset.
- Platinum has a low correlation to the performance of traditional assets and performs well during periods of economic recovery. An allocation to platinum improves the risk-adjusted returns of a portfolio, including when gold is present.
- The widespread application of platinum in new technologies and in the development of future technologies and the associated demand growth is currently not reflected in its price.

## Platinum's historical investment performance

Platinum has proved itself to be a well-performing investment over the long-term, satisfying the needs of private investors. It is best suited to medium to long-term investors who can withstand short-term volatility and who fully appreciate the precious underpin coupled with its industrial premium based on its value-in-use in industrial applications and supply demand deficits. Furthermore, platinum is well-suited to a thematic investment approach and is linked to global megatrends such as addressing climate change, increased access to healthcare and provision of clean water. Platinum's role in these trends is not widely known.

Platinum's strong investment performance in the past (Figure 1) was driven by its rarity, diversity of application, diversity in geographic consumption, constrained supply and effective demand stimulation. This has resulted in deficits in each of the last five years. These drivers remain in place today.

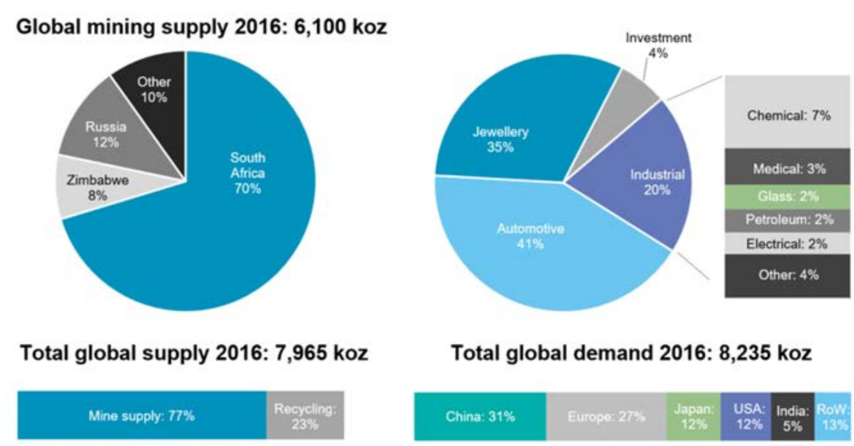
Despite clearly supportive fundamentals, the price of platinum currently sits at historically low levels. We believe that this is because the metal has been oversold, while platinum's medium to long-term potential is not reflected in its price. With five more deficit years expected, this creates an attractive opportunity for the discerning investor.

*Figure 1: Historical performance by asset class*

| 1991-1996 | 1996-2001 | 2001-2006 | 2006-2011 | 2011-2016 |
|---|---|---|---|---|
| Macro HF (21%) | Equity HF (18%) | EM equities (27%) | Gold (20%) | Private equity (19%) |
| Equity HF (21%) | Private equity (12%) | Global real est. (27%) | Oil (12%) | DM equities (11%) |
| Global real est. (14%) | Macro HF (10%) | Oil (25%) | US fixed income (7%) | Global real est. (10%) |
| EM equities (13%) | US fixed income (7%) | Platinum (19%) | Macro HF (5%) | Equity HF (5%) |
| DM equities (11%) | DM equities (6%) | Gold (18%) | Platinum (4%) | US fixed income (2%) |
| Commodities (11%) | Platinum (5%) | Commodities (16%) | EM equities (3%) | EM equities (2%) |
| US fixed income (7%) | Global real est. (0%) | DM equities (10%) | Equity HF (1%) | Macro HF (1%) |
| Oil (6%) | Commodities (-1%) | Private equity (10%) | DM equities (-2%) | Gold (-6%) |
| Platinum (1%) | Oil (-4%) | Macro HF (9%) | Commodities (-2%) | Platinum (-8%) |
| Gold (1%) | Gold (-5%) | Equity HF (9%) | Global real est. (-5%) | Commodities (-9%) |
| | EM equities (-6%) | US fixed income (5%) | Private equity (-12%) | Oil (-12%) |

Notes: Annualised returns across each 5-year window. Total asset returns used, where applicable.

*Figure 2: Platinum global supply and demand, 2016*




## Platinum supply

Platinum's supply comes from two main sources: (i) primary mining output, and (ii) recycling supply, primarily from the auto catalyst and jewellery sectors (Figure 2).

The main drivers of primary mining output in the long term are the amount of capital allocated to platinum mining, which is a function of the producer incentive price (the price of the basket of metals produced through the platinum mining process), compared to the marginal costs of mining.

## Platinum demand

The majority of platinum's demand comes from four sectors (Figure 3).

*Figure 3: Platinum demand by sector*


* Minimum and maximum ranges over period 2012 - 2016

Automotive – Platinum's largest single use is in automotive exhaust systems, where it plays a unique role in controlling harmful vehicle emissions. Increasing emerging market demand for autos, coupled with stricter global emission standards, indicate strong long-term growth characteristics from this segment.

Industrial – Platinum is used in a variety of industrial applications ranging from biomedical devices to the manufacturing of glass fibre, liquid crystal display glass, and jet engine blades. Growth in industrial usage over the next few years will remain largely driven by global economic growth. For example, platinum is used in the manufacturing of nitric acid for fertiliser, so as the global demand for food increases, the need for platinum will increase.

Jewellery – The jewellery market is the second biggest user of platinum, accounting for about one-third of global demand. Platinum has established itself as the world's premier jewellery metal, supported by successful promotion in centres of growing population such as China and India.

