

For INTL FCStone the answer in Asia is atomic number ‘79’

INTL FCStone’s precious metals business has been growing apace, and the firm’s new web-based physical trading platform is bringing additional transparency and efficiency. As a Nasdaq listed company, it offers Asian clients the added compliance and regulatory standards of a Fortune 500 financial services organisation. Martin Huxley, Head of Precious Metals for Asia, expounded not just on the precious metals business, but on INTL FCStone’s growing footprint in the region.



MARTIN HUXLEY
INTL FCStone

INTL ASIA PTE LTD (INTL ASIA), being a wholly owned subsidiary of INTL FCStone Inc. (NASDAQ: INTL), was established in Singapore in 2006 with a key objective of adding unique value in the Asian precious metals market. One of the key focus areas for their Asian business is gold, that most sought-after of elements with the atomic number ‘79’.

“The firm has enjoyed an exciting decade-plus of growth in the Asia Pacific region, particularly in recent years as we have added sophistication and embraced technology in our service offering,” says Huxley. “We have expanded rapidly to meet customer demand. Offices in Hong Kong, Shanghai, Beijing and Sydney have been added, but Singapore to this day remains the region’s hub with the key operational, logistics and risk management teams.

And beyond Asia, parent company INTL FCStone has precious metals teams located in Dubai and London, with consultants operating in India, Africa, and Eastern Europe.

INTL FCStone began trading physical bullion in the early 2000s. “The group had, early on, recognised the need to serve an expanding global customer base and spotted gold’s migration from West to East,” Huxley reports. “Timing the opening in Singapore a year or two before the global financial crisis put us in an excellent position to benefit from the raised profile of gold as a safe haven amidst fear and volatility in the global financial markets, and further coinciding with the region’s vast growth potential and surge in spending power.”

INTL FCSTONE – FROM HUMBLE BEGINNINGS...

The heritage of INTL FCStone Inc. dates from 1924 when a door-to-door egg wholesaler founded a business called Saul Stone and Company. Through organic growth, acquisitions and the 2009 merger between International Assets Holding Corporation and FCStone Group, it has become a global, Fortune 500 financial services organisation.

Today INTL FCStone Inc. has a market valuation of around \$800 million, revenues of more than \$14 billion and 1,600 employees worldwide. INTL FCStone's Precious Metals Division is therefore backed by the financial strength and global network of the parent company.

INTL FCStone's customers include the producers, processors and end users of virtually every major traded commodity - commercial counter-parties; governmental, non-governmental and charitable organisations; institutional investors; brokers; professional traders; commercial banks; and major investment banks.

INTL FCStone offers these customers a comprehensive array of products and services. Among these services are the proprietary Integrated Risk Management Program (IRMP), as well as exchange and OTC execution and clearing services designed to limit risk and enhance margins and bottom-line results; physical trading in precious metals and grains; a global foreign exchange and currency payment service; asset management; equities market-making; securities execution and trading; and advisory services.

Beyond precious metals, INTL FCStone is a member of the London Metal Exchange (LME) and a member of NYMEX/COMEX. The metals teams specialise in aluminium, copper, zinc, lead, nickel, tin and a suite of ferrous products. The metals futures, options and OTC capabilities are designed to meet the specific needs of INTL FCStone's diverse customer base - from CTAs and hedge funds to commercial metals producers, consumers and merchants, to FCMs and financial institutions. The firm offers 24-hour trade execution and clearing services through global operations in major financial markets including New York, London, Brazil, Sydney and Hong Kong.

With more than 100 LME professionals in offices around the world, INTL FCStone can service clients in Europe, the Americas, the Middle East, Australia, Asia and the Greater China Region. "Our team has more than 35 years of market experience," reports Huxley. "Our professional reputation, our expertise in metals, and our focus on client service rank us as one of the top metals services firms in the world. We also offer both daily and monthly fundamental and technical analysis of the metals markets, as well as coverage of other commodities and macroeconomic trends."

INTL FCStone Ltd London, is a member of the London Bullion Market Association (LBMA) and is a Direct Participant of the LBMA Gold and Silver Auction process.

"In summary, we have the depth of expertise, technology infrastructure and global presence to provide our precious metals clients with the most efficient and effective solutions to all of their needs," concludes Huxley.

ASIA'S HISTORICAL AFFINITY FOR GOLD...

Huxley explains that while there are other ways to gain exposure to the gold market, for example through the futures markets, through ETFs [exchange traded funds], or through the shares of gold miners, there remains great interest and demand in physical gold.

"This is due in part to historical and cultural factors. Gold might be sitting in vaults, but just as often it might be for special occasions and gifts, 18th and 21st birthdays, weddings and so forth. Underlying all of this is the widespread sentiment in Asia that gold provides a hedge

against uncertainty in politics, finance, currency volatility, and security against natural and other disasters."

