

Gold and Asean

Introduction: Asean region

The launch of the Asean Economic Community (AEC) on 31 December 2015 was a major milestone in Asean's regional economic integration agenda and the next stage of the organisation's evolution, which began in 1967 with five member countries. It is now collectively the 7th largest economy in the world in terms of GDP (US\$2.4 trillion), and has a population of 625.5 million.

Further infrastructure development commitments made under the Asean Free Trade Area (AFTA), such as the East-West Economic Corridor connecting the Greater Mekong sub-region, and the North-South corridor linking China with Southeast Asia, together with development of key sea ports will increase import and export opportunities for Asean countries, and will allow Asean to become a major production and distribution hub. Besides, Asean itself is a huge consumer market, with a middle class that is growing along with its economy, and as a consequence wealth accumulation among this demographic will also increase (Table 1).

Table 1: Economic data of Asean countries (Source: Focus Economic)

2015 *2014	Population (million)	GDP Growth	GDP/P	CPI	Export (US\$ billion)	Import (US\$ billion)	F. Reserves
Singapore	5.5	2%	\$53,004	-0.6	377	295	240
Thailand	67	0.90%	\$5,445	1.90%	225	200	157
Indonesia	255	4.80%	\$3,379	3.40%	150	143	106
Malaysia	31	5%	\$10,222	2.10%	200	176	95
Philippines	101	5.80%	\$2,877	1.50%	58.6	66.7	80.7
Vietnam	92	6.70%	\$2,036	0.60%	162	166	34
Cambodia*	15.3	7.10%	\$1,096	3.90%	10.8	13.5	5.6
Brunei*	0.4	17.10%	\$41,411	-0.20%	-8.3	-5.9	3.5
Lao PDR*	6.9	7.50%	\$1,739	1.30%	17	9.3	0.9
Myanmar*	51.4	8.50%	\$1,228	5.90%	11	16.2	4.8

Asean's gold market

Gold has played a very important role in the region and is closely connected with the life and culture of the people in the region. In some countries, gold is seen as more stable than the national currency, and people often use it as a medium of exchange and a unit of measurement. In general, people in this region like to buy gold jewellery, not only for use as accessories or gifts for cultural or religious ceremonies such as weddings, festivals and other special occasions, but also as a storage of wealth. In rural areas, people often convert their excess money into gold, and store it for a rainy day. People can re-sell the gold to jewellery shops when they need money, or visit pawn shops for short-term borrowing. Besides the demand for jewellery, political and global macroeconomic uncertainty are prompting people to invest in gold, and is pushing the demand for physical gold, such as bars or coins.



Additionally, dinar coins are well-received by a couple of countries as a form of savings, and are even used as a medium of exchange.

Asean does not only comprise gold importing nations, but also includes nations that export gold collected as scrap or from the by-product of mining, though gold mines are located only in a few countries (Table 2). According to Metal Focus, in 2016, Asean's total demand for gold was 295 tonnes, and its total supply was 333 tonnes. In addition, Asean central banks hold gold as a part of their reserves. The official gold holding in Asean is 603 tonnes (Table 3).

Table 2: Asean gold import/export data (Source: Metal Focus, 2017)

ASEAN Gold Supply and Demand (Tonnes)	2010	2011	2012	2013	2014	2015	2016
SUPPLY							
Mine Production	194	164	143	152	153	175	174
Recycling	128	134	114	94	88	69	159
Total Supply	322	297	257	245	241	245	333
DEMAND							
Net Physical Investment	195	263	232	305	204	166	150
Jewellery Fabrication	138	128	120	153	149	145	134
Industrial	10	10	10	11	13	10	10
Total Demand	343	402	361	469	366	320	295
Market Balance	-21	-105	-104	-224	-125	-76	38
Nominal Gold Price (US\$/oz, PM fix)	1224.52	1571.52	1668.98	1411.23	1266.40	1160.06	1250.80