Investment – ETFs, accumulation plans and bar and coin investment, particularly in Asia, have continued to develop and grow in recent years. The World Platinum Investment Council (WPIC) is supporting the long-term demand for platinum by presenting the investment case for platinum to investors around the world, and working with a growing range of partners to both stimulate and satisfy investment demand. This enhances market efficiency, increases product and distribution channel availability and addresses the needs of a growing investor base.

## Market balance

Platinum has performed well against other asset classes over a long period and has proven itself to be a good store of value with a strong set of diversifying properties. These are interesting times for the platinum market, but when we put the sources of supply and demand together, a clear picture emerges.

Global primary platinum production is in decline, with key supplier South Africa – which accounts for over 70% of global mine supply – impacted by an increasing depth of operations, aging mine profiles and rising expenses in real terms. Indeed, significantly reduced capital investment in platinum mining strongly suggests that primary supply will continue to decline through 2020.

Meanwhile, demand has outstripped supply every year since 2012, and it is expected to continue doing so over the next five years, ensuring that the global platinum market will remain in deficit until 2021. This imbalance should result in market prices that more accurately reflect its fundamental value.

In our view, therefore, platinum is now at an inflexion point. It is currently owned by far fewer investors than those who could achieve enhanced returns by including it in their portfolios. Additionally, platinum's continued diversity and adaptability ensures it will be in demand for generations to come.


**Trevor Raymond** leads research and investor development for WPIC. He joined from Anglo American Platinum where he was the Head of Market Intelligence and Market Relations.

A precious metals specialist with over 30 years' experience in the equity and metals market, Trevor moved into the platinum industry in 2000 following 17 years in gold mining, which saw him undertake roles in engineering, mineral economics and corporate finance.

Trevor was Anglo American Platinum's Head of Investor Relations until 2008 when he joined the platinum marketing team in London to focus on commodity research and market development.

### INTL FCStone in Asia: Quick Facts

Singapore office open since 2006

Direct Participant of the London Gold Auction

*Bullion services:*
- Physical trading
- Pricing in foreign currencies
- Margin trading
- Risk management

*Deals in:*
- Refined products such as LBMA, non-LBMA bars (large bars, kilo bars, 100g bars)
- Semi-refined products and doré
- Scrap
- Off-take arrangements

*Other services in Singapore:*
- Global payments (175 countries)
- Commodity hedging for dairy, grains, oilseeds and softs
- Physical coal trading

*Memberships (Asia & London):*
SBMA, LBMA, LPPM, LME

*Parent company:*
INTL FCStone Inc.

*Nasdaq:*
INTL

*Total assets:*
US$5.95 billion

*Markets traded:*
- Grains/Oilseeds
- Metals
- Securities
- Energy
- Dairy
- Renewable Fuels
- Softs
- Meats/Livestock
- Forest Products
- Currencies
- Financial Futures

# INTL FCStone – Connecting Asia to Global Market Opportunities

**Financial services company INTL FCStone, which operates in more than 130 countries around the world through a network of 40 offices, opened its Singapore office in 2006, recognising gold's migration from West to East, the rise of thriving Asian economies, and the region's enormous growth potential. INTL Asia's Head of Precious Metals – Asia, Martin Huxley, talks to *Crucible* about the company's operations here and how the company is bringing new levels of market access for its customers.**

INTL FCStone began trading physical bullion in the early 2000's. Over the next few years, the company assembled a team of experienced industry experts to serve its expanding global customer base. Recognising gold's migration from West to East, the rise of thriving Asian economies, and the region's enormous growth potential, INTL FC Stone opened its first Asian office in Singapore in 2006, trading under the name INTL Asia Pte Ltd, with the objective of adding unique value for Asian market participants.

In subsequent years, the firm established offices in Hong Kong, Shanghai, Beijing and Sydney. More than 10 years later, Singapore remains the company's largest office in the region, operating as its Asian hub, housing operational and risk management teams that support all its businesses.

Beyond Asia, INTL FCStone has precious metals teams located in Dubai, London and the United States, with consultants operating in India, Africa, Turkey and Eastern Europe.

Singapore remains the company's largest office in the region, operating as its Asian hub.

Recently, INTL FCStone Limited, London, became a Direct Participant of the London Gold Auction, a significant milestone for its precious metal business and the company as a whole.


## International access, local understanding

Today, INTL FCStone's precious metals team in Asia delivers market access to all of the key regional markets, and includes speakers of Vietnamese, Thai, Bahasa, Mandarin and Cantonese.

Customers can trade physical gold through INTL FCStone's online, physical premium-based platform, PMXecute+, the first of its kind in the international bullion market. The platform connects customers with the company's global network of suppliers, where customers can peruse physical bullion offers from suppliers or submit requests for quotes, and INTL acts as principal to every trade. The entire process is automated, drastically simplifying discovery, trading, logistics and documentation.

The Precious Metals Asia team also offers electronic access to margin trading for precious metals, and can assist with developing innovative risk management solutions for customers looking to hedge their precious metal exposure. Clients are able to buy and sell bullion in non-USD currencies including SGD and AUD via the company's online trading platform, PMXecute, or by calling the Singapore dealing desk.

Most importantly, the team prides itself on its knowledge of Far East bullion markets, and provides customers unrivalled support through funding, risk management, logistics and premier customer service and product offerings.

INTL Asia's parent company is a US-listed public company, further providing financial stability, regulatory oversight, and a high degree of transparency in its operations, including regular news, filings, and reporting on its financial performance and activities.

