

Asia's evolving gold market infrastructure



Executive summary

Operating as 'ecosystems,' Asia's precious metals market brings together LBMA refineries, bullion banks, wholesalers, traders and logistics firms into a cohesive gold marketplace.

Significant markets serving Asian demand include China, Hong Kong, Japan and Singapore. Asia is a thriving hub for bullion production with more than 26 registered LBMA gold refineries across the region. Precious metal logistics firms further enhance the bullion trading ecosystem by helping to verify the integrity of the bullion that flows through their doors.

With the dramatic growth in the infrastructure in Asia, buying and storing precious metals has become far simpler, cheaper and more efficient.



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The “Golden” ecosystem

Asia’s precious metals market infrastructure has both expanded and improved, quite dramatically in recent times. Significant markets serving Asian demand include China, Hong Kong, Japan and Singapore. The infrastructure that supports a thriving gold market includes gold refining facilities, storage and vaulting capacity, exchanges that offer a range of spot trading capability or listed contracts and a sophisticated investing public interested in taking advantage of the benefits offered by investing in physical gold.

According to experts canvassed by Hubbis, more than 50% of Asian clients prefer to store their gold in Singapore, about 35% prefer Hong Kong, with the remainder storing bullion in Zurich and a small proportion preferring North America.

Operating as ‘ecosystems,’ these markets bring together LBMA refineries, bullion banks, wholesalers, traders and logistics firms into a cohesive gold marketplace.

The Asia region is a thriving hub for bullion production with more than 26 registered LBMA gold refineries spread across China, Hong Kong, Japan, Singapore, Indonesia, Philippines, South Korea and Taiwan. And while Asia as a whole is a significant participant in the global gold marketplace, there are specific local markets that stand apart as leaders in the region.

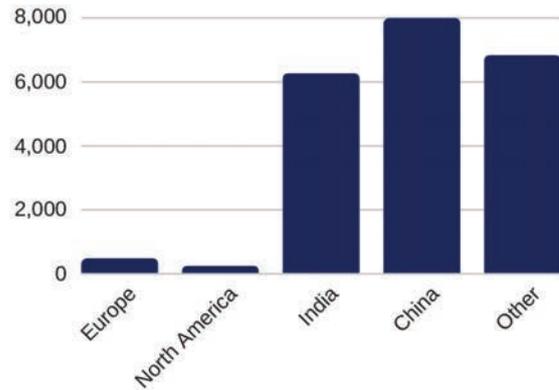
China

China is home to the Shanghai Gold Exchange (SGE), the largest physical spot exchange in the world, which has grown in significance in line with China’s increasing importance in the gold market. In 2016, the SGE cemented China’s role as a global price setter by introducing the Shanghai Gold Benchmark Price. The Chinese gold markets are further supported by very active futures markets traded on the Shanghai Futures Exchange (SHFE). These two exchanges complement each other’s offerings even though they are not directly linked.

Hong Kong

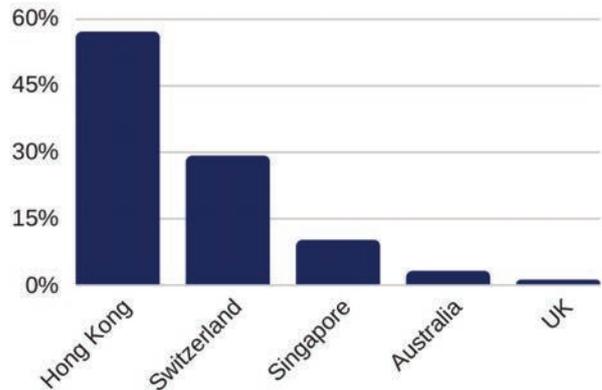
The Hong Kong gold market was built around the Chinese Gold and Silver Exchange (CGSE) established in 1910. It is one of the world’s most active physical gold trading markets and has long worked as a gateway to the Chinese market. While other Asian markets are gaining in importance, the Hong Kong based exchange still exerts a great deal of influence in the region.