GROWING WEALTH, GROWING DEMAND

Huxley and colleagues see huge and growing retail demand in Asia, much of it for investment purposes. "As wealth grows we expect more of it to flow into gold and other tangible assets, especially in massively populous countries such as China and India where there is a traditional inclination to own physical assets. Beyond this, high net worth and ultra HNW populations

From the mine... to a vault... or to an item of jewellery

Huxley and his team at INTL Asia Pte Ltd (INTL Asia), out of Singapore, work in a remarkably diverse and fascinating business, dealing with clients from mining companies to jewellery makers to high net worth individuals. “For example, we might buy gold in raw material form from mining companies in Indonesia, Australia, Russia, Africa or North America, and then send this to refineries around the globe that convert it to gold bars that can then be marketed and delivered to institutions, or to high net worth individuals. Or, it might be converted into fashion accessories. It might end up as a 400-ounce gold bar in a vault somewhere, or could end up as a pendant given as a birthday gift.”

INTL Asia deals with bullion wholesalers, jewellery manufacturers, jewellery retailers, investors, central banks, commercial banks and so forth. Much of the physical refining is still handled in Switzerland or elsewhere in the West, but much of the physical demand arises from the East so there is a massive shift of bullion from west to east.

INTL Asia deals largely with refineries that have been accredited by the London Bullion Market Association (LBMA). When a gold bar is produced by the refineries, from whatever raw material source – whether doré from the mine [70%-90% gold ore] or from scrap gold – the bar that emerges will typically be what the industry terms ‘four 9s’, which means 99.99% purity. “That is what is, in turn, accepted and traded in the far eastern markets,” Huxley explains, “although other markets such as India will accept 99.5% purity as the norm.”

The gold can be traded in a large bar - the 400-ounce (or 12.5 kilos) bar – that is most commonly delivered to and from the vaults. Commercially, the kilogramme bar is more widely traded, however much smaller bars are available starting at just 1 gram, in addition to coins. Huxley reports that the kilo bar is the standard typically traded in Asia, while the 100-gram bar is quite popular in the Indian market.

To move the gold INTL FCStone employs the services of the precious metals delivery and logistics companies that are so vital to the industry, with security and transparency paramount. Huxley cites names such as Brinks from the US, G4S International from the UK, Malca-Amit, Loomis and a newer player named Ava Global. “For example,” he explains, “we might want to move gold from Zurich to perhaps Bangkok, or we have some scrap out of Asia and we need to move it to the Rand Refinery in Johannesburg. We would engage one of these firms in order to ensure safe and efficient delivery.”

The transportation and logistics companies collect the gold, weigh it, put seals on, and then move it, of course also taking out insurance coverage while it is in transit. If for example they move the gold to Bangkok and INTL Asia has not yet sold that gold, it can be stored in the vault of one of these services providers until such time as it is sold and then delivered to the end customer.

“We are experts not only in providing services to our clients but in procuring the best third-party services for those clients in areas outside of our core competency, such as transportation and security,” Huxley reports.

are rising fast in the region and we are seeing a trend moving into physical bullion, including money coming out of banks where there is little or no return on cash. There are also those investors who are keen to maintain a portion of their wealth outside of the risks within the financial system”.

INTL Asia offers a complete range of financial and physical trading services in gold, silver and platinum group metals (platinum, palladium and other precious, rare metals). Clients can access markets through trading and what Huxley describes as the firm’s new, ultra-convenient electronic trading platform.

“We are a global business, with desks in London, the Middle East and Asia providing almost 24-hour continuous service to our clients across the entirety of the precious metals sector,” he explains. “We leverage INTL FCStone’s global operations, logistics and IT infrastructure to provide seamless execution - including financing, secure warehousing/vaulting and deliveries for physical transactions across the globe.”

COMPETING IN A GLOBAL MARKETPLACE

INTL Asia has never seen the worldwide markets for precious metals more competitive and demanding than



they are today. “Our experts align their deep understanding of, and experience in, global market dynamics with local market intelligence to help our clients protect margins, manage volatility, and increase profits,” says Huxley.

The choice of Singapore as the main Asian hub was predicated on the geographic and time zone links to INTL FCStone’s precious metals operations in the Americas and EMEA. “Singapore has an excellent commodities infrastructure and is really open and accommodating for companies such as ours,” explains Huxley.

Huxley describes why Singapore’s role is pivotal in the industry. “In 2011, the construction of the Singapore Freeport was completed, leading to major bullion firms and banks opening dedicated vaults within the facility. That helped Singapore further cement its position as an international wealth management centre at a time when global demand for investments in physical precious metals was growing. Singapore continues to be very focused on offering 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 from international clients for reliable solutions to source investment-grade bullion. In October 2012, the Singapore government decided to waive the Goods and Services Tax (GST) on investment precious metals, boosting the market even further.