We believe that Singapore will continue to be a critical access point for market participants in developing countries who are keen to plug into the global economy.

## Global strength and resources

INTL Asia's precious metals team is backed by the financial strength and global network of its parent company, INTL FCStone Inc. (NASDAQ: INTL). Through its subsidiaries, INTL is a leading provider of clearing and execution, risk management and advisory services and market intelligence across asset classes and markets around the world. Serving more than 20,000 customers in 130 countries on five continents, the company provides products and services across five market segments: commercial hedging, global payments, securities, physical commodities, and clearing and execution services.

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***Why did your company choose to make Singapore its hub for Asia precious metals, as well as other markets?***
It was the most logical choice to complement our existing precious metals operations in the Americas and EMEA. The market ecosystem already existed and its location is ideal for conducting business both in Singapore and key neighbouring gold markets – including those operating now and those still being developed.

***What value does INTL FCStone bring to this market?***
We provide regional market participants with uninterrupted coverage and access to bullion markets using electronic solutions, risk management, and a highly experienced team. In addition, we open new markets for our clients and offer them access to the global bullion industry and its participants. Beyond that, we're committed to being an integral part of the local economy through our Global Trader Programme status (operated by IE Singapore), through which we have made significant commitments in terms of expansion, business spending, and recruitment and training.

***What do you see in the future for this market?***
More growth, although this may occur at a slower pace. With the market expertise and infrastructure here, we believe that Singapore will continue to be a critical access point for market participants in developing countries who are keen to plug into the global economy. That advantage will drive future growth here.

**— Martin Huxley, Head of Precious Metals – Asia, INTL Asia Pte Ltd**

# An Interview with Baskaran Narayanan, Country General Manager, Brink's Singapore


**For the best part of 28 years, Brink's has operated secure logistics services in Singapore for precious metals customers and investors. On the back of growing demand from Asia Pacific customers, Brink's has been growing its precious metals logistics and storage services in Singapore. *Crucible* talks to Country General Manager for Brink's Singapore & Australia, Baskaran Narayanan, about the company's operations and how it has supported the growth of the precious metals sector in Singapore.**

Baskaran Narayanan, Brink's Country General Manager – Singapore & Australia

## How has the company's offerings grown or evolved since it was established in Singapore in 1989?

The company has expanded and diversified since inception in 1989. In the past five years, Brink's precious metals activities have increased threefold, which shows the level of improvement and expansion the group strives for. We grew even faster in 2016, doubling our figures.

Brink's now boasts three branches in the country: Enterprise One, Tai Seng and Singapore Freeport. We currently have a 264-strong workforce, an ever-expanding fleet of secure vehicles, which now numbers 32, and soon-to-be seven high-security vaults. Our extensive presence has been rewarded aptly over the years by securing contracts with the likes of Singapore Exchange, International Commodities Exchange, as well as various bullion banks and precious metals dealers.

Brink's has been adding secure storage facilities in Singapore in the past three years on the back of increasing regional demand and because the movement of precious metals from West to the East has continued to grow in recent years. We see China, India, Singapore and Thailand at the forefront of metal consumption in Asia Pacific, so Brink's opened and expanded its precious metals vaults at these locations to increase its gold and silver handling capacity. Our high-security vaults are largely used by international financial institutions to store their precious metals. There is also growing demand from institutional investors and high net-worth individuals for wholesale gold products.

## What new technologies and operating systems has the company been using to drive efficiency and enhance safety and security?

We have more than 155 years of global risk management experience, and with new technologies and operating systems, Brink's can offer market-leading solutions to speed up delivery and promote ingenious solutions to today's increasingly complex security challenges. Many Singapore companies dealing with expensive/valuable products and goods have benefitted from our ability to provide the most innovative and efficient end-to-end logistics solutions spanning such a vast range of markets. Our technological capabilities allow us to provide additional asset management services, tracking and tracing of cargo, and live and online inventory management to increase operational efficiencies across our precious metals customer network.

> At Brink's, trust is a given, but we never take it for granted, and it is our goal to earn our reputation for trust each and every day.

We use proven methodologies to minimise risk from pickup to delivery and every stage in between. Our footprint in the largest in the secure transportation business, with networked operations in more than 125 countries, and 70,000 dedicated security professionals with real-world


experience to support the unique business needs of our customers. We have rigorous controls that protect customer precious goods anywhere we do business, and industry-leading insurance protection that allows us to proudly proclaim, "No one has ever lost a penny using Brink's"

However, there is still a need for unwavering commitment to service excellence. At Brink's, trust is a given, but we never take it for granted, and it is our goal to earn our reputation for trust each and every day.

### In terms of precious metals storage and shipping, what are customers looking for?

Precious metals customers want fast turnaround in terms of shipping, storage releases and transactional coordination. Ensuring security while being flexible are the basic requirements in this industry. However, large bullion banks and precious metals dealers also want help in verifying the bar numbers and brand confirmation as part of the service. Perhaps most importantly, we understand that relationships are built among customers and local and global companies, for this reason we give careful consideration to service requirements, and have a dedicated account team that focuses on seamless delivery of our services. As an example, Brink's Singapore has been an IATA agent for the past 25 years, and manages its valuable cargo, airline bookings, security verifications, customs clearance and other services involving a valuable cargo supply chain.

### What is the most important challenge for secure transportation and logistics services providers to overcome in the future?