ASEAN Gold Supply and Demand (Tonnes)							
Gold - Mine Production	2010	2011	2012	2013	2014	2015	2016
Indonesia	135	109	83	91	94	114	113
Philippines	41	38	39	40	40	42	42
Lao People's Democratic Republic	6	4	7	7	6	7	7
Thailand	4	3	5	6	5	4	5
Malaysia	5	6	6	5	5	6	3
Vietnam	3	4	4	4	3	2	2
Myanmar	2	2	2	2	2	2	2
Gold - Mine Production Total	194	164	143	152	153	175	174
Gold - Recycling	2010	2011	2012	2013	2014	2015	2016
Indonesia	48	42	30	25	23	16	55
Thailand	33	38	28	27	28	21	49
Vietnam	27	26	26	21	20	16	26
Malaysia	13	17	21	13	12	11	19
Singapore	5	7	5	5	4	4	8
Philippines	3	4	4	3	2	2	2
Gold - Recycling Total	128	134	114	94	88	69	159
Total Supply	322	297	257	245	241	245	333



Gold - Jewellery Fabrication	2010	2011	2012	2013	2014	2015	2016
Malaysia	44	45	43	58	53	49	43
Indonesia	50	41	36	43	46	46	41
Thailand	24	23	21	26	25	22	22
Vietnam	12	12	10	11	12	15	16
Singapore	9	9	10	15	14	13	13
Gold - Jewellery Fabrication Total	138	128	120	153	149	145	134
Gold - Physical Investment	2010	2011	2012	2013	2014	2015	2016
Thailand	71	111	100	138	96	78	70
Vietnam	74	94	77	88	54	48	43
Indonesia	26	31	29	48	27	20	21
Malaysia	5	6	7	10	8	7	5
Singapore	5	5	6	6	7	6	5
Philippines	1	1	2	2	2	1	1
Gold - Physical Investment Total	181	250	221	293	194	159	144
Gold - Official Coin Fabrication	2010	2011	2012	2013	2014	2015	2016
Indonesia	4	3	2	2	2	2	2
Thailand	2	2	2	2	2	2	1
Vietnam	5	6	5	6	3	2	1
Gold - Official Coin Fabrication Total	12	12	9	10	8	5	4
Gold - Medallions & Non-Official Coin Fabrication	2010	2011	2012	2013	2014	2015	2016
Viet Nam	2	2	2	2	2	2	2
Gold - Decorative & Industrial Applications	2010	2011	2012	2013	2014	2015	2016
	NA	NA	NA	NA	NA	NA	NA
Gold - Dental Fabrication	2010	2011	2012	2013	2014	2015	2016
	NA	NA	NA	NA	NA	NA	NA
Gold - Electronics Fabrication	2010	2011	2012	2013	2014	2015	2016
Singapore	8	8	8	9	11	9	9
Indonesia	2	2	2	2	2	1	2
Gold - Electronics Fabrication Total	10	10	10	11	13	10	10
Gold - Total Industrial Fabrication	2010	2011	2012	2013	2014	2015	2016
Gold - Total Industrial Fabrication Total	10	10	10	11	13	10	10
Total Demand	343	402	361	469	366	320	295



Table 3: Gold holdings of Asean central banks (Source: International Financial Statistics, 2007)

ASEAN	Tonnes	% of reserves
Philippines	196.3	8.80%
Thailand	152.4	3.30%
Singapore	127.4	1.90%
Indonesia	78.1	2.70%
Malaysia	37.9	1.50%
Myanmar	7.3	3.70%
Brunei	3.8	4%
Total	603.2	

