

Indonesia's Gold Market

Introduction

Indonesia is an archipelago of more than 1,700 islands with a population of 255 million people (2015). The major populated islands are Java, Sumatera, Kalimantan (Borneo), Nusa Tenggara, Sulawesi, and Papua. Indonesia is a gold exporting nation, and is home to the world's largest gold mine, the Grasberg mine, located in the eastern Papua province. The country has a vibrant physical gold market ecosystem with an internationally recognised gold refinery, a large gold jewellery sector, and a wide availability of retail investment gold bar products for distribution.

Gold is used as a form of savings, for the exchange of goods, and as gifts. It is a popular form of savings among people who do not have access to banking facilities, and because it has been able to retain its value despite the depreciation of the Indonesian rupiah.

Domestic Demand and Production

Indonesia is also a major gold miner, though much of its production is a by-product of copper mining. According to the US Geological Survey (USGS), Indonesia produced 65 tonnes of gold in 2014. Most of the country's gold output comes from the Grasberg mine, which is majority owned by US-listed miner Freeport McMoRan. The Batu Hijau mine in Sumbawa is operated by US gold miner Newmont Mining and Japanese group Sumitomo, while the Martabe mine in North Sumatra is operated by Hong Kong based G-Resources. Logam Mulia produces about 5 tonnes of gold per annum from its two mines, Pongkor in West Java, and Cibaliung in Banten.

Logam Mulia, which has an annual refining capacity of about 100 tonnes, is the only major gold refiner in Indonesia. It is accredited to the London Bullion Market Association's (LBMA) Good Delivery List for gold. The company is a subsidiary of PT Aneka Tambang (also known as PT Antam), a state-owned mineral exploration, extraction, refining and metals producing company. It produces investment-grade gold in the form of 24K bars that come with an LBMA sticker of authenticity. The bars are available in 1 gram, 2 grams, 5 grams, 10 grams, 20 grams, 50 grams and 100 grams.

According to Metal Focus, gold mine production in 2016 was 113 tonnes, and gold recycling was 55 tonnes.

Gold jewellery in Indonesia is dominated 22K or lesser purity products, and they are appreciated for their design and craftsmanship. Asosiasi Pengusaha Emas & Permata Indonesia (APEPI), known in English as the Indonesian Goldsmiths and Jewellers Association, is the industry body that represents the Indonesian gold fabrication and jewellery sectors. It also organises promotional events such as the Indonesia Jewellery Fair.

Gold trading is widespread in Indonesia, and there is no restriction or price control over in buying and selling of gold.

Online gold trading is gaining traction among the younger generation of investors in Indonesia, and it is gaining in popularity as an investment vehicle. Additionally, pawnbroking is also very active, and gold is used as collateral for cash loans.

According to Metal Focus, Indonesian demand for gold physical investment in 2016 was 21 tonnes, while gold jewellery demand in 2016 was 41 tonnes.

Gold Dinars and Silver Dirhams

Indonesia has the largest momentum in the gold dinar and silver dirham movement, also referred to as “sunnah money”, and has been minting dinars and dirhams by Logam Mulia and Islamic Mint Nusantara (IMN) since 2000 with the establishment of Wakala Induk Nusantara (WIM).

IMN has also introduced Dinarfirst, a mobile/electronic payment system. It also organises marketday festivals, where traders use dinars and dirhams for trade. The various Indonesian dinars include the LM Dinar (Logam Mulia), Dinar Peruri (Perum Peruri) and IMN Dinar.

Commodities Exchanges

Indonesia has two commodities exchanges, the Jakarta Futures Exchange (JFX) and the Indonesia Commodity and Derivatives Exchange (ICDX). They are both located in Jakarta and have gold futures contracts.

The JFX clearing house is known as PT Kliring Berjangka Indonesia (Persero), or PT KBI, and in English as the Indonesian Derivatives Clearing House (IDCH). ICDX trades are settled and cleared via the Indonesia Clearing House (ICH). Commodity futures trading is regulated by the Commodity Futures Trading Act (COFTRA) and supervised by BAPPEBTI, the state futures trading regulatory agency. Both JFX and ICDX are members of the Association of Futures Markets.