Managing customised solutions that are tailored to specific customers, maintaining service quality, and time-critical shipments while managing risk management effectively are areas the secured logistics industry is dealing with, and the service provider that is able to deliver on these areas will come out ahead.

### In your opinion, what does the growth of the precious metals sector in the region mean for Singapore, and for Brink's in particular?

We have grown rapidly in in Singapore, in line with the country's aim of becoming a regional hub for precious metals. We have therefore, across the markets, managed to form a stable service on the side of gold, silver and foreign currencies. Adapting to these kinds of trends strengthens our overall goal, which is growth and profitability.

Asia Pacific will continue to see significant growth in terms of precious metals storage and distribution, and our secured transportation and logistics solutions complement Singapore's goal of becoming a precious metal hub for the wider region.

We are the market leader across Singapore, Malaysia and Indonesia, leveraging our international knowledge and experience, and delivering the highest levels of customer service for valuable storage, cash processing and distribution both domestically and across the region. The wider group's ability to provide market-leading innovative solutions to diverse multi-market environments, while constantly looking to enhance both reporting and security within their respective supply chains, has been a leading factor in our successful expansion to more than 125 countries. This has seen Brink's secure a market-leading position within the region for currency movements. Complementing the rapidly rising financial operation, other sectors falling under Brink's' remit – both globally and, by proxy, in Southeast Asia – include mining, diamond dealers, jewellery, manufacturing, printing, government operations, airlines, technology and precious metals.

Asia Pacific will continue to see significant growth in terms of precious metals storage and distribution, and our secured transportation and logistics solutions complement Singapore's goal of becoming a precious metal hub for the wider region. We are fully committed to keeping this region sustainable in terms of growth in this sector. As a niche player, we have many, many areas in which we can support this growth, and the foundations are in place to build a long-term, sustainable future.

### What advice do you have for precious metals investors who might be looking into storage or logistics services?

Our advice to precious metals investors would be for them to look at the value proposition the service provider is able to give them, in terms of undertaking a safe and secure precious metals storage and distribution capability. Brink's invests heavily in advanced proprietary backend systems for global inventory management and to keep it consistent. Our customers enjoy a customised and automated reporting, worldwide precious metals inventory tracking, and are able to view multiple storage locations online and in real-time. We undertake liability for stock held in our vaults, and provide customers with significant time and cost savings. We go beyond standard solutions to consult, design and deliver faster, safer and more streamlined solutions to suit the specific business needs of our customers. Brink's utilises leading technology to provide enhanced security solutions to support the evolving logistical requirements of our customers. Our goal is to set the global standards for excellence in secure logistics and value chain risk management through our commitment to innovation, quality and investment in people.

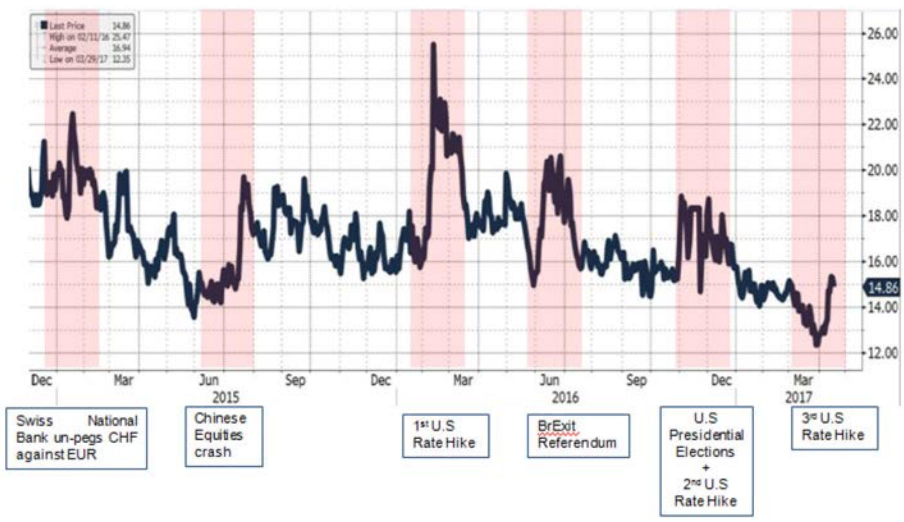
# Hedging Strategies with Gold Derivatives


**Gold derivatives, such as gold forwards, futures and options, currently trade on various exchanges around the world and over-the-counter in the private market. In this article, Phillip Futures investment analyst Jonathan Chan explains how they work and why they are important, particularly given recent spikes in gold price volatility, driven by greater central bank interventions and heightened geopolitical risks.**

By Jonathan Chan
*Investment Analyst, Phillip Futures*

Gold derivatives are financial instruments whose prices are derived from physical gold. The gold derivative itself is a contract between a buyer and a seller that wants exposure to the physical gold price. They have many useful applications, such as price discovery and price risk management, for those involved in the physical bullion business. In recent times, they have become more important, given the recent spikes in gold price volatility driven by greater central bank interventions and heightened geopolitical risks (Figure 1). This is a scenario we may continue to see in the days ahead.

*Figure 1: GVX (CBOE/COMEX annualised gold volatility index)*




Source: Bloomberg

## Types of gold derivatives

### *Gold futures*

Gold futures are financial contracts obligating the buyer to purchase gold or the seller to sell gold at a predetermined future date and price. Having future settlement dates means that future selling price and buying price of your physical inventory for your business can be hedged accordingly if you are of the view that prices may move against your favour. Futures prices are price efficient as they are expected to converge to the spot prices on the day the future contracts expire. These futures contracts are standardised to facilitate trading on a futures exchange with the quality and quantity of the gold specifically detailed. The advantage of using exchange-traded futures products is that any counterparty credit risk is almost negligible, as the derivative exchange will facilitate the transaction, settlement and collateral management of the traded contract. The most popular gold contract traded in US dollars is the COMEX Gold Futures, which is used to manage cash market price risk.