New demand and participants

Gold travelling from West to East

- China began liberalising gold transactions, including jewellery, in 2001, ending the state’s monopoly of the gold sector. The Shanghai Gold Exchange was established in 2002 by the People’s Bank of China (PBoC), and it is now the largest physical gold exchange in the world. PBoC also has the fastest growing official gold reserves in the world. In 2005, it developed trading infrastructure for individual investors. China’s gold demand was 1,040 tonnes in 2016 (Table 4), or about 31% of total global demand.
- India’s demand in 2016 was 685 tonnes (Table 5), or about 21% of total global demand.
- The introduction of Shari’ah Standard on Gold, which sets out clear guidelines for Islamic investment in gold, is expected to spur the development of new investment asset classes, and Islamic banks and other financial institutions should be able to expand their customer base with new products created under the guidance of the standard. This has the potential to make Malaysia a gateway to Asean for Islamic investments from the Middle East and the rest of the Islamic world. Bank Negara Malaysia, the country’s central bank, has a history of studying gold circulation in the Middle East as the region has a history of accepting gold as money.

Table 4: China’s gold demand (Source: Metal Focus, 2017)

China's Gold Demand (Tonnes)	2010	2011	2012	2013	2014	2015	2016
Net Physical Investment	184	257	275	432	211	256	316
Jewellery Fabrication	487	609	670	1080	869	821	661
Industrial	58	65	70	65	67	63	64
Total Demand	729	931	1015	1577	1146	1140	1040



Table 5: India's gold demand (Source: Metal Focus, 2017)

India's Gold Demand (Tonnes)	2010	2011	2012	2013	2014	2015	2016
Net Physical Investment	296	334	322	337	206	195	162
Jewellery Fabrication	699	702	651	634	676	724	511
Industrial	18	14	13	13	12	13	13
Total Demand	1013	1050	986	985	894	932	685

India's free trade agreements (FTA)

Gold jewellery imports from Asean to India have surged as a result of the India-Asean FTA, which came into effect in 2010. Gold jewellery imports under the India-Asean FTA face 1% import duty, as opposed to 10% under the normal trade channel.

Uncertainty of the international monetary system

According to the International Monetary Fund (IMF), the ratio of US dollars to foreign currency reserves in each country/region at the end of March 2014 was 60.9% (\$3.76 trillion of \$6.18 trillion). The ratio has experienced a long-term downward trend since its peak of about 73% in June 2001 (Chart 1). The total reserves of Asean currently stands at US\$727.5 billion (Table 1).

Uncertainty in the international monetary system is creating more demand for gold from central banks. Net official sector purchases have been positive since 2010 (Chart 2) and the total holding has increased by 3,393 tonnes in 7 years. Additionally, the self-centred behaviour of certain developed countries is creating more uncertainty in global currency markets.

Chart 1: Ratio of US dollars to foreign currency reserves (Source: IMF)