Tab. 4.1 Changes in Above-Ground Stocks by Region 2010-2017



Source: GFMS, Thomson Reuters

Tab. 4.2 Chinese Gold Imports Breakdown 2017 (The Major Sources)

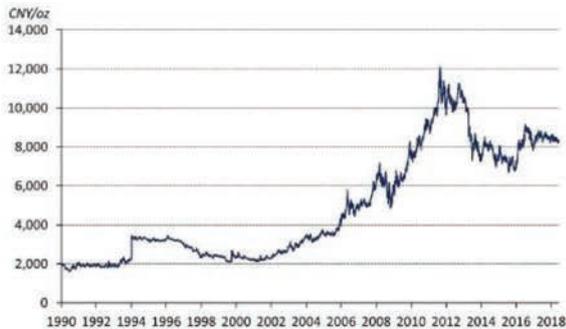


Source: GFMS, Thomson Reuters

IT IS ONE OF THE WORLD’S MOST ACTIVE PHYSICAL GOLD TRADING MARKETS AND HAS LONG WORKED AS A GATEWAY TO THE CHINESE MARKET. WHILE OTHER ASIAN MARKETS ARE GAINING IN IMPORTANCE, THE HONG KONG BASED EXCHANGE STILL EXERTS A GREAT DEAL OF INFLUENCE IN THE REGION.

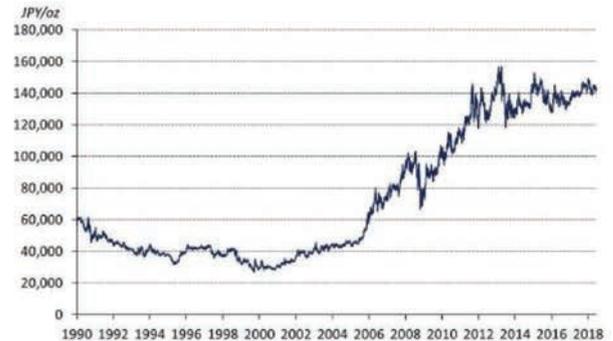
In a February 2018 article, the South China Morning Post reported that the exchange is working to establish a gold commodity corridor between Singapore, Myanmar and Dubai to promote yuandenominated products. And as part of this effort, there is a proposed bonded warehouse

Tab. 4.3 Gold Spot Price in Chinese Renminbi



Source: Reuters Datastream, LBMA, World Gold Council

Tab. 4.4 Gold Spot Price in Japanese Yen



Source: Reuters Datastream, LBMA, World Gold Council

in Qianhai free-trade zone, near Shenzhen, capable of storing 1,500 tonnes of gold which is expected to provide custodial and physical settlement services.

Japan

Due to its proximity to China and Hong Kong, it is often easy to overlook Japan's role in the Asian gold infrastructure, but it is a superb example of a sophisticated and mature gold market. The Tokyo Commodity Exchange offers three gold futures contracts and has certified eight Tokyo-based warehouses for precious metals including gold. There are 11 LBMA approved refineries. Investment demand for gold in Japan in 2015 was estimated by the WGC to be 32.8 tonnes, split between 16.2 tonnes of investment gold and 16.6 of gold jewellery. Japanese investors are more than willing to hold physical gold as a hedge against currency volatility and more importantly as a store of value.

Singapore emerges as an Asian Gold Hub

The Singapore government spotted many of the critical trends early and has been highly focused on offering HNW clients, private banks and institutions the opportunity to manage their financial assets as well as physical holdings of tangible assets, especially precious metals.

Singapore has therefore positioned itself at the cutting edge of the market as a critical Asian hub for precious metals. The location is ideal, based on the geographic and time zone links to the precious metals operations in the Americas and EMEA. Singapore has an excellent commodities infrastructure, and the government has been working to encourage companies to enter Singapore in the precious metals sector.

Singapore is viewed as one of the most international

and sophisticated place for companies in this marketplace to conduct business in the region, with an excellent regulatory, legal and financial infrastructure. With the full range of mainstream financial institutions and wealth management firms operating out of the island Republic, it is a natural venue for the growth of the physical gold market in the region.