> Hedging allows gold fabricators and dealers to lock in prices and reduces exposure to price risk.

Hedging allows gold fabricators and dealers to lock in prices and reduces exposure to price risk. A gold smelting company that wishes to manage their input cost and can go long on gold futures to hedge against any upward movement in the cost of their gold inputs beyond US$1,270/oz. This long hedge would establish a fixed cost for the raw material (Figure 2).

*Figure 2: Combined payoff of buying futures*


If gold prices rise, the smelter would be protected by the rise in value of the futures contract. While a fall in gold prices would be a loss, the smelter would be able to buy raw material at a lower cost. Thus, on the whole, this hedge would enable the smelter to work out a fixed price for the raw material.

*Spot gold over-the-counter (OTC) contracts*

The spot gold OTC price is the current price of a troy per ounce of gold that can be bought or sold for immediate cash settlement. It is also broadly known as the Loco London Spot. Trading is usually done directly between the two parties involved in the agreement. OTC markets trade around the clock, with trading done electronically or by telephone. There is no formal structure or centralised clearing through an exchange. Prices are usually quoted and traded against the US dollar. Generally, positions are maintained over time without any concerns over maturity. Each contract has a size of 100 ounces with a minimum bid unit of US$0.10 per troy ounce. Over the years this contract has served market participants well – it has been used by gold bullion dealers to hedge their physical inventory against fluctuating prices while allowing speculators to move in and out of the spot market with ease, yet still enabling investors to hold on to their positions for a long period of time without concerns about the maturity or delivery of physical gold.

> The spot gold OTC price is the current price of a troy per ounce of gold that can be bought or sold for immediate cash settlement. It is also broadly known as the Loco London Spot.

*Spot low leveraged gold contracts*

Investors who are more risk-averse and do not prefer the high leverage of Loco London spot, can trade the Gold Direct Investment (GDI), which is the one of the newer low leveraged gold derivatives in the market. It has a higher relatively margin collateral as compared to spot gold, which virtually eliminates the risk of a margin call. It is designed as an affordable investment product with a contract size of a troy ounce of gold with a fineness of 995. Although the collateral needed to trade the GDI is only slightly less than the cost of a gold ETF or physical gold, it allows participants to short sell as well, unlike ETFs, and has no storage cost as compared to physical gold.

*Gold options*

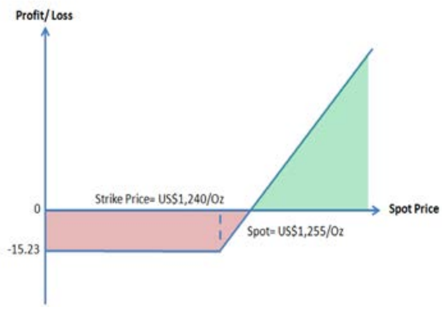
Gold options are financial derivatives with pricing intrinsically linked to the price of gold. These derivatives are contracts that grant the right, but not the obligation, to buy or sell the underlying gold asset on or before a certain date. A call option is the right to buy and a put option is the right to sell. The option buyer would have to pay the seller an option premium to complete the transaction. Intrinsically, owning a call option gives you a long position in the market and for the seller of a call option a short position. Inversely owning a put option gives one a short position and selling a put is a long position.

Advantages of options over futures are its smaller cash outlay and greater flexibility in selecting the price at which to hedge from. When buying options, one is only required to pay the option premium, which represents a small percentage of the notional to be hedged. For options, one has the advantage of selecting the price to hedge the physical gold position against, while for futures, one can only accept the price that is quoted by the market at any point of time.

> Advantages of options over futures are its smaller cash outlay and greater flexibility in selecting the price at which to hedge from.

Options are often used by miners wanting to lock-in and secure a minimal selling price. Miner X wishing to secure US$1,240/oz for its gold production in the month of October 2017 would buy gold put options to hedge against any downward price risk. With spot gold trading currently at US$1,255/oz, the cost or premium of put options with a strike of US$1,240 is US$0.24/oz (Figure 3).

*Figure 3: Production and put options payoff*




The put options thus permit the miner to cover the forward risk of falling prices and the hedge enables it to carry his inventory until October 2017. If gold prices do fall, the mining company would have minimised its loss due to the protective cover of the options.

## Advantages of gold derivatives

Most gold derivatives, especially Loco London Spot Gold, are highly liquid trading instruments that are easily accessible electronically or with a phone call at anytime of the day. Transaction costs are low and investors can tailor leverage according their risk appetite. Gold is also priced in multiple currencies, which allows for arbitrage opportunities. As a result of the fluctuation in the USD/JPY currency pair, gold is often mispriced in Japan as compared to the United States, and traders can utilise gold futures traded on TOCOM and COMEX to profit from this gold price anomaly.

**Jonathan Chan** is an investment analyst with Phillip Futures. He covers the commodity space, primarily focusing on precious metals and energy derivatives. He has written for or has been quoted by the following media outlets: CNBC, Reuters, Wall Street Journal, Channel NewsAsia, The Business Times, The Straits Times, Today Newspaper and S&P Global Platts. Prior to joining Phillip, he held roles in Global Markets and Market Risk in banks. Jonathan holds a Master's degree in Economics from National University Singapore (NUS) and a Bachelor's degree with honours in Economics from Nanyang Technological University (NTU).

