LBMA Conference 2016 – Asia's Appetite for Precious Metals Bolsters Demand in Uncertain Times

Nov 18, 2016
Singapore Bullion Market Association

Demand for gold and other precious metals in India and China are showing no signs of slowing down and is a rare bright spot in an industry mired in regulatory and economic uncertainty.

The precious metals industry is looking towards Asia to bolster sales and hopes to ride on the continent's relentless pace of economic growth while other continents experience political uncertainty and a slowdown in general consumer consumption, according to panelists at the LBMA Precious Metals Forum 2016, held this year in Singapore.

The shifting of power and influence to Asia in the 21st century was highlighted by **Andrew Staples**, Director, Economist Corporate Network Southeast Asia. He cited Asia's young population, growing workforce, increasing income and consumption, growing urban population as well as the expanding middle class, which is demanding more products and services, particularly in the luxury segments, as drivers of growth in the region.

While the rest of the world is expected to experience an economic downturn, ASEAN, including India and China, will be the key engines of global growth, with the latter forecast to grow at 6.6%. The expected loosening of monetary policy will also benefit emerging economies, like ASEAN countries, the most. Many currencies in the region are also undervalued against the US dollar, Staples said.

Platinum Gold International CEO **Daniel Huw** said that Asia, in particular, matters the most to the platinum market – Japan has the world's highest per-capita consumption of platinum jewellery, while in India; the metal is the preferred choice for young consumers. In China, no other metal justifies a price premium more than platinum, which is regarded as the "metal of love", outperforming diamonds in acquisition rates.

Increasing wealth is also creating a higher demand for PGMs – Asia is the largest PGM and palladium-consuming continent, with most of the growth in demand coming from the increase in automobiles, **Beresford Clarke** pointed out. For him, Asia's automotive demand is a "palladium growth story", as the metal is used in gasoline autocatalysts, but an excessive palladium stock has kept China well-supplied to date. He also pointed out that there are potentially 100 plant projects requiring PGMs in Asia, which makes Singapore an important hub for PGM demand in the future.

In China, PGM is forecast to grow along with the automobile market in the next five to 10 years, particularly as sales expand into tier 3, 4 and 5 cities, **Henry Liu** of Johnson Matthey said.

However, increasing competition and higher cost of car ownership will place a downward pressure on prices and profit margins. He also warned that electric cars, which feature prominently in China's 13th Five-Year Plan, would change the market.

While China is still the world's top gold consumer, annual demand predicted to slow down as it GDP is forecast to fall by 4.2% by 2018, Staples told LBMA delegates at the conference. India's growth potential has also been limited because of government regulations and difficulty of doing business, he said.

Currently, 80% of India's gold market, which employs over 5 million people, is unorganised, but the Indian government is taking steps to tax and regulate the precious metals industry, a lot more closely. However, while the Indian government is trying to make gold a productive asset, Indians largely see it as a form of savings, MMTC-PAMP India managing director **Rajesh Khosla** said, noting the complete absence of investment in pension funds and insurance.

Shanghai Gold Exchange chairman **Jiao Jianpu** outlined the ways in which China is making its precious metals market more inclusive and market-oriented, citing the establishment of the Shanghai Gold Exchange International Board (SGEI), which acts as a bridge connecting the domestic gold market with the international market. It currently includes 67 international members, with 7,838 tonnes of gold valued at 1.96 trillion RMB, he said. In April, it introduced the Shanghai Gold Benchmark Price, quoted by 12 fixing members and 6 reference price members.

HSBC's global markets head of precious metals **Paul Voller** highlighted China's "sheer magnitude of the business and the potential the country has to offer", saying that he expects the gold market there to evolve as its financial market evolves and that an increase in participation by China increases long-term prospects of the global market.

Macquarie Capital (Europe) associate director **Matthew Turner** looked at the trade and import data coming out of China but cautioned that trade data cannot provide any information about price direction. He also said that if China wants to be an international gold centre, it has to provide more information.

China's gold ETF outperformed global gold ETF in term of percentage growth, showing the country's investment demand, which still has the potential to grow, Bank of China's global market department deputy general manager **Yang Qing** said, adding that the Chinese market is moving from a condition of excess demand to one where there is a balance between supply and demand.

Only 32% of the audience felt that the Shanghai Gold Benchmark Price in RMB would only be accepted internationally in 10 years at an electronic poll after the China session. They were almost evenly split on whether international banks would continue to be relevant in the China domestic market, considering the increase of local players. However, most believed that Shanghai would be a centre of gold trade along with London, and New York.

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