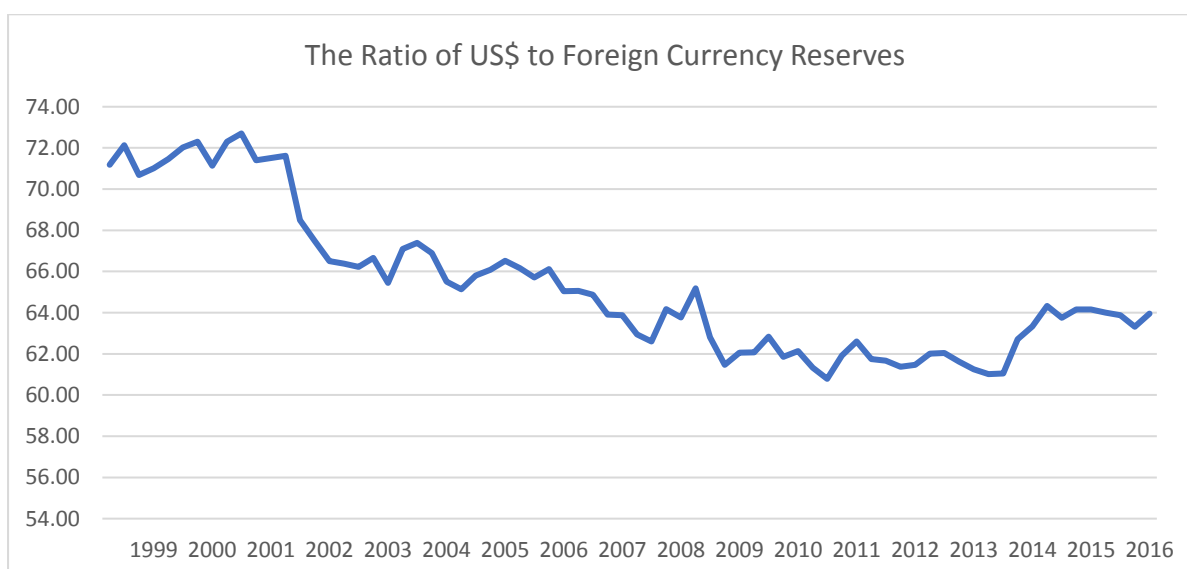
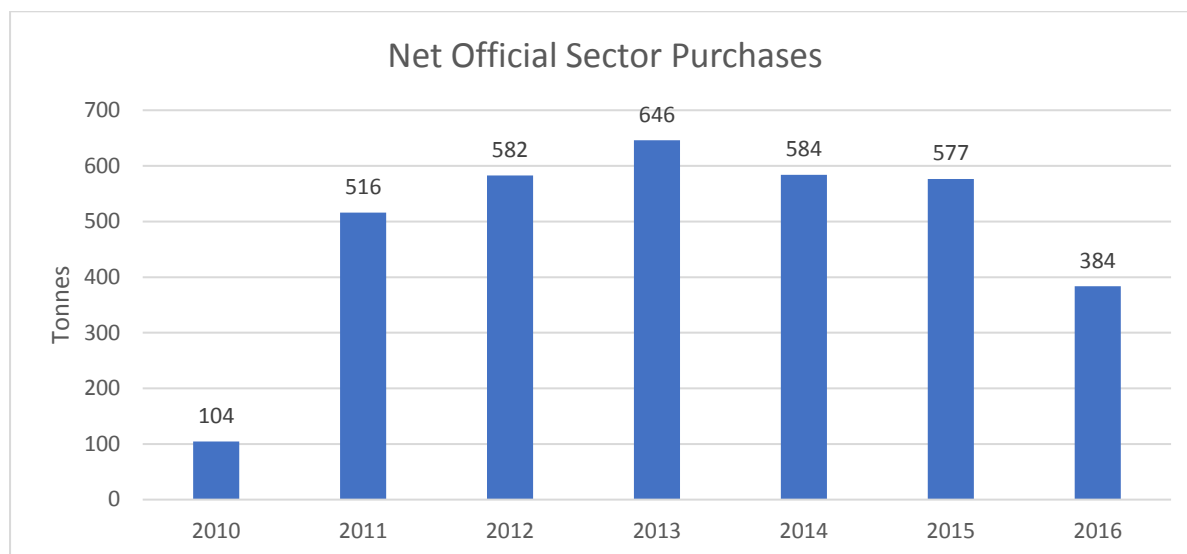


Chart 2: Net central bank buying/selling (Source: Metal Focus, 2017)



A new generation of gold investors

Gold has become more popular among the younger generation of folk who are always connected to the internet, and this is no different in Southeast Asia, where mobile phone penetration is almost 100%. Online gold trading is gaining traction among this group of investors, who see gold as an instrument to generate income and wealth.

Sovereign wealth funds and pension funds

The increasing income of the middle class is prompting the development of social security systems such as pension funds and social insurance. As a result, the diversification of such portfolios into different asset classes, including precious metals, is becoming more common.

Gold is currently not a popular asset class among institutional investors in Asean, except for central banks, which buy gold as a part of their reserves. However, the pension fund system in some countries, such as the Central Provident Fund in Singapore, has approved exchange traded funds (ETF) as an asset class to diversify their portfolio into gold, with a limit of 10% of the total assets.

Currently, many pension fund assets are managed and invested in their respective local markets. The total asset size of major sovereign wealth funds and pension funds in Asean was US\$1,111 billion (Table 6).