# Bullion Market Outlook 2017 Seminar

27 March 2017
By SBMA

Speakers at the seminar, from left, SBMA Chairman Sunil Kashyap, SBMA CEO Albert Cheng, Metals Focus director Nikos Kavalis, Philip Futures' bullion and forex business manager Dickson Woon, Scotiabank currency strategist Gao Qi, and RHTLaw Taylor Wessing partner Ow Kim Kit.

Looking back at the gold market in 2016, the bear cycle that started in late 2011 and took shape in 2013, seems to be coming to an end as institutional investors are becoming more interested in the market again, said Nikos Kavalis, founding partner of Metals Focus, as he shared insights from the independent precious metals consultancy's Gold Focus 2017 pre-launch research publication at SBMA's seminar.

Behind the change of attitude was the changing macroeconomic backdrop, the most important factor being the change in expectations regarding US monetary policy, which has continued to be the main driver of gold prices in the past few years, Mr Kavalis said. Responding to a question by SBMA Chairman Sunil Kashyap about which markets are expected to be most active in 2017, Mr Kavalis said that in terms of physical investment, Europe will be decent, US will be okay, and some Southeast Asian markets and China should do well. However, in terms of jewellery, China and India is not expected to do as well, but there will be some recovery in the Middle East and Southeast Asia, mostly due to economics rather than price factors. Mr Kavalis said he expects the price of gold to go above $1,300.

Scotiabank currency strategist Gao Qi spoke about the impact of the election of US President Donald Trump on US-China bilateral trade. He said that China's trade surplus with the US, which includes the 10 members of ASEAN. He remained positive about US-China relations, saying that he expects productive outcomes and good results from the upcoming Trump-Xi summit in April, the G20 summit in July, and the US-China Strategic and Economic Dialogue due mid-2017.

Phillip Futures' bullion and forex business manager Dickson Woon explained the differences between ETFs and new gold and silver direct investment (GDI and SDI) products offered by the company. He said the latter has no hidden costs, low gearing, low tracking error, is a low-cost investment, and allows investors to trade around-the-clock. The product also allows investors to hedge against short-term downward movement. The brokerage house has introduced these products to cater to conservative investors and those who want to trade but do not want to carry physical gold and the threat of overnight margin call, he said.

The audience was given a brief update of recent regulatory developments, as changes have been made or are expected in laws regarding buy-back arrangements involving precious metals, lending-based crowdfunding, and the move towards the Common Reporting Standard (CRS) in the movement towards global tax transparency. RHTLaw Taylor Wessing partner Ow Kim Kit touched on the possible impact that CRS would have on the bullion market. She said that as commodities such as gold are likely to be considered physical goods, they may not fall under the definition of "Financial Asset" under CRS, though she cautioned this could change in the future.

## Key takeaways of the day

*Relatively steady economic situation in China*

- Mr Gao said that that while a strong dollar is not in President Trump's interest, there is also no basis for a continuous depreciation of the yuan, adding that he expects only a "modest depreciation of 2-3%" in 2017.
- The Chinese economy is expected to grow around 6.5% this year, consistent with China's official target.
- Expect modest drop in China's reserves. The People's Bank of China is expected to tighten controls on cross-border outflows, while further opening up domestic capital markets to attract capital inflows, Mr Gao said.

*Weak jewellery demand, but Asia's importance to the gold market continues to grow*

- Responding to a question by SBMA CEO Albert Cheng, Mr Kavalis said that gold is going to new markets via new routes, so refineries outside Switzerland are building up their capacity. However, as long the domination of the loco London market continues, the proximity of Swiss refineries to London and the infrastructure there will make it hard to other hubs, such as Dubai, to emerge as a replacement, Mr Kavalis said.

- Gold recycling reversed its trend to reach a 4-year high in 2016, but even in Asia, there were winners and losers: China (+37%) had the biggest total increase, while it grew 172% in Indonesia, driven by prices that reached all-time high, and a tax amnesty. In Thailand, it grew by 91%, driven by high prices and an upcoming payments system, but Japan saw a 28% decline, which Mr Kavalis explained was due to the strong yen, giving refiners less incentive to scrap existing material.
- Mr Kavalis said demand for jewellery in 2016 was a lot worse than the year before because of a slowdown in Indian and Chinese demand, brought about by a slowdown in the economy and real incomes not rising, as well as changing consumer preferences. He called this a "seminal moment for the gold market last year". Mr Kavalis said the fact that overall demand increased was "a testament to the strength of Western physical investment".

*Macro backdrop for gold*

- In general, inventory is shifting from Western institutional investors to markets including India and Southeast Asia, and from London vaults to the hands, pockets of Asian investors.

  Mr Kavalis said he is moderately bullish for 2017 because most of the factors that helped gold in 2016 are unlikely to go anywhere. Negative interest rates (both nominal and in real terms) continue to be a problem for many countries.
- The US economy is unlikely to accelerate rapidly with the policies proposed the new presidential administration, and there are serious risks of an equity market correction. Chances are the market will disappoint if there is no acceleration in US economic growth. The dissolution of the EU is a long-tail risk and cannot be ignored, and despite a positive result from the Dutch lection, there is still the French presidential election in May.
- Mr Kavalis said that the US Federal Reserve Bank is expected to raise interest rates in July and December, and there should be temporary price corrections before the rate hikes.
- Supply is expected to decline, and the physical market is weak/poor. Demand is expected to increase, but most important factor, jewellery demand, is weak, which limits the upside for gold buyers.

