Infrastructure Key to Ensuring Fairness, Transparency as Gold Market Moves Eastward

By SBMA
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The gold market is shifting from West to East – fabrication demand in 1989 and 2016 were roughly equal, but its regional distribution has changed markedly, with East Asia being the main destination for precious metals exports – reflecting a shift in global trade flows, explained Philip Klapwijk (Managing Director, Precious Metals Insights) at the Asia Pacific Precious Metals Conference in Singapore. He also pointed out that China's gold bullion imports have exploded, and they now going directly to the mainland instead of via Hong Kong.

China is the world's largest gold producer, consumer, importer, and an active gold investor, with a daily "Shanghai Benchmark" trading volume of 3.29 tonnes (2016) and 3.71 tonnes (2017, 18 May), Andrew Wang (Product Director, Shanghai Gold Exchange).

As such, how the industry continues to globalise will be depend greatly on China's market development as the country is an enormous economic player, and the reason why despite global turbulence, David Mann (Chief Economist – Asia, Standard Chartered Bank) described Asia is the "best economic neighbourhood" to be in. He added that China and AXJC (ASEAN and India) would likely contribute to about 50-60% of global growth in 2017.

Mr Mann highlighted that gross export growth is a key input to Asian growth trackers, and that China is providing key support for most exports, though its inventory rebuild may be showing signs of peaking. Its growth in 2017 may slow down compared to 2016 on lighter monetary conditions, property cooling measures and softer domestic demand.

"New products are needed to cope with the new era in the gold industry", Haywood Cheung (CEO, The Chinese Gold and Silver Exchange Society) said, referring to increased globalisation, digitisation, a shift from OTC to exchange trading, and a tightening grip on the market by regulators.

These products, which range from micro-contracts to contracts with cross-border delivery take advantage of the new market infrastructure, and provide more opportunity for arbitrage and more cost effective access to liquidity.

For example, CGSE's RMB Kilobar Gold Contract traded in Hong Kong with delivery in Qianhai integrates the markets in the region and gains arbitrage opportunities.

The London Market Exchange's LMEprecious, gold and silver exchange traded future contracts, combines spot liquidity with futures on the same platform and provides on-screen access to the loco London market from 0800, with prices on screen for spot out to five years forward. Thailand Futures Exchange's (TFEX), baht-based gold futures contract is a hedging tool for investors, and is an example of how a relatively small domestic contract can grow by overlapping trading times, Rinjai Chakornpipat (Managing Director, TFEX) said.

While the historic monopoly of Switzerland and London is being challenged by Asia, Robin Martin (Managing Director, Market Infrastructure, World Gold Council) highlighted the importance of market infrastructure in ensuring markets are fair and transparent. It is also critical for players to trade effectively and with confidence, he said.

Sunil Kashyap (Managing Director, Head of Asia, ScotiaMocatta) said Singapore's well-developed market infrastructure is reason the country is attractive to gold market players, and its value as both a trading and storage hub.

Mr Kashyap explained that hubs need an active physical interbank market, strong financial counterparties, and a quasi-government entity that can represent industry participants, and urged countries to develop these areas to strengthen their precious metals markets.

Mr Klapwijk pointed out that while choice and innovation is a good thing, only so many contracts are able to survive. Mr Martin pointed out that most new products fail because they do not address a real market need. He said that for a product to be successful, it needs to introduce something genuinely new into the market, adding that participants also need to have the right incentives, which need not only be financial.

Ryoichi Seki (General Manager, Global Business Development Department, TOCOM) pointed out that a new contract can be complementary and not cannibalistic for an exchange. In fact, they expand the scope of the precious metals market.