Table 6: Asean institutional investment holdings

Institution	Asset size (US\$ billion)	Country	Type
Government of Singapore Investment Corporation ¹	320	Singapore	Sovereign wealth fund
Central Provident Fund ²	213	Singapore	Public pension fund
Temasek Holdings ³	171	Singapore	Sovereign wealth

			fund
KWSP EPF (Employee Provident Fund) ⁴	160	Malaysia	Public pension fund
Permodalan Nasional Berhad (PNB) ⁵	60	Malaysia	Government agency
Brunei Investment Agency ⁶	40	Brunei	Sovereign wealth fund
Khazanah Nasional ⁷	39	Malaysia	Sovereign wealth fund
Pension Trust Fund (KWAP) ⁸	28	Malaysia	Public pension fund
Social Security Office ⁹	25	Thailand	Public pension fund
Government Pension Fund ¹⁰	17	Thailand	Public pension fund
BPJS Ketenagakerjaan (JAMSOSTEK) ¹¹	15	Indonesia	Public pension fund (P)
PT Taspem (for civil servants) ¹²	12	Indonesia	Public pension fund (CS)
Tabun Haji ¹³	10	Malaysia	Government agency
PT Asabri (for the security and armed forces) ¹⁴	2	Indonesia	Public pension fund (SAF)
Total	1,111		

Summary

Growing demand from Southeast Asia is moving physical gold from West to East. Increasing wealth and disposable income among the growing middle-class population in Asean is also creating a huge consumer market for lifestyle products and consumer goods, which extends to jewellery, gold and financial products like insurance policies or investment funds. Gold is rooted in the life and culture of people in the region, and these factors, along with the introduction of Shari'ah Standard on Gold, weak local currencies (Table 7), and uncertainty over international currency markets should increase the total demand for gold going forward. Additionally, the growth of pension funds and sovereign wealth funds, and the need to diversify assets will lead to the growth of gold as an important asset class in these funds.

Table 7: Exchange rates of Asean currencies against the US dollar (Source: Bloomberg)

	2012	2013	2014	2015	2016
Singapore dollar	1.2218	1.263	1.3255	1.4185	1.4468
Thailand baht	30.59	32.865	32.904	36.083	35.799
Indonesia rupiah	9,638	12,170	12,385	13,778	13,473
Malaysia ringgit	3.0585	3.2755	3.4965	4.2925	4.4862
Philippines peso	41.04	44.39	44.71	47.17	49.73
Vietnam dong	20,840	21,095	21,388	22,485	22,761
Cambodia riel	3,995	3,995	4,073	4,049	4,069
Brunei dollar	1.2216	1.262	1.3246	1.4179	1.4481
Laotian kip	7,986	8,021	8,099	8,148	8,184
Myanmar kyat	856.97	986.24	1,032.7	1,310	1,357

Notes

1. <http://www.gic.com.sg/report/report-2015-2016/investment-report.html>
2. <https://www.cpf.gov.sg/Assets/common/Documents/ViewAnnualReport2015inPDF.pdf>
3. <http://www.temasekreview.com.sg/overview/portfolio-highlights.html#sector>
4. <http://www.kwsp.gov.my/portal/ms/web/kwsp/home>
5. <http://www.thestar.com.my/business/business-news/2016/11/26/a-giant-awakens/>
6. <https://www.pwc.com/gx/en/deals/sovereign-wealth-investment-funds/assets/sovereign-wealth-investment-funds-league-table.pdf>
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12. http://www.taspen.co.id/?page_id=422
13. <https://www.malaysiakini.com/news/328312>
14. http://www.asabri.co.id/asset/images/media/large/annual_report_2015.pdf

Statistics used in this report are from publicly available sources only, and numbers from a few countries are not available. As ASEAN develops, and import and export numbers become more transparent, statistical numbers will be available for analysis, and ASEAN's total numbers will be attractive to investors who are looking for an opportunity to expand into the region.



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