*Regulatory developments*

- The Monetary Authority of Singapore (MAS) will soon regulate buy-back arrangements for precious metals as they are in effect debt-financing arrangements. MAS is proposing to use existing legislation under the SFA and FAA for such arrangements, which includes disclosure requirements and licensing of intermediaries.
- Operators of P2P lending platforms will have to hold a CMS license.
- In line with a global move towards Automatic Exchange of Information (AEOI), Singapore will implement AEOI according to the internationally agreed common reporting standard by September 2018. Its prerequisites are: a level playing field, reciprocity (bilateral approach with jurisdictions Singapore has signed competent authority agreements CAAs with), and exchange with countries that have a strong rule of law.

# Entering the Singapore Precious Metals Market – An Insider's Perspective

By Joshua Rotbart
*Managing Partner, J. Rotbart & Co.*

I first arrived in Hong Kong seven years ago and was hired by the global logistics company, Malca-Amit. In 2011, the construction of the Singapore Freeport was completed, and major bullion houses and banks were opening dedicated vaults within the facility. During this period, Singapore was cementing its position as an international wealth management centre at a time when global demand for investments in physical precious metals was growing. An exciting opportunity introduced itself and I was offered a move to Singapore to oversee the new developments.

## The draw of Singapore

Singapore was in the right position to offer high-net-worth clients, private banks and institutions the opportunity to manage and have custody of not only their financial assets, but also physical holdings of tangible assets, mostly precious metals.

As the physical infrastructure expanded, so did the demand by international clients for reliable solutions for sourcing investment-grade bullion. In October 2012, the Singapore government decided to waive Goods and Services Tax (GST) on investment precious metals, boosting the market even further. During this growth period, many new dealers and retailers established themselves, promoting Singapore as the location for sourcing and storing investment bullion.

Malca-Amit saw an opportunity to provide this service in-house and set up a one-stop solution for our clients. The business idea was simple: offer high-net-worth clients an easy and secure way to invest in precious metals by providing them a complete solution, handling transportation, storage and trading through one point of contact. Bullion are fully allocated and stored, while clients could still enjoy unlimited access to their assets. We decided to tailor the solution according to the needs of individual clients, by accepting only high-value transactions, and by leaving the retail segment to other specialised firms. Clients could purchase new bullion, authenticate their current holdings, or value and liquidate heirlooms coins and bars.

Singapore was the perfect spot to launch the service. Success was fast and impressive as many clients saw the advantage of going to a reliable partner for an all-in-one solution. Clients also understood that having direct ownership in the physical metal means easy access to their holdings, which is especially important in times of crisis.

I launched J. Rotbart & Co. in April 2016 to offer the same services with a greater degree of innovation and flexibility. As before, clients of J. Rotbart & Co. find Singapore to be the preferred place to store their bullion.

## Opportunities for J. Rotbart & Co.

Given the global scope of our services, we clearly see the opportunities in this industry, and the value in conducting the business from Singapore. As geopolitical tensions rise, and economic growth is still sluggish, more clients are realising that wealth preservation through investing in physical precious metals is the prudent thing to do. Moreover, the banking system is losing its attractiveness as the right counterparty for investment in precious metals, because on the one hand, regulatory requirements incentivise banks to cease offering these services, while on the other hand, investors are losing trust in the banks, especially since the financial crisis of 2008 and because of other developments in the financial world.

Singapore, more than any other city in Asia, is the most international place to conduct business; English is an official language and the rule of law is strong. Furthermore, financial and logistical infrastructures are well developed. There is a good presence of private banks, wealth management companies and trust companies, and the storage capacity for precious metals is in place. Vaults are operated by the four big global logistics companies, as well as by the local companies. On top of this, the industry enjoys support by the Singapore government, mostly through International Enterprise (IE) Singapore. As Switzerland's glamour as a global centre for storage of precious metals is waning, Singapore stands to attract even more investors.

## The challenges that lie ahead

While the future for the precious metals market in Singapore looks bright, there are some challenges ahead that we must be ready to tackle.

As much as some would like to ignore it, precious metals could be used to hide or launder money. It is our responsibility to be alert and dutiful when conducting due diligence on our clients; it is prudent that we ask tough questions if necessary and be aware of our clients' intentions. Self-discipline while conducting our business is prudent and ethical.

Another challenge is banking. Precious metals companies find it difficult to bank. Our experience has been good in Singapore, where banks are very open to this industry. However, it is important that all relevant parties in Singapore make sure this does not change. The situation in Hong Kong today is a prime example of how the reluctance of banks to work with the industry is driving players away from the market.

It is still expensive to transport bullion in and out Singapore, but we know that this issue is being discussed at the highest levels by the Singapore Bullion Market Association. With this in mind, we are confident of lower transportation costs in the near future.

Finally, there is the important question of whether regulation is required for companies dealing with physical metals. J. Rotbart & Co. believes that some regulatory requirements are necessary. In this industry, which is based on trust and has no room for mistakes, even one rotten apple may damage it. We want to continue attracting good and honest players and we are certain our peers will agree with us that limited external overview on the market is not a bad idea.

