

The growing demand for physical gold amongst Asian HNW and UHNW

Martin Huxley, Head of Global Precious Metals for Asia at INTL FCStone is passionate about gold. He is convinced that as wealth grows in Asia more money will flow into gold and other tangible assets. He presented a workshop to highlight the appeals of gold, the mechanics of owning it and the opportunities for independent wealth advisers in Asia.

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HUXLEY'S WORKSHOP TOOK PLACE at the Hubbis Independent Wealth Management Forum in Singapore on March 8. INTL FCStone (INTL) is becoming an increasingly well-known name in Asia. As a Nasdaq listed company with a market capitalisation of more than \$880 million [as of March 16], it offers Asian clients the requisite high-quality compliance and regulatory standards of a Fortune 500 Financial services group.

"This," he said, "makes INTL an ideal partner for independent wealth managers seeking to deliver precious metals solutions seamlessly for their HNW and ultra HNW clients."

The rapid evolution of gold sector in Asia

Since INTL set up out here in Singa-



MARTIN HUXLEY
Global Precious Metals

pore in 2006 the firm has expanded rapidly to meet customer demand, with offices in Hong Kong, Shanghai, Beijing and Sydney. "Singapore

to this day remains the region's hub for us with the key operational, logistics and risk management teams that support all the firm's business-

es, but our footprint is across Asia Pacific.”

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

Huxley understands Asia’s long fascination with gold as jewellery and as an investment portfolio diversifier and safeguard. “But,” he explained, “never has it been so straightforward for Asia’s wealthy and the wealth management firms they work with to buy and hold physical gold. INTL has introduced the first online premium based physical bullion trading platform connecting the global supplier base, including LBMA refineries, with end users and where INTL operates as a central clearing counterparty.”

Gold’s many values

Huxley explained that gold has historically proven itself to be one of the safest and most stable stores of value available to investors. Bul-

lion, he believes, will always maintain value due to its limited supply and intrinsic value.

“It is a recognized hedge during periods of inflation and proven to reduce investment risk in a diversified portfolio,” Huxley explained. “Known as a ‘Safe Haven Asset’ it is high-quality collateral during periods of extreme risk, especially if the financial sector is under actual or perceived threat. “All these factors make gold the first-class asset for wealth preservation, sustainability as well as offering easy transferability of ownership, very important for Asian families.”

Huxley explained 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, the firm sees a surge in demand for physical gold. And a trend of wishing to own and have access to bullion rather than indirect exposure through shares, de-

rivative products or access through a financial system and controlled by custodians and trustees.

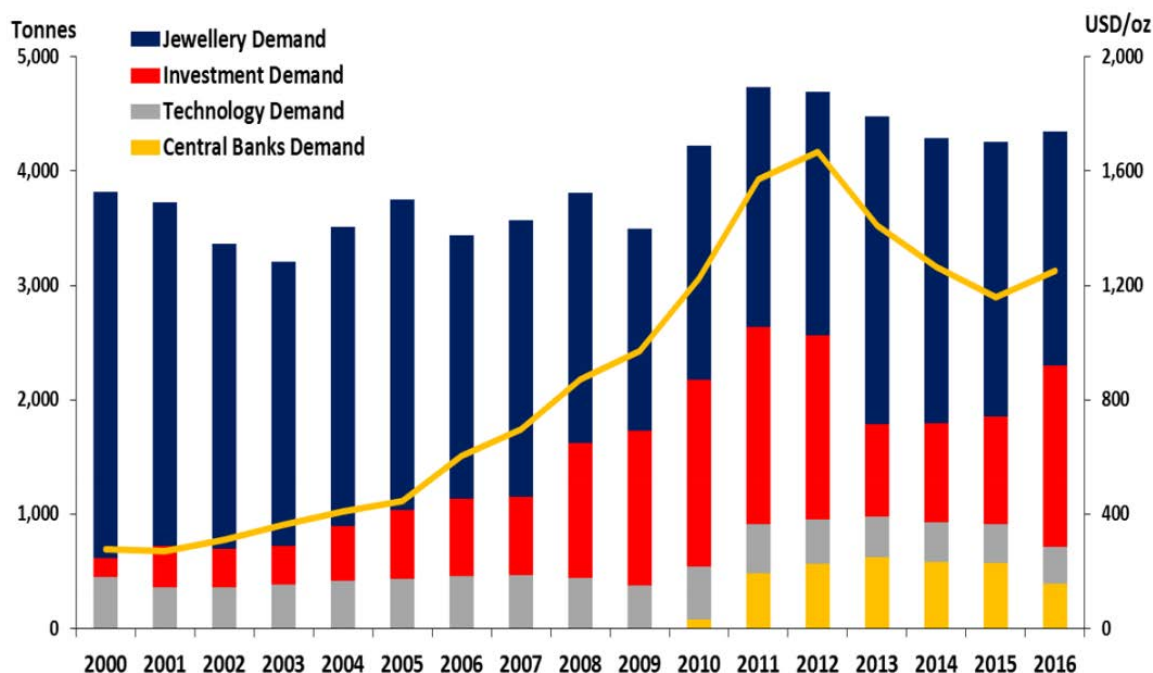
Demand to remain strong, supply to weaken