“Singapore rivals any other city in Asia as an international and sophisticated place for us to conduct business in the region, including an excellent regulatory and legal infrastructure,” Huxley comments. “Furthermore, there is a deep and sophisticated financial and logistics framework here that has attracted a strong presence from private banks, wealth management companies and trust companies, and the storage capacity for precious metals is in place. Vaults are operated by the big global logistics companies, as well as by smaller, local organisations. On top of this, the industry enjoys excellent support from

the Singapore government, mostly through International Enterprise Singapore.”

WEB-BASED TRADING PLATFORM SETS NEW STANDARD

INTL Asia is optimistic about the introduction of the firm’s new web-based trading platform, PMXecute+, which the firm launched in Q1 of 2017. The platform aims to connect precious metals consumers and suppliers with seamless, real-time access to the global physical gold market.

“The wholesale bullion markets have, in general, been slow to embrace technology,” Huxley notes. “For many decades, the buying and selling of gold has been very labour intensive, proving non-transparent and complex, with numerous steps and modes of communication and transportation. This becomes especially unwieldy across the world’s time zones, so INTL Asia is at the cutting edge of efforts to revolutionise gold trading in Asia and around the world.”

PMXecute+ provides customers with free, direct and real-time access to INTL FCStone’s own inventory and those of its supplier base of banks, refineries, and other clients across the world. “The platform automates and accelerates our interaction with customers, improving market access and efficiency,” adds Huxley. “This is vital and enables us to offer seamless execution in the Asian market and globally.”

When customers in Asia do not see offers on the platform meeting their specific requirements (such as specific quantity, specification or location) they can use the platform’s ‘Request for Quote’ function, which notifies all relevant suppliers around the world. Suppliers can then create firm or indicative offers on the platform for all customers to view and trade.

Huxley claims PMXecute+ is the first of its kind in the international bullion market. “It is a remarkable platform that gives us a clear-cut edge over the competition and is very well-liked by our clients. As the platform connects customers with our global network of

suppliers, customers can review physical bullion offers from suppliers or submit requests for quotes, with INTL FCStone acting as principal to every trade.”

“A key advantage of the system,” explains Huxley, “without going into the technical details, is that clients have the option to buy or sell physical gold on an un-priced basis, in other words without needing to simultaneously fix the price.”

Furthermore, it is standard practise for the majority of clients to put up cash or collateral of 5 to 10% as the margin to cover price fluctuations. In order to gain access to the most competitive premiums they may also have 3, 4 or even 5 suppliers and a need to post collateral with each. Now those clients have access to a diversified supply offering from traders, banks and refiners, all of which is consolidated and accessed through INTL. “One KYC process and one set of margin collateral is lower and easier, allowing more efficient management of liquidity and risk exposure,” adds Huxley.

“This is all about aligning our business and our clients with the latest technology,” Huxley elucidates. “We are a leader in the industry and are leveraging our significant global capabilities to increase transparency, while matching buyers and sellers together in an efficient and open marketplace.” The entire process is automated, which Huxley says ‘drastically’ simplifies price discovery, trading, logistics and documentation.

INTL FCStone Ltd was the first non-bank direct participant of the LBMA Gold Auction pricing benchmark and more recently became a participant in the LBMA Silver Auction. The gold benchmark is set every morning

and afternoon, whilst silver happens once in the middle of the day. Both Auctions occur in London, and the price discovery is based on supply and demand, and once there is an acceptable equilibrium the Benchmark price is set

As a Nasdaq-listed financial services company, Huxley can reassure clients of INTL FCStone’s financial stability, regulatory oversight, and high degree of operational transparency. “In short, we offer the support infrastructure of a global corporation along with a high degree of personal service that assures clients that we plan to be their partner for the long-term. We believe that every customer deserves access to the best advice, the best products and the best, most efficient market access.” He also highlights the importance of stringent compliance controls, responsible sourcing for gold and regulatory oversight by various leading bodies across the world. “Credibility is vital, and INTL FCStone takes compliance very seriously,” he reports.

AN EXCITING PAST AND GLITTERING FUTURE

INTL FCStone provides regional market participants with uninterrupted coverage and access to bullion markets using electronic solutions, risk management, and of course staff expertise. “We are highly committed to the global bullion market, as well as to the Asia Pacific region and Singapore. We continually invest in our technology, assets, personnel, recruitment, training and so forth in order to further this commitment. In short, we have a mission to spearhead growth in the precious metals market, which in turn will further accelerate the growth we are experiencing in Asia and across the company.” ■



The INTL FCStone Inc. group of companies provide financial services worldwide through its subsidiaries, including physical commodities, securities, exchange-traded and over-the-counter derivatives, risk management, global payments and foreign exchange products in accordance with applicable law in the jurisdictions where services are provided. For more information please visit www.intlfcstone.com