## A final thought

As the first Hong Kong-based company that was accepted as a member of the Singapore Bullion Market Association, and as we are getting ready to open our new office in Singapore, J. Rotbart & Co. is thrilled with the opportunities and prospects ahead. Personally, as someone who has been deeply involved in the Singapore precious metals community for the past seven years, I am a great believer that if we can address the challenges facing us together, we will be well ahead of the curve, allowing Singapore global recognition as the preferred location for high-net-worth clients to store their wealth.

**Joshua Rotbart** is the founder and Managing Partner of J. Rotbart & Co. (Strategic Transactions Limited), a Hong Kong-based company providing solutions for high-net-worth individuals and families wishing to ship, store and purchase precious metals and other tangible assets. Originally from Israel, Joshua joined Malca-Amit in 2010 and led the business development of the logistics group's flagship vault at Singapore Freeport. In 2013, Joshua moved to the company's global head office in Hong Kong to develop Malca-Amit Precious Metals, the company's bullion procurement subsidiary. In 2016, he founded J. Rotbart & Co. (Strategic Transactions Limited), which has already traded over US$200 million worth of bullion, mostly through Singapore. Joshua shares his time between Macau (where he resides), Hong Kong and Singapore.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# SBMA News

By Albert Cheng
*CEO, SBMA*

It has been a busy quarter at SBMA. We have been working with various stakeholders both within and outside the ASEAN region to try to open up various markets. Here is an update of our activities:

***February 27-March 3:*** Organised a trip to Myanmar with assistance from IE Singapore, which was also attended by a key SBMA member. Initiated dialogue with key stakeholders from Myanmar Federation of Mining Association (MFMA), Myanmar Gold Development Public Company Limited (MGD), Myanmar Gold Entrepreneurs Association (MGEA), The Shwe Moe Yan Co. Ltd., as well as with the Central Bank of Myanmar. Topics of discussion included international standards for fineness for gold bars, export policies, tax policies, domestic gold production, and refining facilities in Myanmar. The trip included visits to gold trading floors in Yangon and Mandalay, organised by the Myanmar Gold Entrepreneurs Association and the Mandalay Gold Entrepreneurs Association. Also visited two local refineries in Mandalay, and retail gold shops in Yangon and Mandalay.

Trading floor of the Myanmar Gold Entrepreneurs Association

Aung Thamardi 10 Ticals Bar

***March 24-26:*** Attended the Singapore International Coin Fair 2017, an annual fair showcasing products like coins, mints, and antiques, to meet with key industry stakeholders.

***March 27:*** Organised the Bullion Market Outlook 2017 seminar, which was attended by numerous precious metals market stakeholders. Refer to page **16-17** for a summary of the event.

***March 24-28:*** Hosted several Myanmar gold industry participants and arranged meetings between them and SBMA members to initiate a dialogue on topics concerning the development of the frontier market and to exchange best practices.

***April 12:*** Press conference with IE Singapore to announce the Asia Pacific Precious Metals Conference (APPMC) and discuss Singapore's key features that make put in a good position to reprise its role as the region's global precious metals trading hub. Questions from journalists, from media like The Straits Times, MediaCorp, Bloomberg, and High Net Worth, included the outlook for precious metals this year, macroeconomic factors, and how they would affect Singapore's plans to be a hub for these metals, the biggest challenge that will hinder such plans, whether China and India were seen as competitors to the local market, updates on the SGX Kilobar contract and details of the upcoming June conference.

IE Singapore Divisional Director, Metals & Minerals, Lester Lu and SBMA CEO Albert Cheng at the press conference.

***April 18-20:*** CEO Albert Cheng presented "Building a Physical Gold Quadrangle in Asia Pacific (Shanghai-Hong Kong-Singapore-Perth)" at SGE International Advisors' Conference & Global Gold Market Summit 2017 in Shenzhen, China. The presentation introduced two new concepts: The Western Gold Quadrangle, centred around four markets (London-New York-Zurich-Johannesburg), and the Eastern Gold Quadrangle (Shanghai-Hong Kong-Singapore-Perth), as well as a discussion of the emergence of a third market bloc – ASEAN. Particularly, the changing geographical sources of demand was revisited, and proposed that hubs like Singapore and Hong Kong could be gateways and conduits to link ASEAN with the rest of the world to sustain the demand for gold and drive new opportunities in terms of supply, customers, and untapped business opportunities/growth.

SBMA CEO Albert Cheng speaking in Shenzhen, China.

***May 16:*** CEO Albert Cheng spoke at Bloomberg Intelligence's sixth annual Precious Metals Forum, as part of the precious metals panel. This was an informative event featuring keynote speeches, panel discussion and expert presentations covering physical and paper precious metals market. Topics of discussion included global precious metals markets outlook, platinum investment demand, future India demand and luxury market.

## Membership

Onboarding of ANZ Bank, J. Rotbart & Co. (Strategic Transactions Limited), and UBS AG.

## Upcoming Partner Events

*11–13 August 2017. Goa, India.*
**14th India International Gold Convention**
The three day event is a platform for the entire Indian bullion industry to deliberate on various challenges facing the industry, articulate the possible solutions and set an agenda for the development of the industry. More information at www.goldconvention.in.

*15-17 October 2017. Barcelona, Spain.*
**LBMA/LPPM Precious Metals Conference 2017**
Senior representatives from all sectors of the precious metals markets will meet in Barcelona, Spain, for the premier event in the industry, now in its 18th year. Please visit www.lbma.org.uk for registration and event details.

### About Crucible

Crucible is published quarterly by SBMA. If you would like to contribute an article, news, or information to Crucible, place an advertisement in Crucible, or if you require further information, please contact:
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