Huxley briefly referred to the dynamics of the gold market supply and demand history and outlook, noting that from 2019 gold demand is expected to outstrip supply from mines and from recycling.

Aside from robust demand from central banks, especially from Russia, Turkey and China, there is growing retail demand for gold. “Here in the Asian market the HNW market is maturing and those who have made money are often looking to diversify and moving assets out of the financial system. And there is considerable movement of gold assets from the West to the East, benefitting from the excellent infrastructure that has been assembled here. One outstanding and reassuring advantage of gold is being able to see it physically and to know that

Sources of Gold Demand

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Source: Bloomberg

it is securely held and outside the global financial system.”

Under-exploited opportunities for wealth managers

Yet Huxley explained that while many HNW clients are active in gold in Asia, estimates indicate that less than 40% involves either wealth managers or private banks. “When it comes to physical gold, there is an understanding gap that I want to address here today.”

To do so, Huxley highlighted the excellent market infrastructure. “Asia, and especially Singapore, today offer a remarkably complete and professional gold market infrastructure. Singapore is a low-risk, triple-A jurisdiction with a government that is very supportive of this precious-metals industry. The financial market is deep and sophisticated, there is a powerful presence of insurance providers and a wide array of supporting legal and other advisory services.”

The Singapore Freeport completed in 2011 and houses global and regional logistics and storage firm. And a London Bullion Market Association accredited refinery is now operational in Singapore -

bona fide bullion must be bought from an accredited refinery. “There is today the full ecosystem covering every aspect of the physical gold and paper trading markets,” he observed. “Moreover, since October 2012, the Singapore government has waived Goods and Services Tax (GST) on investment precious metals, boosting the market even further.”

Buying and storing

Huxley explained briefly about the setting of the physical gold price. “When dealing in physical bullion you have a gold price and you have a premium that moves with supply and demand. Generally, that premium is sensible and reasonable in times of relative stability, but for example in 2009 when the financial system pretty much seized up the price of gold rallied but the premium jumped dramatically. Moreover, at that time we found that when we would trade in physical gold and there could be a queue of weeks to move that bullion out of the refineries because everybody wanted gold. For those already holding and owning gold securely, they were in a perfect position, with easy access to their gold if they required.”

Storage charges, Huxley explained, are roughly 0.3% to 0.5% of the gold bullion value. “Storing gold via INTL can achieve lower costs,” he said, “as we are one of the biggest market makers and bullion trading houses both globally and here in Singapore, so we can bring economies of scale to clients.”

Liquidity facilities

Huxley also highlighted the ability of physical gold investors to obtain leverage if they require additional liquidity, supported by their gold assets. “It is recognised that bank’s will usually lend to HNWIs against official bullion,” he said. “INTL may also provide such leverage services to clients in the region.”

Lenders generally offer, for example, up to 75% against the value of the gold holdings and at a marginally higher interest rate than for other loans backed, for example, by property assets.

INTL provides round the clock service to clients. “We optimise our group’s global operations, logistics and IT infrastructure to provide a full service,” Huxley concluded, “including transacting, financing, storing, warehousing and delivering physical gold across the globe.” ■

Singapore Precious Metals Ecosystem

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