The Jakarta Futures Exchange lists three contracts:

- **Standard Gold Futures:** The Gold 250 gram futures (GOL 250) and the Gold 100 gram futures (GOL 100) have similar contract specifications to the kilo contract (GOL), the main differences being contract lot size. The 250 gram contract has a minimum delivery of four lots (i.e. 1 kg), while the 100 gram contract has a minimum delivery of 10 lots (i.e. also 1 kg). Reportable Positions and Position Limits also differ across the three contracts.
- **Gold Periodic Rolling Contracts:** There are five contracts in this series. These are 1-month contracts, which, if open on the last business day of the month, automatically roll into the next month. Contract sizes are 100 grams, 50 grams, 25 grams, 10 grams and 5 grams.
- **“Rolling” daily gold contracts (cash-settled):** These contracts are named *Gold Rolling*, *Gold 100oz US Dollars (USD) rolling (GU1H10)*, *Gold 10oz USD Rolling (GU1TF)*, *Gold 100oz Fixed USD Rolling*, and *Gold Index (KIE)*. *Gold Index uses one of the rolling contracts in its denominator.*

The Indonesia Commodity and Derivatives Exchange lists six contracts:

- **GOLDGR:** Quoted in Indonesian rupiah (IDR), 100 grams contract size, 9999 fine. Cash or physical settlement. For physical delivery, the seller submits a certificate of gold deposit to the ICDX clearing house. This contract has

delivery points of PT Antam Tbk and UBPP Logam Mulia. Launched November 2009.

- GOLDUD: Quoted in US dollars, contract size 10 ounces, 9999 fine, cash-settled, settlement price based on loco London gold price. Launched April 2011.
- GOLDID: Quoted in US dollars, but with a fixed conversion rate of US\$1 = 10,000 IDR. Cash-settled, contract size 10 ounces. Settlement price based on loco London gold price. Launched April 2011.
- PAMPGRID: Quoted in IDR, 100 grams contract size. Open positions at close of spot month are settled in the form of a certificate for a 100 grams Swiss PAMP bar. Exchange for Physical possible before close of spot month. The certificate is issued by the “PAMP authorized distributor appointed by the Exchange”, which is Straits Bullion. Launched February 2014.
- PAMPKGUD: Quoted in USD, 1 kilogram contract size. Settlement as per PAMPGRID. Launched February 2014.
- UBSG: UBS Gold Contract: Quoted in IDR, physically deliverable, 100 grams contract size, 9999 fine, underlying UBS Gold. Launched March 2015. The contract delivery takes the form of a “Certificate of UBS Gold Holding”. Deliverable in approved UBS stores in Jakarta and Surabaya. This “UBS” is unrelated to the Swiss bank UBS.

Conclusion

Indonesia has a competitive and active domestic market for gold, particularly as many locals see it as a form of savings, rather than investment. However, online gold trading is also gaining in popularity.

With 168 tonnes of supply from its gold mines and recycling, a combined demand of about 62 tonnes, the 3rd largest population in Asia, the introduction of the Shari’ah Standard on Gold, dinar coins and the ASEAN free-trade agreement with India, the reasons to participate in the Indonesian gold market are plentiful.

Appendix

Links

- Central Bank - <http://www.bi.go.id/en/Default.aspx>
- Ministry of Trade - <http://www.kemendag.go.id/en>
- Indonesian Customs and Excise - <http://www.beacukai.go.id>

Sample Gold Bars and Coins



Economic Data (2015)

Population: 255 million
GDP Growth: 4.8%
GDP/P: US\$3,379
CPI: 3.4%
Exports: US\$150 billion
Imports: US\$143 billion
Foreign Reserves: US\$106 billion
Foreign Debt: US\$36 billion

Source: FOCUSECONOMICS

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