INTL FCStone Explains Why Asia's HNWIs should consider investing in Gold, and Why Now?

Martin Huxley, Global Head of Precious Metals at INTL FCStone, based in Singapore, believes high-net-worth individuals (HNWIs) should hold some gold as part of a diversified portfolio. Gold, he reports, is a high-quality asset, benefits from a deep and liquid market, and has performed remarkably well compared with many other mainstream financial assets over the medium to long-term. He told the audience at the Hubbis Independent Wealth Management Forum how their clients can access gold investment products.

INTL FCSTONE (INTL) IS A DIVERSIFIED FINANCIAL SERVICES company providing its clients access to an extensive range of financial products across commodities, securities, global payments and foreign exchange, together with global clearing and execution services. INTL is listed on the NASDAQ Exchange with a current [early March 2019] market capitalisation of around USD850 million.

"My own role," says Huxley, "is to run the Global Precious Metals team. Within the firm, we provide physical and paper trading services, and we are certainly one of the world's largest physical bullion traders outside of the banks."

INTL's growth trajectory

The precious metals business of INTL FC Stone (INTL) has been growing apace in Asia, and the firm's web-based trading platform is bringing additional transparency and efficiency to the markets. INTL set out in Singapore in 2006 with the objective of adding unique value to the Asian precious metals market.

The company has expanded rapidly to meet customer demand across the region, opening offices in Hong Kong, Shanghai, Beijing and Sydney. Singapore to this day remains

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hubbis

the region's hub for INTL with the key operational, logistics and risk management teams that support all the firm's businesses.

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

The glitter of gold

"Why gold?" Huxley asked, rhetorically. "Many here today understand gold's unique qualities in terms of safe haven asset, its role in diversifying investment portfolios, a source of long-term return, and its non-correlation to other mainstream assets. It is also very liquid, far more liquid in times of global stress than many people think. In fact, both the physical and paper gold markets remain extremely liquid at those times."

The gold market trades an average of somewhere around USD114 billion daily , and to put that into perspective, Huxley remarked that such volume is more than a lot of other mainstream assets that people are familiar with. In the case of physical gold, such asset is held outside the global financial system.

He then highlighted a statement from the World Gold Council saying that their analysis shows that adding between 2% and 10% to the average pension fund portfolio would have resulted in higher risk adjusted returns.

Timing is everything

And why now? "I think gold is in somewhat of an unchartered territory currently," he observed. "You can see many key themes, including trade wars, political tensions, geopolitical tensions in North Korea or the Middle East, massive government debt in the major economies, but the gold price in recent years has not moved that much. Of course, a key factor has been the strength of the US dollar, and continued expectations of further rate rises."

Huxley then commented on several developments taking place that support the gold price, and that appear to augur well for its performance. "One of the big things that we have seen," he reported, "is central banks buying in and more activity in the gold ETF sector as well."

Central banks accumulate

He highlighted some charts showing how central banks have moved from nett sellers of gold around 12 years ago, pre the financial crisis to the tune of around 5 to 600 tons per year,

whereas in 2018 they were net buyers of around 650 tons. "And it is not only India and China that are buying," he noted, "as we have been witnessing a variety of countries buying, including the Philippines, Malaysia, Poland, Turkey, Hungary, Kazakhstan and several others. In Q4 alone there was over 200 tons of gold purchased by the central banks."

Further explaining what impact this turnaround is having, Huxley said this is a roughly 1200-ton swing in a total market that is between 4000 and 4500 tons a year. And on top of this, the cost of mining continues to rise and there is a finite supply of gold coming on to the market."

Paper gold also more active

Huxley turned his spotlight on paper gold, in the form of ETFs. "Gold-back ETF holding in 2018 were at their highest level for five years as well," he noted, "there have been strong levels of buying in the second half of 2018."

Huxley also highlighted a survey INTL had conducted along with Hubbis during 2018. "We learned from a diverse array of 174 private banks, wealth managers, family offices and others that around three-quarters of them believed their clients have invested in gold," he explained.

"And having followed up with them," he elucidated, "we learned that they are not necessarily saying that their clients should invest in gold because they expect the price to go up, but more because of its diversification properties and the protection that gold affords portfolios in times of stress and due to its non-correlation with other mainstream assets."

Access to the gold market

INTL offers full access both for physical gold and for the paper gold market, such as Futures, Options, ETFs, OTC Spot. "On the physical side," noted Huxley, "we are seeing a growing trend in the far eastern markets for storing gold, and as it offers a very liquid market if people want to sell their gold back, it is straightforward, fast, and can be done at a relatively small spread. What we observe is when the stock markets sell off, a lot of the investors sell their gold first because it is, in fact, a most liquid asset they can convert to cash."

Huxley concluded his talk by highlighting INTL's global presence and resources. INTL has relationships with most of the direct market participants, whether they are the refineries, the banks, the logistics firms, the storage facilities, the insurers and many others.

INTL's global credibility

"Accordingly," he reported, "we offer what we believe is the best and the most transparent price available." He explained that INTL is a member of all the major industry associations and exchanges associated with the bullion industry. INTL was also the first non-bank to join LBMA Gold Auction, which is administered by ICE on behalf of the London Bullion Market Association (LBMA) and the successor to the London Gold Fix. INTL is also a member of the LBMA Silver Auction.

"And we have invested significantly in technology," he added, "offering an efficient platform providing high-quality services for accessing the gold market, including via mobile apps, and thereby providing very transparent and efficient trading."

He closed his talk by encouraging delegates to discuss opportunities with INTL. "We work very closely with the wealth management community," he reported, "and we are always receptive to new relationships, new ideas for working together with independent firms and your clients, and further expanding our intelligence in the sector to provide tailored products." ■