Aimed at establishing the country as a hub for the gold trade, The Government of Singapore decided in October 2012 to waive the Goods and Services Tax (GST) on Investment Precious Metals ("IPM"). To qualify for the waiver, the metals must be accredited by an LBMA approved refinery. Seizing on the opportunity offered by the favourable tax environment the infrastructure

"Supported by Enterprise Singapore, SBMA is focused on the development of Singapore as an Asian precious metals hub and also as one of the most global centres of connectivity for precious metals. This recognizes its geopolitical stability, transparent financial system and wealth management infrastructure, in support of investment demand in gold. Since relaxing GST requirements in 2012, the volume of gold traded out of Singapore has grown at a 5-year compound annual growth rate of 40%, reaching over 1,700 tonnes in 2016."

Albert Cheng
CEO of Singapore Bullion Market Association

SINGAPORE PRECIOUS METALS ECOSYSTEM

- Private Banks
- Bullion Banks
- Accredited Refineries
- Traders/ Wholesalers
- Secure Logistics & Vaulting
- Retail & Distribution

necessary to support the gold trade has developed whereby there is now an LBMA refinery in Singapore, and the big-name logistics companies provide vault storage and transportation logistics.

In 2011, the construction of the Singapore Freeport was completed, leading to significant bullion houses and banks opening dedicated vaults within the facility. Combined with the Singapore “Freeport” storage, the vast array of banks and large trading companies, the market trading infrastructure and the retail market, Singapore has a compelling range of attractions for any serious investors in the gold market.

The developing infrastructure, coupled with Singapore’s decision to waive the GST, allowed Singapore to further cement its position as an international wealth management centre at a time when global demand for investments in precious physical metals was growing apace.

Precious metals logistics firms build their presence

Many investors looking to remove assets from the financial system are spoilt for choice with the leading global precious metals logistics firms: Brinks Global Services, G4S International, MalcaAmit, Loomis, Ferrari and a recent market entrant named Ava Global all offering high-quality transportation, vaulting and insurance services in the region.

These leading names are vital to the industry, ensuring security and transparency that is paramount to the market.

The logistics firms collect, weigh and put seals on the bullion and then move it, whilst of course also taking out insurance coverage while it is in transit. They also work in cooperation with large financial institutions offering allocated vaulting solutions for HNW individuals that prefer to hold bullion managed by large entities and leverage the vaulting economies.

Lastly, logistics firms further enhance the bullion trading ecosystem by helping to verify the integrity of the bullion that flows through their doors. For many investors, the source of the bullion is as important as the purity so logistics firms can help to confirm unbroken chain of custody from refinery or bank to vault.

New approaches Asia’s new generation

Historically many Asian clients have been inclined to keep gold at home. For many, the concept of storing it with a third party caused either privacy concerns or fears over security. But that mindset is gradually changing, especially as the younger generations inherit much of Asia’s old wealth and embark on new ventures, therefore providing excellent opportunities for the bullion sales companies, vaulting and logistics companies, that move the gold around.

For small holdings of coins and other more modest gold items, storage at home continues to be logical for most HNW families, but in a world where security is even more of a pressing concern storing bullion and more significant amounts of gold at home is increasingly risky.

Moreover, insurance is complicated unless the house is set up for high security. Additionally, if an owner wants to sell bullion, it would then need to be authenticated and certified, which is problematic if it is not stored in a secure vault.

Adding further momentum to the physical gold market, more and more European and even US clients are interested in storing gold in Asia, due to its growth and increasing financial stability, especially in centres such as Singapore. With the dramatic growth in the infrastructure in Asia, buying and storing precious metals has become far simpler, cheaper and more efficient.

While banks might charge an estimated 2% of the procurement and around 1% of the annual custody, there are alternative providers of this service.

Both private and listed financial services firms now offer those services at an estimated 50% less, according to experts contacted by Hubbis.

Typical custodian costs depend on multiple factors, including location, size, the number of times access to the gold is required and so forth. The service providers can offer access to clients or nominated third parties to view or check the gold.

Rates are on a case-by-case basis, but market experts indicate rates of between 0.25% and 0.5% are typical for custodian services. ■